Marywood University
Board of Trustees
Debt Management Policy

Policy/Procedure

I. Purpose

This Debt Management Policy is designed to provide a useful framework by which the Board of Trustees and the University will make decisions concerning the use and management of debt but is not intended to bind the Board of Trustees in the proper exercise of its fiduciary duties and obligations.

This policy and its underlying strategies are subject to reevaluation and change over time and shall be reviewed as needed but no less frequently than every three years. Except as otherwise set forth herein, the Financial Affairs Committee of the Board shall be responsible for conducting the reevaluation referenced herein and shall be responsible for monitoring this policy. All reevaluation recommendations shall be submitted to and will require approval of the Board of Trustees. The Vice President for Finance and Administration shall be responsible for implementing this Policy.

It is recognized that debt may be used prudently to finance capital projects that enable Marywood University (the "University") to carry out its Mission and achieve strategic objectives. Decisions regarding the use of appropriate financial leverage should be balanced to ensure the financial health of the University both in present terms as well as in terms of the effect of present decisions on future costs of capital. Debt, as the term is generally used herein, includes all short- and long-term obligations, guarantees, and instruments that have the effect of committing the University to future payments, but excludes unsecured trade credit payable less than 90 days, short-term operating leases and financing leases in immaterial amounts. For purposes of calculating the ratios described in Article VII of the Master Trust Indenture, its meaning and usage is intended to follow industry standards as applied by applicable rating agencies. Any assumption of debt more than $2 million shall be subject to approval by the University's Board of Trustees unless a lender or any other party requires approval for less that amount in order to facilitate any debt transaction.

II. Objectives

A) To provide funds to support the University's capital needs while providing for the current and future financial health of the University.

B) To support and fulfill the debt management fiduciary oversight responsibilities of the Board of Trustees by providing structure and guidance for the University.

C) To maintain an acceptable credit rating, given its other institutional priorities and goals, that will permit the University to continue to issue debt and finance projects at favorable rates and fulfill the University's Mission with a view towards optimizing institutional credit worthiness over the long term.

D) To provide a suggested methodology for determining the feasibility of certain types of projects and matching project costs with available funding to meet the University's strategic plan goals and objectives.

E) To allow for financial flexibility.

F) To manage debt in compliance with applicable laws and regulations.

III. Debt Operating Guidelines

The following are designed as general guidelines for borrowing decisions, but are not intended to be all-inclusive:

A) The University will generally adhere to the principle of matching the term of the debt to the expected useful life of the project or to the purpose of the program being funded with that debt. An exception to this matching principle would be in the case of interim financing for a capital project where debt financing, not operating funds, would be used to bridge any gap between the timing of cash flows for the project's funding and its construction. In circumstances where bridge financing is utilized, it is expected that there be a clearly identified and reliable source of payment. The clearly identified source of payment for any bridge loan should be, in the first instance, the permanent loan.

B) The allocation and use of debt financing within the University will include prioritization among all uses – academic, student life, and real property, plant and equipment projects. Projects that relate to the strategic plan objectives, Mission, and Core Values of the University will be given priority for debt financing. Projects that present a related revenue stream or can create budgetary savings will also receive priority consideration. For these projects, the use of debt should be supported by an achievable finance plan that includes servicing the debt and meeting any new or increased operating costs.

C) Annual debt interest and principal amortization payments will be budgeted for in the annual operating budget or in a specified or designated restricted fund.

D) Projects proposed to be funded with debt should include a pro forma of future operating expense up to a five-year period and establish a long-term replacement reserve fund for capital replacement (e.g. roof, mechanical system and special equipment).

E) The University will consider the use of call options to reduce its overall cost of capital and to provide for maximum flexibility of its debt portfolio. The University will actively consider calling and/or refinancing a single outstanding debt issue when net savings for that calling/refinancing, measured on a net present value basis, are at least 2% or $500,000.

F) The University will consider other reasonable options to reduce its overall cost of capital and to provide for maximum flexibility of its debt portfolio.

G) To provide an appropriate and prudent balance between interest rate risk and the cost of capital, the University will consider a mix of variable and fixed rate debt in structuring its overall debt portfolio.

