University System of Maryland

Debt Policy Discussion

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University System of Maryland – Current Debt Policy

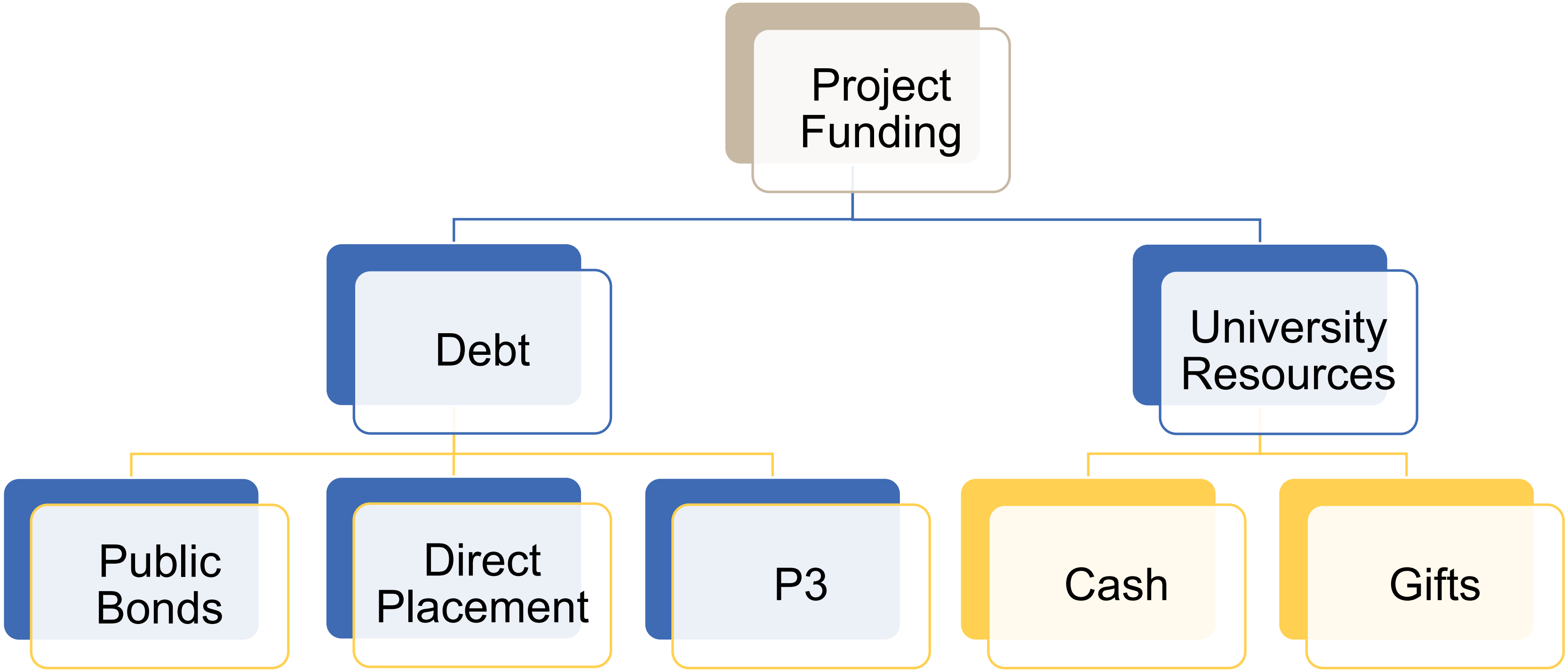
- The System’s debt policy was put in place in 1995 and last updated in 2018
- The current objectives of the policy are to
  - Maintain at least a “AA+” or equivalent debt rating from all three agencies (Moody’s, S&P, and Fitch)
  - Limit risk by effectively balancing the goal of lowest cost of capital and managing interest rate risk
  - Managing the portfolio to take advantage of refundings
- Some of the key parameters are
  - Annual debt service of Direct Debt (excluding P3s) shall not exceed 4.0% of USM Operating revenue plus State Appropriations
  - Available Resources must be at least 90% of Direct Debt
  - Indirect Debt (P3s) shall not exceed 50% of Direct Debt

Objectives for Revision of Current Debt Policy

- Modernize the policy in recognition of rating agency and accounting changes
  - For example, Moody's typically includes the capital raise for a P3 (debt and equity) as total adjusted debt of the host institution regardless of balance sheet treatment
- Update the key ratios and to be more in line with current rating trends
  - For example, leverage ratios should be comprehensive in including P3s should not have separate % targets in comparison to Direct Debt
- Reassess the importance of maintaining a rating in the "AA+" category
- Be more specific about the criteria for approving a capital project
  - Demand for project
  - Operating impact (self-support)
  - Following identification of need for project then focus on what is best way to fund
    - System resources
    - Direct debt
    - P3

