DEBT MANAGEMENT POLICY

This policy sets forth the principles that will govern the use of debt to finance University operations or capital projects and assigns responsibilities for the management of University debt. This policy describes the framework for approving debt financing for projects and for managing the University’s debt capacity and debt affordability, which are important tools for furthering the University’s mission.

The University seeks to achieve the lowest cost of capital that is consistent with its risk tolerance and the principal of intergenerational equity. While the Debt Management Policy is a stand-alone policy, it should be considered in conjunction with liquidity, debt related derivative, investment, and reserves management policies.

I. Definitions

A. “Board” means the Portland State University Board of Trustees or the Executive and Audit Committee when authorized to act on behalf of the Board of Trustees.

B. “Credit Enhancement Device” means an agreement or contractual relationship between the University and a bank, trust company, insurance company or other financial institution or entity providing additional credit on, or security for, a Revenue Bond.

C. “Internal Financing” means the short-term loaning of University funds for use on a particular University need. Internal Financing may be utilized for capital projects, emergency physical plant needs or for other purposes, such as to provide matching funds for Article XI-G Bonds in anticipation of philanthropy.

D. “Long-Term Debt” means debt issued with terms from 7 to 30 years at fixed or variables rates of interest.

E. “Obligation” means University-Paid Debt, a commitment of the University in connection with a Credit Enhancement Device, or an agreement for a debt-related derivative.

F. “Operative Document” means a bond declaration, trust agreement, indenture, security agreement or other document in which the University makes a Pledge.

G. “Pledge” means (a) to create a lien on revenue or property or (b) a lien created on revenue or property.

H. “Revenue Bonds” means short- and long-term University issued debt, capital leases, obligations, or extensions of credit incurred by the University. For the purpose of this policy, this includes any contractual undertaking or instrument of the University to repay borrowed moneys, which undertaking or instrument is secured by a Pledge of all or part of the revenue of the University. This does not include a Credit Enhancement Device, Article XI(F) Debt, or State-Paid Debt. While

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References to Long-Term Debt are not indicative of what would be presented as non-current debt liabilities in the University’s annual financial statements.
Revenue Bonds may require the approval of the Oregon State Treasurer, they do not require legislative approval.

I. “Short-Term Debt” means debt issued with terms of less than 7 years at fixed rates or variable rates of interest. The following instruments may be used by the University:

1. “Commercial Paper” is a form of short-term debt that is issued in tranches with maturities of 1-270 days and which must be redeemed or rolled over at maturity. Investors most often require liquidity (in the form of a letter of credit or standby bond purchase agreement) ensuring that the issuer can remarket Commercial Paper at maturity.

2. “Floating Rate Notes” (FRNs) are variable rate bonds priced on the basis of a fixed spread to an index. FRNs are typically issued with maturities of 1-7 years and typically pay interest monthly. At maturity, the FRNs need to be repaid or refinanced.

3. “Line of Credit” (LOC) is a form of short-term financing that provides flexibility in timing and use through an arrangement with a financial institution establishing a maximum loan balance that the lender permits the borrower to access or maintain. The interest rate is typically tied to an index. At maturity, the LOC needs to be repaid, extended or refinanced.

4. “Short-Term Notes” are debt instruments issued at a fixed interest rate for terms of typically 1 to 5 years. At maturity, Short-Term Notes need to be repaid or refinanced.

J. “State-Paid Debt” means borrowings that are expected to be repaid from state appropriations. This includes Article XI-G Bonds, Article XI-M Bonds, certain Article XI-Q Bonds, Lottery Bonds, and certain State Energy Loan Program (SELP) loans.

K. “University-Paid Debt” is Short-Term Debt and Long-Term Debt that is expected to be repaid from revenues of the University. This includes Article XI-F(1) Bonds, certain Article XI-Q Bonds, certain SELP loans, Revenue Bonds and alternative financing structures, such as public-private partnerships, that would be either included in the University’s balance sheet or considered on-credit by rating agencies.

II. Roles and Responsibilities

A. The Board of Trustees retains authority and responsibility for:

1. Reviewing and approving capital projects including renovation, new construction, and land and improvement acquisition in an amount greater than $5 million, regardless of source of funding or consideration of debt financing.

2. Reviewing and approving any University-Paid Debt in an amount greater than $5 million.

3. Reviewing and approving land, improvement, and capital leases with a total consideration exceeding $5 million or a lease term over 15 years in which the University will be lessee.

