3356-3-14 Debt management.

(A) Policy statement. The assumption of debt is governed by sections 3345.12, 3345.07, 3345.64, and 3345.66 of the Revised Code and is subject to board approval.

(B) Purpose. The amount of debt ~~incurred~~issued by the university impacts the financial health of the university and its credit rating. The purpose of this policy is to establish ~~certain debt guidelines that~~parameters for the issuance of debt, including refinancing of existing debt, to ensure an appropriate mix of funding sources for the university's capital and strategic plans, while considering the long-term financial sustainability of the university. Debt is a valuable source of capital project financing and its use should be limited to projects that ~~relate to~~support the mission and strategic objectives of the university.

(C) Definitions.

(1) "Debt financing" includes long-term, short-term, fixed-rate, and variable-rate debt, and any instruments that have the effect of committing the university to future payments for current capital or operating needs.

(2) "Debt" includes bonds, capital leases, on- and off-balance sheet financing, as well as any legal derivative instruments.

(3) For the purposes of this policy, "debt" does not include installment payment plans that are part of a multi-year vendor agreement.

(D) Parameters.

(1) ~~Debt guidelines will address the following objectives~~When evaluating the issuance of debt, the university will take the following actions:

(a) Identify and prioritize capital projects considered eligible for debt financing and ensure that debt-financed projects have a feasible plan of repayment.

(b) Define the quantitative tests that will be used to evaluate the university's overall financial health and present and future debt capacity.

(c) Define project specific quantitative tests, as appropriate, which will be used to determine the financial feasibility of an individual project.

(d) Manage the university's debt to maintain an acceptable credit rating. The university, consistent with the capital objectives, will limit its overall debt to a level that will maintain an acceptable credit rating with bond rating agencies.

(e) ~~Establish guidelines to limit the~~Limit risk ~~of~~to the university's total debt portfolio. The university will manage debt on a portfolio basis to diversify exposure and will use an appropriate mix of fixed and variable rate debt to achieve the lowest cost of capital while limiting exposure to market interest rate shifts.

(f) ~~Establish guidelines to manage variable rate interest exposure~~Monitor the interest rate environment to limit its exposure to risks associated with variable rates.

~~(g) Assign responsibilities for the implementation and management of the university's debt management policy.~~

(2) ~~Cash~~Debt funding is not recommended under the following circumstances:

(a) To finance purchases of assets whose lives are shorter than five years;

(b) To finance recurring maintenance expenditures; and

(c) When market conditions are unstable or present difficulties in achieving acceptable interest rates.

(3) Short-term bond anticipation notes (with final maturities of five years or less) may be issued to finance projects or portions of projects and are appropriate under the following conditions:

(a) As a source of permanent financing for projects with useful lives of less than five years;

(b) As a temporary funding source prior to and in anticipation of other funding sources, such as long-term bonds, state capital appropriations, and philanthropic funding; or

(c) When the immediate need for financing is five million dollars or less.

(4) The following parameters are established for long-term debt:

(a) To minimize overall interest rate risk, the amount of variable rate financing shall not exceed twenty-five per cent of the university's outstanding debt, on and off balance sheet.

(b) Projects financed with long-term debt should have an expected useful life that is equal to or greater than the debt structure.

(c) The addition of long-term debt may not be advisable if the university's Senate Bill 6 composite ratio, as measured by the Ohio ~~board of regents~~department of higher education, is below 2.5, or if the addition of debt results in a projected composite ratio of below 2.5.

(d) It is the objective of the university to maintain no less than a single "A" category underlying rating for all debt at the time of issue.

(e) Refinancing may be considered when net present value savings percentage is equal to or greater than three per cent. Refinancings that do not produce the minimum three per cent net present value savings will be considered when there are substantial benefits to the university, including eliminating restrictive bond covenants.

(5) The university's current debt structure and debt service schedule will be reported annually as part of the audited financial statements.

(6) Proposals for future debt financing plans will be presented to the board of trustees in a timely manner.

(7) Exceptions to this policy require written justification from the vice president for finance and business operations and the approval of the board of trustees.

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Certification

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