Sources of Funding

- Projects can be financed with a variety of sources as outlined by the chart below
- Regardless of how a project is financed (whether it's with bonds, a P3, or cash) the System's credit will be impacted



Credit Impact of Alternative Delivery Projects on Host Institutions

Moody's Approach for Higher Education Institutions [1]

- Moody's typically includes the capital raise for a P3 (debt and equity) as total adjusted debt of the host institution regardless of balance sheet treatment
- Moody's definition of a P3
  1. **Project is primarily intended for use by university constituents**;
  2. Project is located on land owned by the university and falls under a long-term contract;
  3. Ownership of the project reverts to the university at the conclusion of the contractual agreement.

Standard & Poor's Proposed Approach for Higher Education Institutions [2]

- S&P's proposed approach is more subjective than Moody's
- "Nonobligated debt is typically not a direct obligation of the provider. This debt does not appear on the provider's balance sheet, but we may still consider it a liability of the provider."
- Total debt:
  - "Debt includes any obligations that we consider debt-like, when revenues of the education provider are intended to service it,"
  - "Off-balance sheet debt is a financing option used by many universities. Depending on our assessment of the **level of involvement of the sponsoring education provider and its economic interest, control, and connectivity to these projects**, we may include this debt as indirect education provider debt."

1 - Moody's Investors Service "Higher Education Methodology", August 4, 2021
2 - S&P Global Ratings "Request for Comment: Global Not-For-Profit Education Providers", June 29, 2022

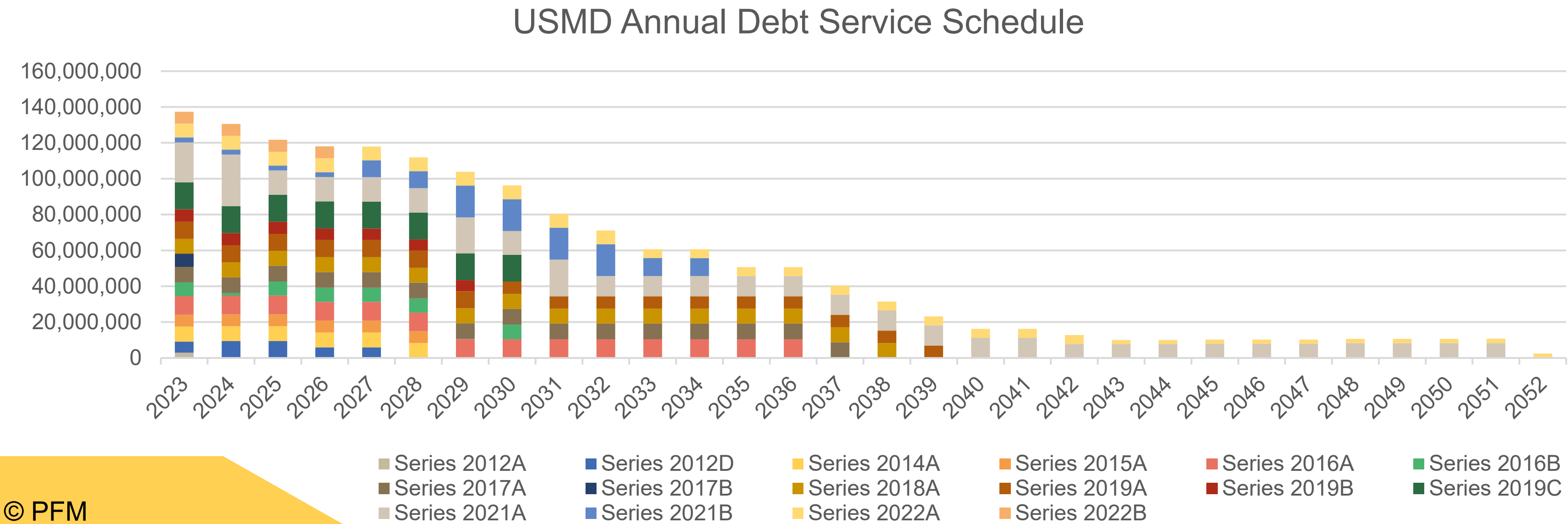
University System of Maryland Debt and Credit Profile

University System of Maryland – Debt Profile

- The System has approximately $1.1 billion in bonds outstanding as of FY2023 at a weighted average cost of capital of 2.592%