4. Approving this policy, amending this policy as necessary, and reviewing this policy at least every five years.

2 References to Short-Term Debt are not indicative of what would be presented as current debt liabilities in the University’s annual financial statements.
B. The Board delegates to the President, who may further delegate as appropriate, authority and responsibility for:

1. Implementing this policy.
2. Reviewing and approving (provided that doing so is consistent with the best interests of the University and sound fiscal management and does not fundamentally and detrimentally effect the financial condition of the University or the ratios identified in Section VI of this policy):
   a. University-Paid Debt in an amount up to $5 million;
   b. Land, improvement and capital leases with a total consideration up to $5 million or a lease term up to 15 years in which the University will be lessee;
   c. State-Paid Debt financings;
   d. Capital projects in amounts up to $5 million, regardless of source of funding or consideration of debt financing.
3. Establishing a comprehensive compliance program for debt management and post-issuance compliance. Such a program is to clearly assign responsibilities within the University, require the prudent investment of unspent bond funds, and require regular monitoring to satisfy initial and continuing disclosure requirement and ensure compliance with this policy, bond resolutions, bond covenants, and applicable laws, regulations and other requirements. This program must include a disclosure and post-issuance compliance policy addressing legal requirements imposed by the Securities and Exchange Commission and Internal Revenue Service and all other relevant laws and regulations relating to the use of debt, particularly tax-advantaged debt. The post-issuance compliance policy must include, at a minimum, the procedures and systems used to monitor compliance, the responsibilities of the compliance officer, private use and arbitrage analysis requirements, records management and retention guidelines and training requirements.
4. Retaining expert advisors, including bond counsel, disclosure counsel, tax counsel, financial advisors, underwriters, paying agents, and other related service providers. The solicitation and selection process for such services will comply with the University’s procurement requirements. The retention of such advisors should be reconsidered at least every five years.
5. Analyzing—and for University-Paid debt greater than $5 million, presenting recommendations to the Board in connection with—each proposed University Obligation, after (1) identification of the source of repayment for each project, together with pro forma financial statements and related assumptions, and (2) consideration of internal coverage requirements for each project and/or auxiliary providing repayment.
6. Pricing of Revenue Bonds, recognizing that the Oregon State Treasurer possesses authority to price University-Paid Debt issued as part of the debt programs administered by the State.
7. For previously issued state general obligation bonds from which PSU received proceeds, approval of refunding opportunities determined by the State Treasurer to be in the best interests of the State of Oregon.
8. Overseeing management of daily activities relating to debt, debt issuance and the periodic payment of principal and interest.
9. Entering into or endorsing reimbursement resolutions, authorization resolutions, grant/loan agreements and such other Operative Documents as may be necessary for any State-Paid Debt or University Obligation previously authorized by the Board or permissible under the authority of this policy.

10. Approving Internal Financings up to limit provided in Section IV of this policy.

11. Overseeing the management of activities necessary to achieve the requirements of Section IV. E. of the Reserves Management Policy, as approved by the Board of Trustees on June 16, 2016.

III. Conditions Governing Issuance of Debt

A. The University may use debt financing for academic, administrative, and auxiliary facilities and equipment, as well as any other infrastructure needs or property acquisitions, that are consistent with the University's mission and strategic priorities and part of the University's capital plan.

B. The University may also use debt to provide interim financing for capital projects and for cash flow financing. Debt will not be issued, or other Obligation entered into, for the purpose of funding deficits without the development and review of a plan to implement corrective actions.

C. No University-paid Debt in an amount greater than $5 million will be issued or sought without prior approval of the Board. In addition, the University, when acting as lessee, will not enter into any land, improvement, or capital lease with a term of greater than 15 years or total payments greater than $5 million over the term of the lease without prior approval of the Board. When the University issues or seeks University-paid Debt or enters into such leases, the Board's authorizing resolution will generally include its finding, based on an analysis of debt affordability and capacity, that the financed project is both self-liquidating and self-supporting. The Board may make exceptions for projects that further the University’s mission, even if not self-liquidating and self-supporting, taking into consideration other unobligated and legally-available revenues of the University.

D. No University-paid Debt in an amount greater than $5 million will be issued or sought without prior analysis and notification to the Board of all obligations and covenants associated with such issue.

E. The University may Pledge general revenues of the University or specified revenue streams to secure and repay any Obligation of the University.

F. When issuing or seeking University-paid Debt or State-paid Debt:

1. The University will evaluate the form of debt that is best suited for the project, taking into consideration debt-type characteristics, costs and risks, including the possible costs and benefits of Credit Enhancement Devices.

