University of Washington
Debt Management Policy

First approved by the Board of Regents September 19, 2002.
Last amended [July 12, 2018].

Overview

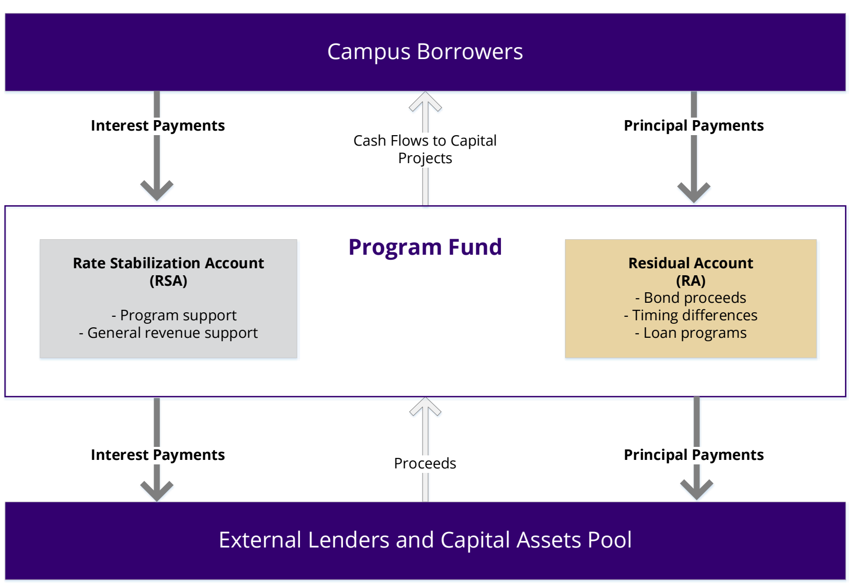
This Debt Management Policy addresses the University's Internal Lending Program ("Program") and the active management of the institution's external debt portfolio.

The Program will make loans to internal borrowers at uniform internal lending rates. These internal loans are funded through the issuance of University General Revenue debt obligations and from University reserves.

The University's internal loan portfolio includes the outstanding loans to internal borrowers, while the institution's external debt portfolio is comprised of the institution's outstanding short-term and long-term external debt obligations. Internal loans may be funded from external debt and/or borrowing from University reserves. The external debt portfolio is actively managed to reduce the institution's cost of capital and to achieve stability and predictability in internal lending rates. Active management of the external debt portfolio entails the use of risk-evaluated debt structures and debt management techniques to achieve the lowest risk-adjusted cost of capital consistent with market conditions and institutional credit considerations.

The management of the Program and the external debt portfolio will be performed in accordance with policies set forth in this document and University debt management guidelines.

The diagram below outlines the relationship between the University's internal borrowers, the Program, and the external debt market:



This statement of objectives and policies includes:

A. Introduction. Statement of overall objectives, management, and reporting.

B. The Program. Description of Program scope, loan categories, internal lending rates, loan agreement, and Program Fund.

C. Debt portfolio management. Description of external debt portfolio management objectives, institutional credit rating, core financial benchmarks, debt structure, refunding bonds, and financial derivatives.

D. Roles and responsibilities. Description of roles and responsibilities relating to the management of the Program and the University's external debt portfolio.

A. Introduction

1. Objectives. The primary objectives of the Program and active management of the University's external debt portfolio are to provide internal borrowers with access to funds at stable and predictable interest rates and to reduce the institution's risk-adjusted cost of capital.

2. Management. The Program and the University's external debt portfolio will be managed by the Treasury Office under authority granted to the President by the Board of Regents.

3. Reporting. A report on the Program and the University's external debt portfolio will be presented annually to the Finance and Asset Management Committee of the Board of Regents.

B. The Program

The Program will make funds available to internal borrowers at uniform interest rates that reflect the University's long-term cost of capital.

1. Program scope. The Program will encompass all institutional financing needs, except as noted below. Alternative arrangements for any other financing action will require the approval of the Board of Regents.

   Financing actions exempted from participation in the Program:

   a. Debt repaid from appropriated University local funds (e.g., debt supported by Metro Tract revenue).

   b. Debt issued by an external entity on behalf of the University (e.g., 63-20, public-private, conduit financings).

   c. Financings consisting solely of personal property, except for short-term asset (“FAST”) loans that are internally funded, described in Section 2.e.

d. Credit lines, except for those FAST loans described in Section 2.e.