Summary of Debt Outstanding (as of June 30, 2023)					
Series	Par Outstanding	Tax Status	True Interest Cost	Final Maturity	Call Date
Series 2012D	28,760,000	Tax-Exempt	3.587%	10/1/2026	10/1/2022
Series 2014A	36,920,000	Tax-Exempt	3.656%	4/1/2028	4/1/2024
Series 2015A	30,060,000	Tax-Exempt	2.734%	4/1/2028	4/1/2025
Series 2016A	105,235,000	Tax-Exempt	3.170%	4/1/2036	4/1/2026
Series 2016B	35,690,000	Tax-Exempt	2.440%	4/1/2030	4/1/2026
Series 2017A	91,360,000	Tax-Exempt	3.568%	4/1/2037	4/1/2027
Series 2018A	95,455,000	Tax-Exempt	3.171%	4/1/2038	4/1/2028

Summary of Debt Outstanding (as of June 30, 2023)					
Series	Par Outstanding	Tax Status	True Interest Cost	Final Maturity	Call Date
Series 2019A	95,775,000	Tax-Exempt	3.064%	4/1/2039	4/1/2029
Series 2019B	33,065,000	Tax-Exempt	2.118%	4/1/2029	Not Callable
Series 2019C	87,230,000	Tax-Exempt	1.558%	4/1/2030	Not Callable
Series 2021A	211,760,000	Tax-Exempt	2.341%	4/1/2051	4/1/2031
Series 2021B	106,285,000	Taxable	1.510%	4/1/2034	Make-Whole
Series 2022A	99,635,000	Tax-Exempt	2.414%	4/1/2052	4/1/2032
Series 2022B	18,155,000	Tax-Exempt	1.156%	4/1/2026	Not Callable
Total Par		1,075,385,000			
Weighted Avg Cost of Capital		2.592%			



2023 Higher Education Credit and Sector Outlook

Moody's Investors Service
Outlook: **Negative**
Date Published: December 8th, 2022

- Constrained growth in multiple revenue streams will limit operating revenue growth and significantly trail inflation
- While previous years' high investment returns will provide some cushion, a growing number of universities will need to tap reserves to cover deficits as operating expenses increase
- Universities face challenges in adjusting to a changing environment as ESG and nontraditional risks have a growing impact on budgets (for example, the increased use of technology ang heightened cyber risks)
- Outlook could change if revenue growth keeps pace with inflation, better macroeconomic conditions (including lower inflation), improved investment returns, and steady student demand and enrollment

S&P Global Ratings
Outlook: **Stable (but Bifurcated)**
Date Published: January 18th, 2023

- As unprecedented federal emergency relief funds dissipate in 2023, higher ed institutions face increased operating pressures that affect the sector unevenly—strong institutions with excellent reputations will likely maintain or strengthen their positions while less selective, regional institutions will face increased challenges
- With inflationary and recessionary pressures, operating costs continue to rise and present challenges to institutions' cash flow and capital spending
- Ability of balance sheet ratios to cushion operating and capital spending challenges amidst market volatility will determine rating stability
- In a rising tuition environment, the value proposition of higher education faces increased scrutiny causing uncertainty about demand and enrollment
- Increased event risks such as cyber breaches, turnover, or governance issues reduce flexibility for institutions in a time of operating stress

Fitch Ratings
Outlook: **Stable (but Deteriorating)**
Date Published: December 8th, 2022

- Macroeconomic conditions (inflation, labor and wage pressure, federal aid for the pandemic rolling off by FY2023) will be challenging sectorwide
- Generally soft enrollment growth at levels insufficient to fully recover from losses in prior two academic years
- A number of institutions will face growing challenges in structural imbalances having sustained multiple years of operating pressures and nonrecurring federal stimulus
- Sector bifurcation to continue to widen the credit gap between larger, more selective institutions and their smaller less selective and more tuition dependent counterparts
- Despite rising costs, inflationary pressures, and other macroeconomic conditions, Fitch maintains an overall sector outlook of "Stable" and does not anticipate widespread downgrades—for rated institutions, inflationary impacts have been relatively muted thus far

Source: Various reports published by Moody's Investors Service, S&P Global Ratings, and Fitch Ratings

Comparison to Peer Medians

- In addition to the indicative scorecard rating, Moody's rating process takes into account performance to peers and historical trends
- Below summarizes the System's financial metrics as compared to peer medians; the Appendix has additional detail on peer metrics on a historical basis

FY2021

Ratio	USM FY2021	Aa1 Median	USM vs. Aa1
Scale			
Operating Revenue ($ millions)	$5,341	$3,866	↑
Operating Ratios			
EBIDA Margin (%)	8.3%	12.7%	↓
Wealth & Liquidity			
Total C&I ($ millions)	$5,229	$5,465	↓
Total C&I to Operating Exp (x)	1.0x	1.6x	↓
Leverage			
Total C&I to Total Adj Debt (x)	9.0x	1.8x	↓
Annual DSCR (x)	3.3x	4.8x	↓