H) In issuing tax-exempt debt, the University will adhere to all legal requirements, including without limitation, requirements of federal tax law which, inter alia, impose restrictions on the average life of the bonds, use of proceeds for private use purposes, and timing of expenditures. The University will also comply with post-issuance requirements including record-keeping and continuing disclosure. The University may consider taxable debt as an alternative to tax-exempt debt as specified in Article IV.

I) In negotiating bond or other loan documents care should be taken to avoid any covenants that could impede the financial flexibility of the University or violate the terms of any other debt or the terms of any gifts to the University. All existing and anticipated bond covenants or other loan documents must be fulfilled after reviewing three-year projections, which assume the new debt has been incurred, before proceeding with new debt.

J) The University may be subject to certain risk related to non-traditional transactions (e.g. private/public partnerships, sale-leaseback, off-balance sheet transactions), and therefore, commitment of resources to such transactions will not be permitted absent specific Board of Trustees direction.

K) Long-term debt will not be incurred to fund operations.

IV. Capital Project Planning, Funding and Approval Criteria

All projects in excess of $2 million, even if the project will not be funded by debt, must be presented by the University to the Financial Affairs Committee to make a recommendation to the Board of Trustees or the Executive Committee of the Board of Trustees for approval. If a lender or other party to a transaction requires Board of Trustees approval to a transaction regardless of the amount, the Board of Trustees, or the Executive Committee of the Board of Trustees when the Board is unable, will consider the matter for approval.

The University's goal is for at least 50% of the expected non-debt funding proceeds to be received, or pledged and anticipated to be received, within five-years of the date of commencement of construction.

Only necessary preliminary work for project development may proceed in advance of formal approval; other necessary preliminary work may include engagement of design and engineering professionals and consultants, programming schematic design through final construction documentation, independent cost estimates and issuance of bid documents for contractor selection. Final award and execution of construction contractor's agreement, however, will not proceed until the Board of Trustees formally reviews and approves:

1. An executive summary project cost analysis, including the potential impact on operations (one-time costs, incremental maintenance costs, incremental direct revenue) and the potential impact on cash flows;
2. A plan of debt financing and/or funding plan that may include debt funding and non-debt funding has been formally reviewed and recommended for approval and/or approved by the relevant committee(s) and the Board of Trustees of the University;
3. An analysis of the ability of the University to service any additional debt associated with the project has been formally reviewed and approved by the relevant committee(s) and the Board of Trustees of the University;
4. Satisfactory progress has been made in obtaining expected non-debt funding, and the amount of proceeds on deposit in the form of cash and/or short-term investments in connection with the proposed project equals or exceeds the goals for the project;
5. Satisfactory progress has been made regarding gift intentions, pledges and anticipated payments to date for the project;
6. The ability of the University to fulfill all existing and anticipated bond covenants and evaluation of the impact on the University's key financial ratios has been formally reviewed and approved by the respective committee(s) and the Board of Trustees of the University.

The debt discussion and analysis referenced above will take place within the Financial Affairs Committee and will be supported by the University Advancement Committee in addition to any other relevant committee. Furthermore, an analysis must be made that the project, and any possible debt associated therewith, will not violate the terms of any other debt and the terms of any gifts to the University.

V. Measurement of Acceptable Debt Levels

The University's debt capacity will be evaluated and determined by a number of factors including: legal authorizations and limitations, current and *pro forma* operating performance, credit considerations (including the University's credit rating) and targeted financial ratios.

A. As part of the Debt Management Policy, the University will seek to maintain a long-term bond rating of "BB" or higher to assure continued access to the capital markets at competitive rates. The University's goal is to attain an investment grade rating of "BBB-" or higher the University's credit rating agency (i.e. Moody's, S&P, etc.).

B. To ensure that the University operates within an appropriate financial framework and maintains an adequate level of flexibility to respond to major market shifts or competitive disruptions, key financial measures will be used as a basis for performing a financial evaluation for all potential debt issues. The University will report annually to the Financial Affairs Committee of the Board of Trustees concerning the University's performance on key financial ratios.

