DEBT MANAGEMENT POLICY

Procedures

**Debt Capacity**

It is the objective of the College to maintain no less than a single “A” category underlying rating for all debt at the time of issue. Core financial ratios that are strongly correlated with single “A” rated higher education peers will be monitored to ensure central oversight of College-wide leverage levels. The following ratios will be reported annually to the Board at the meeting following the approval of the audited financials: Expendable Resources to Debt, Expendable Resources to Operations, Debt Service to Operations, and operating margins. These core ratios will be monitored against the goals listed below from Moody’s “A2” Medians for Public Universities.

1.) **Expendable Resources to Debt of at least .30**

This is a measure of the College’s leverage on its assets. Expendable Resources is defined as unrestricted net assets plus restricted expendable net assets plus foundation unrestricted and temporarily restricted net assets less foundation net investment in plant. Expendable Resources is divided by outstanding debt.

As of June 30, 2006, the College’s ratio of unrestricted resources to debt was approximately .10.

2.) **Expendable Resources to Operations of at least .37**

While this measure of liquidity is less directly affected by the issuance of new debt, it provides a useful indication of the institution’s financial cushion relative to operations and its ability to service debt. This ratio is expendable resources divided by operating expenses.

As of June 30, 2006, the College’s ratio of expendable resources to operations was approximately .28

3.) **Debt Service to Operations not to exceed 4.3%**

Debt Service to Operations is the typical measure used to evaluate an institution’s use of borrowed funds. The use of debt with bullet or balloon structures that defer principal payments until far in the future makes the
calculation of debt service more difficult, therefore the College will include not only required annual principal and interest payments in its definition of debt service, but also an annual equivalent for sinking funds. Ratio is calculated by peak annual debt service divided by total operating expenses.

As of June 30, 2006, the College’s debt service to operations was approximately 13.4%.

4) Operating Margin will remain positive

Operating margin indicates the excess margin (or deficit) by which annual revenues cover operating expenses. It is calculated by adjusted total restricted revenues (adjustments include limiting investment income to 5% of average of previous three year’s cash and investments and subtracting net assets released for construction and acquisition of fixed assets), less total unrestricted operating expenses, divided by adjusted total unrestricted revenues.

As of June 30, 2006, the College's operating margin was -2.20.

If the College is unable to maintain a rating in the single “A” category, the Board will develop a long range plan to address those factors that resulted in a downgrade. The plan will be reviewed on an ongoing basis.

**Debt Compliance and Reporting**

1. **Continuing Disclosure Compliance**
   The College will meet the ongoing disclosure requirements in accordance with SEC Rule 15c2-12. The College will submit all reporting required with respect to outstanding bonds or certificates of participation to which such Rule is applicable.

2. **Post Issuance Compliance Requirements**
   The College will develop and implement procedures to comply with any post issuance compliance requirements, including but not limited to, maintaining items found on the Tax-Exempt Bond Financing Compliance Check Questionnaire.
Debt Management Strategies

1. **Mix of Fixed and Variable Rate Debt, Derivatives and Other Hedging Products**  The College may structure its overall debt portfolio, using a combination of fixed and variable rate debt, to provide an appropriate and prudent balance between interest rate risk and the cost of capital as well as to integrate asset-liability management.

Variable rate debt can be a valuable tool for the College to use in the management of its assets and liabilities. Variable rate debt allows the College greater diversification in its debt portfolio as well as reduces its overall interest costs. However, the use of variable rate debt increases interest rate risk that the College must consider as the interest rate is subject to market fluctuations and tax risk.

In considering the use of variable rate debt, the College shall assess the amount of short-term investments and cash reserves since the earnings from these funds can serve as a natural hedge offsetting the impact of higher variable rate debt costs. In addition, the College should also consider other strategies to allow assets and liabilities to move in tandem, such as entering into interest rate swaps under appropriate circumstances, and in accordance with these guidelines.

In general, and as guidance to the appropriate level of variable rate interest rate exposure as specified within these guidelines, the College should maintain its flexibility and continuously review new products and opportunities to allow it to take advantage of changing interest rate environments and new products or approaches as they become available.

In addition to considering asset/liability mix, variable rate debt can be used to manage the overall cost of capital. For example, in low interest rate environments, the College should consider ways to lock in low fixed rates, through conversions, fixed rate debt issuance, and either traditional or synthetic refundings. In high interest rate environments, the College should consider ways to increase variable rate debt exposure and evaluate other alternatives that will allow the College to reduce its overall cost of capital.