FY2022

Ratio*	USM FY2022	Aa1 Median	USM vs. Aa1
Scale			
Operating Revenue ($ millions)	$5,860	$4,103	↑
Operating Ratios			
EBIDA Margin (%)	10.4%	14.0%	↓
Wealth & Liquidity			
Total C&I ($ millions)	$5,677	$5,715	↓
Total C&I to Operating Exp (x)	1.0x	1.4x	↓
Leverage			
Total C&I to Total Adj Debt (x)	1.0x	1.6x	↓
Annual DSCR (x)	4.5x	5.0x	↓

Source: Moody's Public Higher Education Median Report

Impact of Additional Debt

- The table below illustrates the impact of layering additional debt on key financial ratios for University System of Maryland
- Additionally, the System's ratios are compared to FY2022 published medians for public universities in peer rating categories

Ratios	University System of Maryland			Moody's		
	FY2022	+ $500 MM	+ 750 MM	Aa1 Median	Aa2 Median	Aa3 Median
Total Cash & Investments to Total Adjusted Debt	0.95x	0.88x	0.85x	1.6x	0.7x	0.9x
Annual Debt Service Coverage	4.53x	3.19x	2.87x	5.0x	3.4x	3.9x
Debt Service as % of Operating Revenue**	2.56%	3.12%	3.39%	2.7%	4.1%	4.0%
EBIDA Margin	10.4%	9.9%	9.5%	14.0%	14.7%	15.1%

Source: Moody's Public Higher Education Median Report
***Not available as a published median—calculated based on other publicly available median data*

Indicative Pricing for University System of Maryland

Rates as of August 16, 2023

					-1 Downgrade			-2 Downgrade			BBB Scenario		
Tax-Exempt Rates													
		Spread	Yield to Call	Yield to Maturity	Spread	Yield to Call	Yield to Maturity	Spread	Yield to Call	Yield to Maturity	Spread	Yield to Call	Yield to Maturity
Tenor	MMD	Aa1	Aa1	Aa1	Aa2	Aa2	Aa2	Aa3	Aa3	Aa3	Baa2	Baa2	Baa2
1	3.20%	**2 bps**	3.22%	3.22%	**9 bps**	3.29%	3.29%	**15 bps**	3.35%	3.35%	**90 bps**	4.10%	4.10%
5	2.77%	**7 bps**	2.84%	2.84%	**17 bps**	2.94%	2.94%	**27 bps**	3.04%	3.04%	**110 bps**	3.87%	3.87%
10	2.75%	**15 bps**	2.90%	2.90%	**29 bps**	3.07%	3.07%	**42 bps**	3.17%	3.17%	**135 bps**	4.10%	4.10%
20	3.50%	**22 bps**	3.72%	4.24%	**39 bps**	3.89%	4.34%	**55 bps**	4.05%	4.43%	**145 bps**	4.95%	4.97%
25	3.67%	**24 bps**	3.91%	4.43%	**42 bps**	4.09%	4.52%	**60 bps**	4.27%	4.62%	**148 bps**	5.15%	5.15%
30	3.73%	**26 bps**	3.99%	4.52%	**43 bps**	4.16%	4.60%	**60 bps**	4.33%	4.68%	**150 bps**	5.23%	5.23%

