Board of Regents Policy #5
Revision Approved by the Board of Regents, January 30, 2015

Board of Regents Debt Management Policy

PURPOSE

In accordance with the provisions of RCW 28B.10.022, 28B.10.300-330, 28B.30.700-780, 28B.140 and 39.94, the Board of Regents (the "Regents") of Washington State University (the "University") has the power and authority to enter into financing contracts secured by the revenues it controls, and not subject to state appropriation, or to borrow money to acquire, construct, and/or equip dormitories, hospitals, clinics, dining halls, facilities for student activities, facilities housing services for students, parking facilities, research facilities, and any buildings or facilities authorized by the legislature. This policy states the principles that will govern the use of debt instruments to finance University capital and infrastructure projects and assigns responsibilities for the implementation and management of the University's debt.

DEBT SUBJECT TO POLICY

Debt, as the term pertains to this policy, means University obligations for the repayment of borrowed money incurred to fund the construction or acquisition of capital assets, infrastructure and any other University purpose approved by the Regents. This includes, but is not limited to, University general revenue bonds, revenue bonds for various auxiliaries, and any public-private project that would impact the University's credit. It does not include state general obligation bonds or state certificates of participation benefitting the University, whether or not such obligations are reimbursable by the University.

GOVERNING PRINCIPLES

- No debt will be issued without prior approval of the Regents.
- The University will comply with all applicable laws, regulations, and bond covenants.
- Debt is a limited resource that will be used to fund only capital projects that are consistent with the University's mission and strategic priorities, and its capital plan(s).
- The maturity and term of debt repayment will be determined on the basis of expected availability of resources; other long term goals and obligations of the borrowing unit and the University; useful life of the assets being financed; and market conditions at the time of financing.
- The University will establish an internal compliance plan and will engage in regular debt monitoring under that plan, to ensure compliance with this policy, bond resolutions, and other requirements.
- The University will perform sensitivity analysis to evaluate varying cost and revenue drivers and discuss such analysis at the time of requesting additional debt and/or annual debt reporting to the Board of Regents. Such drivers will include, but are not limited to, enrollment deviations, tuition and fee variations, state and federal appropriation changes, sponsored research anomalies all as compared to current year budget, while reflecting varying market assumptions.
- The University's overall debt status and outlook will be reported to the Regents, at least annually, consistent with the requirements herein.

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DEBT ISSUANCE PRINCIPLES

- In general, new debt will be secured by the general revenues of the University; but the University may secure debt by a specified revenue stream when legally and financially feasible for a specific project or purpose.

- For each project to be financed, the University will identify a source of repayment, sufficient in security and amount to support debt service over the life of the financing, as well as operating costs.

- The University will seek to maintain national credit ratings for general revenue bonds in the Aa/AA range and will employ financial ratios consistent with major credit rating agency criteria to confirm that it is operating within parameters that will support the desired credit rating.

- The University will seek to maintain a debt burden ratio below 7.5%, where debt burden is defined as the total annual debt service payment as a % of total operating costs.

- Financings will be coordinated, to the extent practical, to minimize the fixed costs of debt issuance.

- In general, fixed rate debt will be utilized, but the University may incur debt bearing interest at variable rates when appropriate for a particular financing plan, and taking into account bond market conditions, the University's liquidity position, and risks associated with variable rate debt (including interest rate risk, remarketing risk, and liquidity renewal risk).

- The University will not enter into any derivative transactions without first adopting a derivatives policy.

REFINANCING AND REFUNDING PRINCIPLES

Refinancing may be considered:

- If it relieves the University of covenants, payment obligations, constraints, or reserve requirements that limit flexibility;

- To consolidate debt into a general revenue pledge and/or reduce the cost and administrative burden of managing many small outstanding obligations, after demonstration of the proposed benefits; or

- If the net present value ("NPV") savings to the University exceeds minimum threshholds, when measured as a percentage of the par amount of debt to be refinanced, and the refinancing supports the strategic need of the University.

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Refunding Thresholds

- Current refunding (i.e. refinancing completed up to 90 days prior to the first call date for the bonds) may be considered when NPV savings are expected to meet the following thresholds:

Years Between Call Date	Present Value Standard
1-2	1%
3-4	2%
5-6	3%
7+	4%

- Advance refunding (i.e. refinancing completed more than 90 days prior to the first call date for the bonds) may be considered when NPV savings are expected to meet the following thresholds:

Years Between Call Date and Final Maturity Date	Present Value Standard
1-2	1%
3-4	2%
5-6	3%
7-8	4%
9+	5%

RESPONSIBILITIES

The Board of Regents is responsible for:

- Reviewing and approving any capital project to be considered for financing,
- Reviewing and authorizing each individual debt financing transaction, and
- Approving this policy and any changes to this policy.

The Vice President of Finance and Administration is responsible for:

- Implementing this policy,
- Establishing an internal compliance plan for all debt management and issuance,

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RESPONSIBILITIES (cont.)

The Vice President of Finance and Administration is responsible for (cont.):

- Retaining expert advisors as needed to assist with the issuance and administration of debt;
- Analyzing and presenting recommendations to the President and the Regents in connection with each proposed debt financing transaction, including:
  - Identification of source of repayment for each project, together with pro forma financial statements and assumptions relating thereto, and
  - Internal coverage requirements for each project and/or auxiliary providing repayment;
- Overseeing management of daily activities relating to debt and debt issuance, including coordination with legal and financial advisors to prepare and review the documents necessary for bond issuance and rating agency communication;
- Ensuring the University fulfills its continuing disclosure obligations, monitors compliance with bond covenants and IRS regulations, and invests unspent bond funds prudently; and
- Fulfilling the reporting requirements of this policy.

If at any time the Vice President for Finance and Administration becomes aware of and substantiates concerns about project revenue streams or ability of a project or auxiliary to meet debt service or coverage requirements on outstanding or proposed debt, and/or the ability of the University to meet internal compliance targets or service outstanding or proposed debt, he or she shall report such concerns at the next meeting of the Board of Regents, and shall periodically report thereafter until the concerns have been fully addressed and resolved.

GENERAL REPORTING REQUIREMENTS

At least annually, the Vice President for Finance and Administration will provide a report to the Regents detailing:

- All outstanding debt (by series and auxiliary, where applicable),
- The amount of outstanding principal, interest rates, maturity dates, debt-service requirements, and changes in outstanding debt since the previous year's report;

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GENERAL REPORTING REQUIREMENTS (cont.)

- Key covenants and ratios identified in the University's internal compliance plan, to include, at a minimum:
  - Ratio of unrestricted net assets to debt (University-wide);
  - Ratio of debt service to operating expenses (University-wide);
  - Debt service coverage (University-wide and by auxiliary);
- Comparative ratios (same as above) showing University comparison to the rating category medians and to peer institutions with the same or similar ratings;
- For any variable rate debt, the status and remaining term of any letter of credit or similar liquidity source;
- For any derivatives, an overview of terms and the "mark-to-market" value;
- Any known or anticipated new debt issuance; and
- Any restructuring or refinancing opportunities.