2. The University will seek the lowest available cost of capital, taking into consideration administrative capacity, the University’s risk tolerance, and the need to sustain adequate flexibility to allow the University to achieve its strategic goals.
3. The University will determine whether to issue debt through the State (if eligible) or independently, taking into consideration the cost of capital, financial flexibility and the use of debt capacity.

4. The University will identify a source of repayment and demonstrate that sufficient revenues are available to support debt service over the life of the financing. For short-term debt the University will also provide a plan to repay, refund or extend the short-term debt at maturity.

5. The maturity and term of debt repayment will be determined based on the expected availability of resources, other long term goals and Obligations of the borrowing unit and the University, the useful life of the assets being financed, and market conditions at the time of financing. The average life of a debt financing will not exceed 1.2 times the estimated useful life of the property, improvements, and equipment being financed.

6. If debt is issued through the State, the University will adhere to the requirements set forth by the State.

7. As long as the University intends to remain eligible to receive proceeds from Article XI(F)(1) Bonds or Article XI-Q Bonds to be repaid from University revenues or other University moneys, the University will not issue Revenue Bonds without first obtaining the approval of the State Treasurer, as provided in ORS 352.402.

8. The University will utilize tax-advantaged debt when legally possible and when tax-advantaged debt does not unnecessarily restrict the anticipated usage of the financed facilities or create undue administrative burden or compliance risk. Projects financed with tax-advantaged debt will be identified and tracked to ensure compliance with all tax and reimbursement regulations. Taxable debt will be utilized when the project does not qualify for tax-advantaged debt. The University will aim to amortize any taxable debt before any tax-advantaged debt if that reduces the overall debt cost of the University.

9. In general, fixed-rate debt will be utilized. However, the University may utilize variable-rate debt when appropriate for a particular financing plan, taking into consideration 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 issue more than 20% variable-rate debt (including synthetic fixed-rate debt) as a percentage of all University-paid Debt, including such debt as further described in the Short-Term Financing section of this policy.

10. Financial covenants and restrictions will be minimized to the extent possible, taking into consideration the long-term capital requirements of the University.

11. The University will utilize debt which provides for sufficient ability to refinance if market conditions or other factors warrant that action. Refinancing may be appropriate if doing so relieves the University of covenants, payment obligations, constraints or reserve requirements that limit flexibility, consolidates debt into a general revenue Pledge, reduces the cost and administrative burden of managing small outstanding obligations, or produces net present value savings. Unless otherwise justified, an advance refunding should result in net present value savings of 5% of the principal of refunded debt. Current refunding transactions are those undertaken at or after the call date of the outstanding debt, and provide for immediate
redemption and replacement of refunded debt. Unless otherwise justified, a current refunding should result in graduated present value savings as follows:

<table>
<thead>
<tr>
<th>Years between Call and Final Maturity</th>
<th>Net Present Value Savings Target</th>
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<tbody>
<tr>
<td>1-2 Years</td>
<td>1%</td>
</tr>
<tr>
<td>3-4 Years</td>
<td>2%</td>
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<tr>
<td>5-6 Years</td>
<td>3%</td>
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<tr>
<td>7-8 Years</td>
<td>4%</td>
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<tr>
<td>9 plus years</td>
<td>5%</td>
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The University recognizes that the Oregon State Treasurer retains authority to refinance debt issued as part of the debt programs administered by the State.

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

IV. Internal Financings

Internal Financing may be used when it is determined to be the most appropriate and cost-efficient mechanism for meeting certain financing needs. Unless authorized by the Board, the total value of Internal Financings shall not exceed 10% of the core cash balance of the University’s general operating bank account, as projected annually. If the core cash balance of the University’s general operating bank account is projected to be inadequate to cover liquidity requirements for any 30-day period in the following 12 months, no Internal Financing will be permitted unless approved by the Board. The maximum term of any single Internal Financing shall not exceed Five (5) years.

V. Short-Term Financing

Short-term financing may be considered by the University to (1) provide interim funding for capital projects in anticipation of philanthropy, grants, long-term debt proceeds and other sources of funds, (2) as a component of the University’s overall debt portfolio to lower the overall cost of capital, and (3) for cash flow financing.

Short-term financing is typically used to reduce interest cost. Other advantages may include flexibility of drawing funds when needed, matching variable interest expenses with variable interest earnings on investments (asset-liability management) and providing repayment flexibility to time a long-term financing.