**Tax-exempt bonds assume 5% coupon and 10-year par call*

Appendix

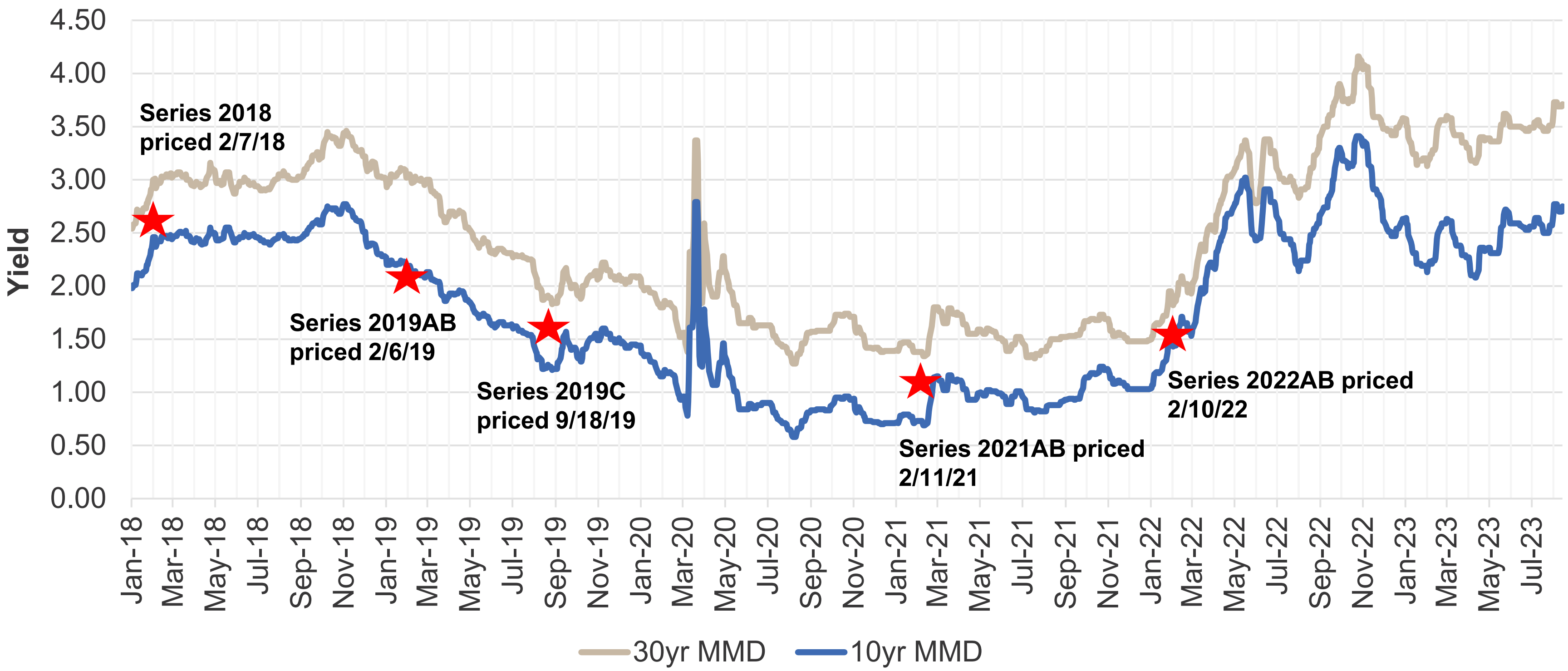
Cost of 30-Year Debt at Different Points in Time

	Aa1 (2021)	Aa1 (2022)	Aa1 (Current)	Aa2 (Current)	Baa2 (Current)
TIC	2.86%	3.26%	4.22%	4.32%	5.01%
Avg Annual Debt Service	$5,091,461	$5,351,748	$6,010,194	$6,081,414	$6,577,247

**Tax-exempt bonds assume 5% coupon, 10-year par call, and $100 million project fund*
Previous rates use underlying MMD as of February 11, 2021 and as of February 10, 2022 (same closing dates as past two USM sales)
Current rates use underlying MMD as of August 16, 2023
MMD: Municipal Market Data – AAA tax-exempt benchmark borrowing rate

Change in Tax-Exempt Borrowing Rates Over past 5 Years

5-Year Trailing MMD*



*MMD: Municipal Market Data – AAA tax-exempt benchmark borrowing rate

Definitions of Key Terms

Moody’s Definitions for Key Ratios and Metrics	
Annual Debt Service Coverage	Measures the ability of a university to make debt service payments from annual operations
EBIDA Margin	Measures net income (before non-cash expenses) relative to operating revenue to indicate the amount of cash a university generates to support its strategic and capital investments
Operating Revenue	Indicates the scope of a university's operations
Total Adjusted Debt	Measure of overall debt, including capitalized operating leases and unfunded pension liabilities
Total Cash & Investments	Measures the wealth of a university and its affiliated foundation(s)

University System of Maryland – FY2021 & FY2022

Moody's Scorecard Rubric					UNIVERSITY SYSTEM OF MARYLAND	
Scale						
	Aaa	Aa	A		FY2021	FY2022
Adjusted Operating Revenue ($000)	≥ $2,500,000	$2,500,000 > n ≥ $500,000	$500,000 > n ≥ $100,000	15%	$5,340,946	$5,860,482
Market Profile						
	Aaa	Aa	A		FY 2021	FY2022
Brand and Strategic Positioning	Exceptional	Excellent	Very good	10%	Excellent	Excellent
Operating Environment	Exceptional	Excellent	Very good	10%	Excellent	Excellent
Operating Performance						
	Aaa	Aa	A		FY 2021	FY2022
EBIDA Margin	≥ 22.5%	22.5% > n ≥ 15.0%	15.0% > n ≥ 8.0%	10%	8.3%	10.4%
Financial Resources and Liquidity						
	Aaa	Aa	A		FY 2021	FY2022
Total Cash and Investments ($000)	≥ $2,500,000	$2,500,000 > n ≥ $100,000	$100,000 > n ≥ $25,000	10%	$5,229,352	$5,676,831
Total Cash & Investments to Operating Expenses	≥ 1.250x	1.250x > n ≥ 0.750x	0.750x > n ≥ 0.500x	15%	0.99x	1.00x
Leverage and Coverage						
	Aaa	Aa	A		FY 2021	FY2022
Total Cash & Investments to Total Adjusted Debt	≥ 3.0x	3.0x > n ≥ 1.0x	1.0x > n ≥ 0.2x	10%	0.92x	0.95x
Annual Debt Service Coverage	≥ 4.0x	4.0x < n ≤ 2.0x	2.0x < n ≤ 1.5x	10%	3.25x	4.53x
Financial Policy and Strategy						
	Aaa	Aa	A		FY 2021	FY2022
Financial Policy and Strategy	Exceptional	Excellent	Very good	10%	Excellent	Excellent
				100%	Aa2 / 2.97	Aa2 / 2.74

