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UNIVERSITY OF MASSACHUSETTS
DEBT POLICY

I. Introduction

The University needs to make periodic capital investments in order to fulfill its mission, which requires decisions that impact the University's credit. Debt can provide a low-cost source of capital for the University to fund investments to achieve its mission and strategic objectives. The use of debt should be part of a financial strategy that is developed in support of master and strategic planning at the campuses, which in turn should be developed in support of the University's strategic planning.

II. Objectives

- To provide guidance on the use of debt proceeds to support the university's capital needs while achieving the lowest overall cost of capital. The Board of Trustees and University Management maintain the ability to make judgments as to the appropriateness, financing, and timing of capital investments.

- To provide a framework for evaluating the capital structure of the University. This Policy is intended to help the University manage the cost of capital, limit debt-related risk, and monitor debt levels. The University should maintain a cost-effective strategy that allows for the investment in new properties and the renovation or replacement of existing capital assets.

- Use of key financial ratios to provide assurance to Management and the Trustees that the University is not exceeding its capacity. Management will regularly evaluate key financial ratios to provide the Trustees with an overview of the financial health of the institution and its current and projected debt capacity.

III. Debt Policies

With the understanding that the University has limited financial resources, management will allocate the use of debt financing within the university with the approval of the Board of Trustees. This will involve approving the issuance of debt for construction, equipment financing, real estate opportunities, and other capital projects. The following guidance will be used, although it is not intended to be all-inclusive, and decisions by the Board and Management ultimately will determine the application of debt.

- The University's campuses will work collaboratively with Management to determine debt capacity. The use of debt financing will only be permitted for projects approved through the University's capital planning process. The campuses will service the debt, and the associated costs, related to the financing done on their behalf.

- A deliberative approach should be implemented to take advantage of market opportunities, to leverage additional funding sources, and to match the project costs with the useful life of capital investments.

- A project that has a related revenue stream and/or can create budgetary savings will receive favorable consideration. The use of debt must be supported by an attainable financial plan that includes servicing the debt and meeting any new or increased operating costs, which should include the funding of a replacement and renovation reserve.

- Financing plans should include all revenue sources including privately-raised funds, project-generating revenues, government grants, state appropriations, student fees, and other sources expected to finance a portion of the cost of a project.

- Raising private funds for capital activity is expected to be a major source of financing the university's investments. A long-range capital plan that addresses the strategic needs of the university is fundamental to the success of capital fundraising efforts. Annually, an updated five-year capital plan will be reviewed and approved by the Board of Trustees. In order to utilize debt for a capital investment a written request must be made to the President or his/her designee.

- To fulfill their respective fiduciary responsibilities, it is critical that the Board of Trustees and Management know the extent of debt obligations. The Senior Vice President for Administration, Finance, and Technology will provide an annual report to the Board of Trustees covering such topics as financial ratios, outstanding debt, annual debt service, available capacity, and credit ratings. Capacity analysis should take into consideration existing debt service, lease obligations, and other contracted payment obligations. At a minimum, the following ratios are to be monitored using the forecast of the current year and five-year projections:

Ratio #1: Debt Burden = Actual Debt Service/Total Expenses:
By maintaining an appropriate proportion of debt service to total expenses, other critical and strategic needs can be met as part of the expense base. The ratio should be no greater than 8% for the University or a campus. An individual campus may exceed 8% if so authorized by a vote of the Board of Trustees, but may at no time exceed 10%. By keeping debt service within this limit, the University will ensure that debt service remains affordable and future debt does not impact existing programs.

Ratio #2 Viability Ratio = Expendable Net Assets/Long-Term Debt:
The viability ratio measures the availability of expendable net assets to cover debt should the University be required to repay its outstanding obligations. A limited viability ratio makes it difficult for the University to respond to adverse conditions from internal resources. It will also impact its ability to attract debt financing from external resources to fund capital initiatives.

These ratios will be reviewed and monitored annually for the University and for each campus of the University.

- The University will provide rating agencies and other interested parties with timely access to financial information and Management will monitor financial activity in light of rating agency guidelines.

- In managing its debt portfolio, the University has the flexibility to select the most economically prudent financing vehicle. Using various financing options while structuring the portfolio, such as fixed rate debt, variable rate debt, derivative instruments, and including federal interest rate subsidies that may be available, can limit interest rate exposure and reduce debt service costs. The University should evaluate all legally available conduits for borrowing, such as the University of Massachusetts Building Authority, the Worcester City Campus Corporation, the Massachusetts Higher Education Finance Authority, and other options that become available.

- The University will monitor financial and other debt covenants and tax representations and regulations to ensure compliance.

- This Policy will be reviewed periodically by the Board and guidance may be modified as necessary by the President to reflect changing conditions.