2. Loan Types. Loan types for internal borrowing will include:

   a. Large capital expenditures ($15 million and above). The approval of the Board of Regents will be required for capital expenditure loans of $15 million and above. The maximum term of these loans will be 30 years after facility opening (or the estimated useful life of the facility).

   b. Small capital expenditures (less than $15 million). The approval of the President or his or her designee will be required for capital expenditure loans up to $15 million. The maximum term of these loans will be 30 years after facility opening (or the estimated useful life of the facility).

   c. Operating loans. Short-term working capital loans up to $25 million and with a maximum term of two years will be available. Operating loans up to $15 million will require the approval of the President or his or her designee. Operating loans of $15 million and above will require the approval of the Board of Regents. An additional 200 basis points (2.0 percent) above the prevailing internal lending rate will be charged on outstanding balances and a commitment fee of 10 basis points (0.10 percent) will be charged on any unused balance. The aggregate total of operating loan commitments will not exceed 30 percent of the University's commercial paper line of credit without the approval of the President or his or her designee.

   d. Bridge financing. The approval of the Board of Regents will be required for loans to bridge gift-funded capital projects with a project amount of $15 million and above. The approval of the President or his or her designee will be required for loans to bridge gift-funded capital projects with a project amount less than $15 million. Bridge loans may be made in an amount less than or equal to uncollected pledges on the date of approval of the project. The maximum term of these loans will be five years from Board of Regents approval of the loan.

   e. FAST loans funded with internal University assets. The approval of the President or his or her designee will be required for FAST loans funded with internal University assets. The maximum term of these loans will be 10 years. Note that FAST loans funded with lines of credit or other external University debt are excluded from participation in the Program under Sections 1.c and d above.

3. Internal lending rates. An internal lending rate will be uniformly applied to all loans for large and small capital expenditures under 2.a. and 2.b. above approved after Program implementation (the "standard internal lending rate"). The internal lending rate for all bridge financing and FAST loans will be a market-based rate (the "bridge and FAST internal lending rate"). The standard internal lending rate will reflect the external debt portfolio's weighted average interest rate and will include funding for Program operating costs and a rate stabilization account.

   a. Rate adjustment. The standard internal lending rate will be reviewed annually and will be subject to adjustment by the Board of Regents. Any adjustment will comply with Program Fund policies described in this document. Any preliminary indication of a rate increase will be announced to Program participants twelve months in advance of the effective date of the increase. Any formal proposal for a final rate adjustment will be announced to Program participants six months in advance of the effective date of the adjustment and updated internal repayment schedules reflecting the new rate will be distributed to Program participants within 45 days of this announcement.

b. Application. Adjustments to the standard internal lending rate will apply to all applicable Program debt, including outstanding debt obligations incurred prior to Program implementation.

4. Program Fund policies. Payments to the Program will be made monthly and held in a Program Fund. External debt service payments will be made from the Program Fund and all interest earnings will be retained in the Program Fund. The Program Fund will be managed according to the policies set forth below. Exceptions to these policies will require the approval of the Board of Regents.

   a. Operating level. The Program Fund will be maintained at a level that enables the University to meet its Program obligations, including Program operating costs, debt portfolio management expenses, principal and interest on external debt, and a rate stabilization account maintained as described below. An accounting of Program Fund activities will be included in the Debt Management report to the Board of Regents.

   b. Rate stabilization account (RSA). The rate stabilization account will be managed to preserve the stability of the standard internal lending rate after considering forecasted external borrowing, changes in financial market conditions, and Program operating requirements.

   c. Program operating expenses. Program operating expenses, including the costs of staffing, facilities, equipment, supplies, and fees, will be paid from the Program Fund.

   d. Loans funded from reserves. Program reserves may be used to fund internal loans. Bridge and FAST loan financing is subject to the availability of short-term funds, and will be limited by current and projected balances after consideration of other reserve requirements.

   e. Debt portfolio management expenses. Expenses associated with actively managing the University's external debt portfolio, including the costs of debt issuance, loan restructuring, and financial derivative transactions, will be paid from the Program Fund.

   f. Other University purposes. Withdrawals from the Program Fund for University purposes other than those described in this section, will require the approval of the Board of Regents. A list of Program Fund withdrawals will be included in the annual Program report to the Board of Regents.

