

Statement of Debt Policy

University Operations – Financial Activities

EWU Policy 202-05

Authority: EWU Board of Trustees

Effective October 13, 2006

Proponent: Vice President – Business and Finance

Introduction: This statement sets forth the policies governing the issuance and servicing of debt by the Eastern Washington University.

History: This policy was adopted by the EWU Board of Trustees on October 13, 2006.

A. AUTHORITY

1. The Board of Trustees of the Eastern Washington University is vested by statute with the authority to issue bonds to fund certain capital projects and to enter into financing contracts to acquire real and personal property. The University also has the authority to borrow for short term operating purposes so long as the debt is repaid within the biennium issued.

2. The Board of Trustees has delegated to the Business and Finance Committee of the Board the authority to consider and make recommendations to the Board concerning the financing of capital projects and any other borrowings which may be required by the University.

3. The administration is charged with all aspects of managing, issuing and servicing debt for the University. These functions are performed by the Business and Finance Office.

B. GOALS OF ISSUING DEBT

1. Provide cost-effective funding for acquiring or replacing capital assets.

2. Match costs with benefits over the useful life of capital improvements.

3. Leverage other capital funding sources.

C. CASH VERSUS DEBT FUNDING

1. Generally, debt funding will be considered as the preferred option for larger one-time capital projects. Smaller routine capital projects should be funded on a cash basis unless there is a cost-effective source of borrowing that is readily available.

2. Debt should be considered for capital projects only when there is a dependable long term source of revenue available for repayment. Variable or significant one-time sources of revenue should be used to cash fund capital projects.

D. ISSUANCE CRITERIA

1. Legal Authority: All debt will be issued in compliance with the University's legislative authorities.

2. Debt Capacity: Issuance of debt is subject to the University's overall debt capacity and capital plans as

determined by the Business and Finance Office and approved by the Board of Trustees.

3. Access to Capital Markets: To maintain cost-effective access to debt capital markets, the University will issue debt only if the financial impact, taking into account future borrowing requirements, will not negatively impact the University's credit rating.

4. Financial Evaluation: Institutional financial viability will be considered as part of the debt approval process. The institution must demonstrate that there is sufficient enrollment or other compelling needs to justify the investment in the project and to generate the resources for debt repayment. The following financial statement ratios will be considered in order to determine institutional financial viability as part of this analysis.

a. Primary reserve ratio- unrestricted net assets/operating expenses.

b. Current ratio- current assets/current liabilities

c. Debt burden ratio- annual debt service (principal + interest) / total operating expenses, with a guideline maximum debt burden ratio of 3%.

In addition to presenting the actual ratios computed for the prior three fiscal years, the university will be responsible for calculating pro-forma ratios to incorporate additional debt allocated during the current fiscal year as well as for proposed projects.

Auxiliary enterprises must project operating income to demonstrate compliance with general debt coverage covenants, such as net revenues equal to 125% of annual debt service.

E. DEBT STRUCTURE

1. Coverage and Collateral: Debt coverage and collateral pledges are determined by the debt market. The University's debt authorities determine what revenues and other collateral can be pledged. The University will balance the costs and benefits of coverage and collateral pledges, taking into account the impact on the institution as a whole. The University will only cross-pledge revenues or assets within the same system, auxiliary, or related project.

2. Maturity of Indebtedness: The maturity of debt issued by the University will reflect market conditions at issuance. Where financially feasible, debt will be retired as soon as possible to recapture debt capacity for future

use. Maturity of debt will not exceed the average economic life of the capital improvements or equipment being financed.

3. Interest Rates: In most circumstances, the University will issue fixed rate debt that reflects the University's sources of repayment, which are fixed fees and charges. Variable rate debt will be considered when the financial benefits closely match the financial risk or where the use of variable rate debt significantly benefits the University.

4. Debt Service Structure: Debt service payments will be structured to match a borrower's cash flows. Other payment options will be considered if financially appropriate.

5. Subordination: New debt obligations will be issued on parity or subordinate to existing debt if secured by the same revenue and/or asset pledge.

6. Refunding Bonds: The University will issue current and advanced refunding bonds when a material present value and debt service savings can be obtained.

7. Redemption Provisions: The University will seek redemption provisions equal to or better than market.

8. Credit Enhancement: The University will consider credit enhancement when it is cost beneficial and/or materially increases the liquidity of the debt obligations in the secondary market.

F. MONITORING AND SERVICING DEBT

1. Debt Issued: Each debt issue will be evaluated at the time of closing against other issues with similar credit characteristics.

2. Debt Servicing: Debt service payments will be made in an accurate and timely manner. Compliance with debt covenants will be monitored by issuers and external auditors. The Controller's Office will monitor the University's rebatable arbitrage earnings for tax purposes on an annual basis. The Controller's Office will also evaluate compliance with IRS private use rules at issuance and periodically thereafter.

3. Debt Capacity: The University's debt capacity will be evaluated at least bi-annually or as often as necessary for capital planning purposes.

4. Reporting: The Business and Finance Office will annually present a report to the Business and Finance Committee of the Board of Trustees on debt issued, debt outstanding, the University's estimated debt capacity and credit ratings.

G. TYPE OF DEBT INSTRUMENTS

1. The types of debt instruments that the University may use include, but are not limited to: revenue bonds, financing contracts, reimbursable State-issued obligations, short-term notes and credit lines.

2. The University does not have the authority to issue general obligation bonds.

H. AUTHORIZED METHODS OF SALE

1. Negotiated Sales will be used when the expertise of the underwriter is considered necessary in the structuring and marketing of debt, and/or when the financial outcome is materially dependent upon the interest rate paid, e.g. in the case of advance refundings.

2. Competitive Sales will be used when an underwriter's expertise is not required to aid in structuring and marketing debt, and when the financial outcome is not materially dependent upon the interest rate paid.

3. Private Placements will be considered when the size and/or structure of the debt issue do not justify a public offering.

I. SELECTION OF SERVICE PROVIDERS

1. Bond Counsel: The Attorney General's Office, in consultation with the Treasurer, will select Special Assistant Attorney Generals through a competitive RFP process to represent the University on individual bond transactions and other issues as related to bonds. The Business and Finance Committee of the Board recommends and the Board of Trustees approves the selection of bond counsel.

2. Financial Advisor: The University's financial advisor is selected through a competitive RFP process. The financial advisor provides a broad range of financial services relating to bond financings. The Business and Finance Committee of the Board recommends and the Board of Trustees approves the selection of a financial advisor.

3. Selection of Other Service Providers: The selection of other service providers (underwriters, insurers, trustees) associated with individual debt transactions are typically delegated to the University administration by the Board of Trustees as recommend by the Business and Finance Committee of the Board. These additional service providers are selected through a competitive RFP process.