Short-term financing products may introduce additional risks to the University’s debt portfolio which can be categorized as either components of interest rate risk or liquidity risk. Interest rate risk components impact the University’s cost of funds and can generally be budgeted for and managed as part of the University’s operations. Liquidity risk components represent more immediate and unexpected events that may require the University to draw on its financial resources.

A. The University will seek to quantify interest rate risk and liquidity risks whenever possible as part of its management of the debt portfolio.

B. In order to limit the exposure of the University to interest rate risk, the University will limit the amount of variable rate debt as described in Section III. F. 9. of this policy. The University will
require a Modified Current Ratio (defined in Section VI of this policy) of at least 1.0 to limit its exposure to debt related liquidity events.

VI. Debt Ratios

A. Debt capacity is a subjective measure, typically associated with balance sheet strength and the ability to repay debt on demand. The University’s risk tolerance will inform the amount of leverage that can comfortably be assumed.

B. Debt affordability is also a subjective measure and typically associated with income statement strength. Operating performance and the ability to meet debt service requirements will inform the affordability of existing and additional debt.

C. The University recognizes that its strategy and mission must be the primary drivers of its capital investment and use of debt. Although external credit ratings provide a view on debt capacity and affordability, the University does not manage its debt portfolio to achieve a specific rating. Success in achieving University objectives will over time result in a stronger financial profile and higher ratings.

D. The University will monitor five financial ratios to assist the Board in evaluating debt capacity and affordability, as described below.

1. Viability Ratio (balance sheet leverage ratio)
   
   Expendable Resources / Debt
   
   *Measures the ability to repay debt with financial resources and the ability to use debt to strategically advance the University’s mission*

2. Primary Reserve Ratio (income statement leverage ratio)
   
   Expendable Resources / Total Expenditures
   
   *Measures whether financial resources are sufficient and flexible enough to support the University’s mission*

3. Debt Burden Ratio (affordability ratio)
   
   Debt Service / Total Expenditures Minus Depreciation Plus Principal Payments
   
   *Measures the University’s dependence on debt to finance its mission and the relative cost of borrowing to overall expenditures*

   Guideline maximum debt burden ratio = 7%

4. Debt Service Coverage (debt affordability ratio)
   
   3-Year Average Net Operating Income Plus Non-Operating Revenues Plus Interest and Depreciation / Debt Service
   
   *Measures the sufficiency of operations on a cash flow basis to cover debt service*

5. Debt to Cash Flow Ratio (debt affordability ratio)
Debt / Real Cash Flows

*Measures the University’s ability to repay its debt from the profitability of its current operations*

6. **Modified Current Ratio** [To be measured and presented only if the University has Short-Term Debt outstanding]

\[
\frac{\text{Expendable Net Assets}}{\text{Debt}} \times \left(1 + \frac{\text{liquidity event triggers}}{\text{current maturities}} + \frac{\text{maximum collateral requirement}}{\text{90 Days of operating expenses}}\right)
\]

*Ensures that the University’s expendable financial resources are sufficient to support current debt liabilities absent support from third-party liquidity.*

Guideline Modified Current Ratio of at least 1.0

E. All ratio calculations will be based on industry standards and include all “direct debt”. Where specified by such industry standards, calculations shall include the financial performance/position of the University’s component units (such as the affiliated Foundation). In addition to bonds and bank debt, direct debt includes capital leases and any off-balance sheet or similar financing structures that would be considered on-credit.

VII. **Reporting Requirements**

The Board’s Finance and Administration Committee is to be provided a detailed report and update including:

A. At least annually or when additionally requested, all outstanding University-paid Debt and State-paid Debt (by type, purpose and repayment source, where applicable).

B. At least annually or when additionally requested, the amount of outstanding principal, interest rates, maturity dates, debt service requirements and changes in outstanding debt since the previous year’s report.

C. Upon the release of annual audited financial statements, the debt ratios identified in Section VI above.

D. At least annually or when additionally requested, the status and remaining term for any variable rate debt.

E. At least annually or when additionally requested, the utilization, status and remaining term of any Short-Term Debt.

F. At least annually or when additionally requested, the status or remaining term of any Credit Enhancement Device.

G. At least quarterly or when additionally requested, any known or anticipated new debt issuance.

H. At least annually or when additionally requested, the status of Internal Financing mechanisms regardless of value.

I. At least annually or when additionally requested, significant restructuring or refinancing opportunities.
APPROVED BY THE BOARD OF TRUSTEES
DECEMBER 11, 2014

AMENDED BY THE BOARD OF TRUSTEES
SEPTEMBER 14, 2017