The College should consider maintaining a portion of its portfolio in variable rate debt. In doing so, the College shall attempt to increase and manage its variable rate exposure in a manner that takes into consideration its investment portfolio and stays within a range of 20% to...
30% variable rate debt as it relates to all of the College’s outstanding indebtedness. Any synthetic fixed rate debt, achieved through a swap transaction whereby the College swaps underlying variable rate for fixed rate should not be counted toward this variable rate ceiling.

2. **Purchase of Insurance or Credit Enhancement**
   The College will evaluate insurance and credit enhancement opportunities and utilize them if they are deemed cost effective.

3. **Refunding Targets**
   The College will monitor its debt portfolio for refunding and/or restructuring opportunities. Advance refunding transactions must weigh the current opportunity against possible future refunding opportunities. Since there are limitations on the number of allowable re-financings, it is important to use re-financing opportunities wisely. In evaluating refunding opportunities, the College will consider the value of the call option to be exercised, including the amount of time to the call date and the amount of time from the call date to maturity.

   In general, the College will consider refinancing when a current or advanced refunding of debt provides a net present value savings of at least three percent. Refinancing or restructuring opportunities that provide savings of less than three percent, or with negative savings, may be considered if there is a compelling objective such as: a.) realizing lower savings is appropriate given the results of call option analysis on a maturity-by-maturity basis, or analysis of current vs. historic interest rate levels, or b.) to restructure financial or legal covenants that prove disadvantageous to the College.

   Where analyzing or pursuing the implementation of refinancing transactions using fixed rate swaps or other derivative products, the College should generate a greater projected savings than the savings guidelines the College would consider for traditional bonds. The higher savings target reflects the greater complexity and higher risk of derivative financial instruments. Such comparative savings analyses shall include the consideration of the probability (based on historical interest rate indices, where applicable, or other accepted analytic techniques) of the realization of savings for both the derivative and traditional structures, where applicable. Such analyses should also consider structural differences in comparing traditional vs. derivative alternatives, e.g., the non-callable nature of derivative transactions.
4. **Hedging Instruments**

   The College will consider the use of interest rate swaps and other interest rate risk management tools after carefully evaluating the risks and benefits of any proposed transaction. Such agreements or contracts include without limitation, interest rate swap agreements, forward payment conversion agreements, or contracts providing for payments based on levels of or changes in interest rates, to exchange cash flows or a series of payment, or to hedge payment, rate spread or similar exposure.

   In general, interest rate swaps are utilized to reduce the cost and/or risk of existing or planned College debt. By using swaps in a prudent manner, the College can take advantage of market opportunities to reduce debt service cost and/or interest rate risk. The use of swaps must be tied directly to College debt instruments. Swaps may not be utilized for speculative purposes. Master swap agreements entered into by the College shall contain terms and conditions as set forth in the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, as amended.

5. **Fixed Rate Debt**

   When issuing fixed rate bonds the existing yield curve will be considered. Optional call dates may be negotiated to less than the traditional 10-year period after analyzing the cost to the College. Bonds without optional call dates should be limited in the institution’s debt portfolio, and should be issued only if investors are willing to pay a substantial premium. Discount and premium coupons issued for callable bonds are expected to be in the range of 96% to 104% of par value but may vary outside that range under exceptional circumstances.

6. **Term of Debt**

   The College will determine the appropriate duration and the specific amortization schedule of each bond issue by evaluating its overall debt portfolio. Considerations will include the life of the assets being financed, interest rate costs, risk assessment, general market conditions, and the College’s future financial plans. If and when bullet or balloon payments are used, the College will budget appropriately over the life of the bond issue such that the bullet or balloon maturity payments do not unduly impact any one fiscal year.

7. **Use of Tax-Exempt versus Taxable Debt**

   In general, the College will look to avoid the use of taxable debt where other alternatives are available, including equity financing. However, the College may have to utilize taxable debt in certain situations where
Federal tax law limits the use of tax-exempt debt for particular projects, especially those where use of the project includes both private and non-profit purposes. The College may also consider taxable debt under other circumstances where market conditions and debt flexibility make it an appropriate alternative. When utilized, the College will consider structuring taxable debt to shorten its term and allow it to be redeemed at the earliest possible date.

Responsible Unit: Planning and Administration
Date Adopted: December 3, 2007