Moody's Key Ratios – USM & Aa1 Peers (from 2019-2022)

EBIDA Margin (%)	2019	2020	2021	2022
Median	11.8	11.1	12.7	14.0
USM Ranking	***13***	***13***	***14***	***14***
University System of Maryland	**10.2**	**8.8**	**8.3**	**10.4**
North Carolina State University	10.4	10.1	10.0	13.7
Ohio State University	15.8	12.1	12.6	14.6
Pennsylvania State University	16.7	14.5	17.3	12.7
State University of Iowa	13.2	12.7	12.2	18.7
Texas Tech University System	10.4	12.5	15.1	17.9
University of Colorado	11.9	10.1	12.8	12.4
University of Delaware	14.2	9.0	13.4	15.1
University of Minnesota	8.1	8.2	13.6	13.4
University of Missouri System	12.4	10.7	18.8	14.3
University of Nebraska	11.4	9.9	11.9	12.4
University of Pittsburgh	14.4	13.7	12.7	15.0
University of Utah	11.8	11.5	12.1	12.4
Virginia Tech	10.4	12.0	14.7	15.0

Total C&I to Operating Exp (x)	2019	2020	2021	2022
Median	1.3	1.3	1.6	1.4
USM Ranking	***13***	***13***	***13***	***13***
University System of Maryland	**0.9**	**0.9**	**1.0**	**1.0**
North Carolina State University	1.4	1.4	1.6	1.6
Ohio State University	1.3	1.3	1.5	1.3
Pennsylvania State University	1.5	1.5	1.8	1.4
State University of Iowa	1.0	1.3	1.4	1.3
Texas Tech University System	1.3	1.4	1.7	1.5
University of Colorado	1.1	1.1	1.4	1.3
University of Delaware	1.8	1.8	2.5	2.1
University of Minnesota	1.5	1.5	2.2	2.0
University of Missouri System	1.3	1.3	1.7	1.5
University of Nebraska	1.8	1.9	2.3	2.1
University of Pittsburgh	2.1	2.1	2.8	2.6
University of Utah	0.7	0.7	0.7	0.7
Virginia Tech	1.2	1.2	1.6	1.4

Total C&I to Total Adj Debt (x)	2019	2020	2021	2022
Median	1.5	1.6	1.8	1.6
USM Ranking	***13***	***12***	***13***	***13***
University System of Maryland	**0.9**	**0.9**	**0.9**	**1.0**
North Carolina State University	1.5	1.5	1.5	1.4
Ohio State University	0.6	0.6	0.7	0.6
Pennsylvania State University	2.3	1.7	2.0	1.8
State University of Iowa	2.2	1.8	2.0	1.8
Texas Tech University System	1.5	1.4	1.6	1.4
University of Colorado	1.0	1.1	1.4	1.3
University of Delaware	2.2	2.2	2.8	2.7
University of Minnesota	1.6	1.8	2.4	2.1
University of Missouri System	1.0	0.9	1.1	1.1
University of Nebraska	3.9	3.8	3.6	3.5
University of Pittsburgh	4.1	2.7	3.8	3.9
University of Utah	1.8	1.7	2.0	1.9
Virginia Tech	1.0	1.0	1.2	1.1

Annual Debt Service Coverage	2019	2020	2021	2022
Median	4.1	3.8	4.8	5.0
USM Ranking	***9***	***9***	***13***	***10***
University System of Maryland	**3.9**	**3.4**	**3.3**	**4.5**
North Carolina State University	4.1	4.3	3.8	5.3
Ohio State University	6.2	4.9	5.0	5.2
Pennsylvania State University	9.6	9.9	12.0	6.0
State University of Iowa	4.2	4.0	5.8	11.0
Texas Tech University System	2.4	3.0	3.5	4.1
University of Colorado	4.1	3.3	19.7	6.9
University of Delaware	3.6	2.7	3.4	4.2
University of Minnesota	2.3	2.7	4.6	4.6
University of Missouri System	4.5	3.8	7.0	6.8
University of Nebraska	2.2	2.7	2.8	3.5
University of Pittsburgh	4.7	4.1	3.5	4.4
University of Utah	6.0	5.3	5.5	6.1
Virginia Tech	3.4	3.8	5.2	4.9