VI. Debt Structure

When issuing debt, the following options related to debt structure should be considered so long as the option does not violate any terms of gifts to the University.

A. Taxable vs. Tax-Exempt
Tax-exempt debt should be secured when possible as it typically represents the lowest cost of funds. It is possible, however, that the nature of a future need or a tax law change could result in taxable debt representing the most appropriate or only solution. The University may consider taxable debt as an alternative when market conditions and debt flexibility make it appropriate.

B. Fixed vs. Variable Rate
Consideration should be given to both historic and current market rates for fixed and variable rate debt, the structure of the University's existing debt, and the nature of investments in the University's investment portfolio (long- vs. short-term and type). Variable rate debt usually carries significant additional risks compared with traditional fixed rate financing. These risks include changes in interest costs, the ability to remarket the debt consistently, and the ability to secure the necessary bank liquidity support for the transactions. The Board of Trustees and the University will carefully consider these risks in comparing fixed and variable rate debt.

C. Use of Credit Enhancement
Issuers of public debt can in certain circumstances secure a third party to guarantee payment to bondholders in the event that the borrower defaults. Such action can lower the yield rate on the bonds by reducing risk. The University should not use credit enhancement if the resulting financial covenants significantly compromise the University's future plans and operations.

D. Amortization Type
The University will determine the appropriate duration and the specific amortization schedule, level, staggered or bullet debt service amortization, of each debt issue by evaluating its overall debt portfolio.

E. Use of Interest Rate Derivative Products
Interest rate derivative products may be utilized in appropriate circumstances, on either a current or forward basis, for the purpose of lowering the University's cost of borrowing and/or interest rate risk. Based on current market interest rates, any limiting features associated with potential derivative products, the structure of the University's existing debt portfolio and the composition of its investment portfolio, the advantages and disadvantages of certain interest rate derivative products (such as an interest rate swap) will be reviewed. Use of any interest rate derivative products would require the Financial Affairs Committee's review and recommendation and the Board of Trustees approval.

F. Other financing sources and non-traditional financing structures including guarantees of third-party debt, utilization or service agreements can be considered providing the economic impact on the University's debt capacity, operating budget and credit has been evaluated. Such transactions may include but are not limited to leases, sale-leaseback or long-term leases or operating agreements.

VII. Ratios

The Financial Affairs Committee of the Board of Trustees will monitor the ratios which sets forth the ratios set forth in the Master Trust indenture, dated as of July 1, 2000 (the "Master Trust Indenture"), by and between the University and UMB Bank, N.A. as successor to Peoples Security Bank & Trust Company as master trustee (the "Master Trustee"), as previously supplemented and as further supplemented by one or more Supplemental Indentures and report to the Financial Affairs Committee at least annually, and prior to the incurrence of any debt of the University.

In particular, the Financial Affairs Committee will examine closely the following three ratios with the goal of maintaining certain levels. The specific thresholds are not intended as absolute levels, but to guide whose discussion and decisions. For example, if the University falls below the specified levels, the Vice President for Finance and Administration will discuss the reasons and implications of such event and take this into consideration in making capital and debt decisions. In addition to the University's ratios and any medians published by the rating agencies for its rating category, the University will also compare its ratios relative to its financial peers.

The University must comply with the terms, covenants, provisions, or conditions of the Master Trust Indenture Obligation dated July 1, 2000, as amended and supplemented. The Thirteenth Supplemental Master Trust Indenture (Master Trust) has three covenants to measure compliance: The Cash and Investments to Outstanding Indebtedness Ratio (Liquidity Ratio) and the Long-Term Debt Service Coverage Ratio (DSCR) and an Additional Debt Test.

A. Liquidity Ratio
B. Debt Service Coverage Ratio
C. Additional Debt Test

Related Policies

Investment Policies, Objectives and Procedures

History of Policy

02/11/2023 – the Board of Trustees established the policy upon recommendation of the Financial Affairs Committee and Audit Committee.

MARYWOOD UNIVERSITY
POLICIES AND PROCEDURES MANUAL

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