5. Internal Borrower Responsibilities.

   a. Agreement. Borrowers will be required to enter into an internal financing agreement for all loans describing the loan structure and repayment terms.

   b. Reporting. Annual reviews and/or audits of financial condition and performance will be provided by the borrower.

c. Loan covenants. Loan covenants may include specific operating benchmarks to be achieved and/or maintained by the borrower during the term of the loan, which could include cash reserve targets and/or debt coverage, among others. Failure to comply with loan covenants will require the following actions by the borrower:

   i. Borrower must present a mitigation plan for approval by the Board during the October Board meeting (unless otherwise determined); and
   ii. Periodic reviews will be conducted to measure progress and compliance with mitigation plan.

C. Debt Portfolio Management

The University's external debt portfolio will be actively managed to maintain the stability of the standard internal lending rate and to minimize the University's risk-adjusted cost of capital over the long term. The University will use short-term and long-term fixed and variable interest rate debt obligations, bond refundings, and financial derivatives to achieve this goal within the following guidelines:

1. Objective. The objective of actively managing the University's external debt portfolio will be to achieve the lowest risk-adjusted cost of capital consistent with market conditions and credit rating parameters set forth below. Active management decisions will take into consideration relevant risks and terms that include, but are not limited to, market conditions, bond refunding savings, call options, variable interest rate bond remarketing and auction expenses, and liquidity, tax, and counterparty risks.

2. Portfolio credit standard. The University will manage its external debt portfolio to maintain a minimum “A” category credit rating on its General Revenue obligations as evaluated by Moody's Investors Service and Standard & Poor's rating agencies.

3. Debt structure. The University may issue fixed-rate, variable-rate (up to 20 percent of the external debt portfolio), non-amortizing, and other forms of short-term and long-term debt to achieve its external debt portfolio management objectives.

4. Refunding bonds. The University may issue current and advance refunding bonds to lower or maintain the University's cost of capital over time. Refunding bonds will be issued to capture economic benefit and to restructure the debt portfolio in order to achieve longer-term strategic objectives.

5. Financial derivatives. The University may enter into financial derivative transactions to manage the institution's exposure to interest rate risk, reduce all-in borrowing costs of the external debt portfolio, and/or to manage other risks of the external debt portfolio that could adversely affect the standard internal lending rate or the Program. The University will enter into financial derivative transactions following guidelines in the University's Interest Rate Swap Policy. The University will not enter into financial derivative transactions for speculative purposes.

6. Private Use. At least every five years, the University will identify any changes in, or other factors relating to, facility occupancy or facility/equipment use that could affect the tax-

related status of University debt.

7. Core financial ratios. The University will evaluate institutional debt capacity as compared to a public higher education peer group by reviewing relevant core financial ratios such as ratios used by ratings agencies and key investors in University bonds. These ratios will be calculated and reported annually.

D. Roles and Responsibilities

1. Board of Regents

    a. Approves policies that guide the operation of the Program and the management of the University's external debt portfolio.

    b. Approves the annual Bond Resolution for the issuance of external debt, delegating to the President and his or her designee authority to approve external debt up to the maximum amount and within other parameters set forth in the Resolution.

    c. Approves financing plans for loans of $15 million and above; approves bridge financing and FAST loans for projects of $15 million and above.

    d. Delegates to the President or his or her designee the authority to enter into agreements to complete debt financing transactions up to $15 million or the amount approved by the Board of Regents.

    e. Approves exemptions of eligible financing transactions from participation in the Program.

    f. Approves the adjustment of the standard internal lending rate.

    g. Approves exceptions to Program Fund policies.

    h. Approves withdrawals from the Program fund for University purposes other than those described in Sections B.4.c, B.4.d and B.4.e above.

    i. Approves increases in the size of the commercial paper program.

2. Finance and Asset Management Committee

    a. Recommends proposed financing actions to the Board of Regents.

    b. Receives annual reports on the Program and the University's external debt portfolio.

3. President

    a. Delegates authority to enter into agreements to complete debt financing transactions.

    b. Delegates authority to approve loans up to $15 million, lines of credit up to $15 million or the amount approved by the Board of Regents, bridge financing loans for projects up to $15 million and FAST loans for projects up to $15 million.