Source: MFRA Database

2020-2022 Higher Education Sector Outlook

Year	Period	Moody's	S&P Global	Fitch Ratings
2020	Pre-COVID	**Stable** (12/10/2019)	**Negative** (1/16/2020)	**Negative** (12/10/2019)
2020	COVID-19 Impacts	**Negative** (3/18/2020) • **Outlook revised to Negative** • Coronavirus response has immediately impacted revenue and increased expenses • Disrupted enrollment, state support, research grants, endowment income	**Negative** (4/30/2020) • Financial and economic challenges exacerbated existing pressures • Loss of auxiliary revenue biggest near-term impact • Institutions with limited liquidity and flexibility are faced with greater operating pressures	**Negative** (3/12/2020) • Decline in housing, dining, and parking revenues negatively affected margins • Operating risks from campus closures • Financial markets negatively impacted endowments • Strained state support
2021	2021 Outlook	**Negative** (12/8/2020) • Operating revenues and auxiliary services continue to decline; athletic programs unable to offset fixed costs • State support expected to decrease	**Negative** (1/20/2021) • Successful vaccination critical for in-person resumption; competition for students increasing • Material state funding cuts could challenge operations • Credit quality split between higher rated institutions and those in the 'BBB' category continues • Market position and value proposition matter more • Privatized (off-balance sheet) student housing sub-sector faces significant pressure • Uneven and gradual economic and health recovery • Enrollment pressures continue • Pension costs and contributions could stress budgets • Proactive management and contingency planning is key to creditworthiness	**Negative** (12/8/2020) • Enrollment declines will persist for international students and incoming freshman • Ongoing expense reductions expected to continue into 2022, some will utilize large endowment draws
2021	Outlook Revisions	**Stable** (3/22/2021) • **Outlook revised to Stable** • Likelihood of a return to campus operations will bolster tuition and auxiliary revenue • Federal relief will provide budgetary support for pandemic-related disruptions through 2023 • Risk of material funding cuts decreases with the help of the American Rescue Plan Act (ARPA)		**Stable** (7/7/2021) • **Outlook revised to Stable** • Enrollment is expected to improve for fall 2021 with a return to primarily on-campus learning. • International enrollment expected to improve modestly. • Prospects for auxiliary revenue to recover in 2022 are improving with most public institutions planning a return to on-campus operation in fall 2021
2022	2022 Outlook	**Stable** (12/7/2021) • Strong rebound in auxiliary revenues • Operating revenue will rise 4-6% • Moderate growth in net tuition revenue with privates performing better than publics • Government financial support to support revenues • Record investment returns bolster wealth and liquidity • Challenges from inflation and labor shortages • Social and cyber risk continue to pose challenges	**Stable** (1/20/2022) • H/E investment gains averaged over 25% in FY 2021, growing balance sheets & providing strength • Pandemic expense controls lent themselves to sustainable operating improvements • Elevated Inflation through 2022 could pressure budgets • Economic growth not seen in a decade will continue; Federal funds provided liquidity & flexibility to institutions • Slow rebound in in levels of international enrollment. • Disparity between higher and lower rated schools grows.	**Neutral** (12/7/2021) • Some enrollment recovery, solid state budget prospects, good levels of budgetary flexibility • In-person, on-campus academic year will help stabilize student-driven enterprises, including auxiliaries • State funding will be neutral to favorable; will depend on economic prospects of state revenue growth • Expense growth to increase, intensifying inflationary pressures can complicate revenue forecasting

Source: Various reports published by Moody's Investors Service, S&P Global Ratings, and Fitch Ratings

Strategies to Leverage the Private Sector

- Higher Education institutions have leveraged the private sector to accomplish a variety of goals and objectives
  - Ownership and finance structures should be tailored to reflect the value proposition of the partnership

- **To the extent the goal is to develop or monetize an asset in order to improve balance sheet / credit capacity, the asset must:**
  - **Be a commercially viable project on a stand-alone basis**
  - **Not be a performing asset of the institution**

Examples of Potential Goals and Objectives	
Finance	– Manage balance sheet / credit impact of the development of non-core assets ○ Debt covenants, internal debt policies – Monetize non-core assets with commercial value – Transfer demand risk
Design / Delivery	– Manage project delivery risk for on-time, on-budget project completion ○ Private sector expertise / efficiency for technically complicated development projects ○ Bundling of assets
Operations	– Transfer operating risks for noncore and/or technically complex assets – Alignment of interests with private partner for asset life cycle responsibility and risk – Private sector efficiency
Governance	– Statutory limitations – Ability to manage procurement or existing labor requirements – Disposition on non-core assets

Examples of Alternative Delivery Capital Projects in Higher Education

Financing	Type	Example Assets	Description	Accounting / Credit
Financing secured by credit strength of institution	Lease	– Academic buildings – Institution office space	– Financing secured by fixed lease obligations made by institution	– On balance sheet and on credit
	Availability Payments	– Utility concessions – Bundling of assets	– Payments made to private party based on the underlying asset's availability for use – Multiple components to payment	– Financial consideration and/or new capital assets on balance sheet and on credit
Financing secured by project revenue	Demand Risk P3s	– Student housing – Parking – Dining contracts	– Contract where an operator provides public services through the use and operation of an underlying asset – Private party is compensated by third party fees	– GASB: Deferred inflow of resources on balance sheet – Credit treatment varies, but generally on credit
	Market Development	– Commercial office / lab – Hotels – Market rate housing (workforce / graduate)	– Arms-length market rate ground lease for private development	– **Potentially off-balance sheet and off credit**

Target for capital projects where the institution's objective for leveraging private sector is to preserve credit capacity

Purpose of a Debt Policy/Framework

Debt Capacity

- Establish criteria with which to evaluate debt financing and to use in decision-making for new capital

*University long-term debt capacity is a **strategic resource** which must be carefully managed. While the University attempts to maximize the use of philanthropy, grants and internal funds to fund capital projects, the strategic use of long-term debt can provide additional support for mission critical investments and increase financial flexibility. Any deployment of long-term debt must be approved by the Board of Trustees. **Long-term debt will be used only for projects the administration consider strategically important to the University's mission.***

Case Western Reserve University EST. 1826

Source: CWRU Debt Policy

Debt Affordability

- Provide guidance to manage debt service impact on the operating budget

Debt Burden Percentage

This ratio measures the University's debt service burden as a percentage of total university expenses. The target for this ratio is intended to maintain the University's long-term operating flexibility to finance existing requirements and new initiatives.

Annual Debt Service / Total Operating Expenses < 10%

University of Virginia

Source: University of Virginia Debt Policy

Credit Impact

- Provide guidance to manage credit impact of additional debt (including P3's) and monitor key financial ratios

Manage the university credit profile in order to:
a. Meet its strategic objectives;
b. Maintain requirements under the Management Agreement dated March 12, 2008 between the Commonwealth of Virginia and the Board of Visitors of Virginia Commonwealth University
[in Virginia, you need to maintain a minimum rating of Aa3 to issue your own debt]
c. Maintain access to the capital markets;
d. Obtain favorable costs of capital, flexibility, and terms within its desired risk profile.

VCU

Source: VCU Debt Management Policy

Additional Examples

I. Principles Regarding Use of University External Debt

A. Access to university issued debt is not an entitlement. Debt will be granted only to those projects approved through the university's capital planning process and initiatives consistent with the university's mission, values, and goals.

B. No debt can be issued without prior recommendation by the senior vice president for business and finance (CFO) and the vice president of financial services (treasurer), and approval by the Board of Trustees.

C. The university seeks to maintain a credit rating of at least AA or its equivalent.

D. The university should seek to limit debt service payments to no more than 5% of annual operating expenditures.

E. The university should use variable rate debt consistent with market conditions.

F. Capitalization of interest is discouraged.

G. Refinancing of debt is permissible provided that:

1. An advance refunding transaction is expected to generate net present value savings at least three percent or greater, and

2. A current refunding transaction is expected to generate net present value savings greater than the cost of the refunding transaction.

Debt Capacity

Credit Impact

Debt Affordability

Source: OSU Debt Policy

Other Common Elements to Debt Policies

- Description of the Policy's Purpose or Objectives
- Process for Approving Debt Financing for Capital Projects (example below)

The Ohio State University **Source:** [OSU Debt Policy]	*Major capital facilities improvement projects must be supported by a Project Funding Agreement that sets forth the total project cost, cash flows, and funding sources/commitments. The Project Funding Agreement must include documentation supporting the amount and availability of each funding source, including confirmation of cash funding, debt funding via an internal bank memorandum of understanding (MOU), agreements evidencing third-party funding commitments and, if a fundraising component is included, a fundraising plan*

- Description of Debt Management and Governance
- Guidance for Debt Portfolio Makeup (example below)

Case Western Reserve University EST. 1826 **Source:** [CWRU Debt Policy]	*The University has identified the following ranges for its debt portfolio mix:* *a. 65% - 100% fixed rate debt* *b. 0% - 35% variable rate debt* *c. No more than 20% unhedged variable rate debt*

- Discussion of Post-Issuance Compliance

IMPORTANT DISCLOSURES

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