Name of Policy: Debt Management **Policy Number**: 3364-40-25 **Approving Officer**: President **Responsible Agent**: Sr. Associate Vice President for Finance, Aux/Treasurer **Scope**: All Campuses		THE UNIVERSITY OF TOLEDO 1872 **Effective date:** August 18, 2021 **Original effective date**: June 29, 2015	
☐	New policy proposal	☐	Minor/technical revision of existing policy
☐	Major revision of existing policy	☒	Reaffirmation of existing policy

(A) Policy statement

This policy provides guidance and governance on the use of debt financing including long-term debt instruments, short-term debt instruments, internal loans, synthetic debt instruments, and capital and operating leases in support of the university's strategic capital plan. The use of debt is a critical component in the university's ability to meet itsstrategic mission and vision.

(B) Long-term debt

(1) Authority

Sections 3345.07, 3345.11, and 3345.12 of the Revised Code give authority to the boardof trustees to approve issuances of debt obligations for construction and renovation of educational, housing, dining, and auxiliary facilities, or to refund previously issued debtobligations.

(2) Management objectives

(a) Obtain the lowest cost of capital based on the current market conditions.

(b) Manage the repayment schedule of the debt in order to preserve debt capacity and flexibility over the long-term while also meeting the liquidityneeds of the university.

(c) Manage the credit profile of the university to ensure the highest creditrating possible to:

(i) Maintain access to the capital markets.
(ii) Obtain favorable costs of capital, flexibility, and favorable terms.

(d) Closely match the average age of debt service to the average age of facilities.

(e) Comply with applicable state and federal laws.

(f) Comply with contractual debt covenant obligations

(3) Access to and approval of debt financing

(a) All debt issuances need the recommendation of the executive vice president for finance and administration, or equivalent position or designee, and the president; and the approval of the board of trustees through a board resolution.

(b) All capital projects considered for debt financing need to be approved through the university's current capital planning and approval process.

(c) Capital projects considered for debt financing would need to demonstrate most of the following:

(i) The project meets a strategic initiative of the university and is consistent with the university's mission and vision.

(ii) The project has a business plan approved by the executive vice president of finance and administration, or equivalent position or designee.

(iii) The project has a favorable expected return on investment or provides for significant future cost savings.

(iv) A viable internal debt service plan has been established.

(v) Other financing options such as state appropriations, philanthropy, expendable reserves, and grant funding are not available, preferred, or feasible.

(4) Interest rates

(a) The university will prudently manage the debt structure to provide proper balance between fixed rate and variable rate debt. The university recognizes the historical benefits of variable rate debt providing lower cost of capital, but understands the volatility and market risk of variable interest rates. The university will restrict use of variable rate debt to no more than 40% of the university's outstanding debt, not including variable rate debt associated with a synthetic fixed rate swap agreement or similar derivative instrument that provides a hedge to the variable rate risk.

(b) The university is permitted to enter into interest rate swap agreements and other derivative instruments to mitigate interest rate risk through hedging. The university is not permitted to enter into these types of instruments for speculative purposes.

(5) Payment of internal debt service

(a) The benefiting auxiliary unit shall be responsible for the repayment of debt and the associated costs.

(b) A memorandum of understanding ("MOU") between the office of financeand the benefiting unit should specify the terms of the internal debt service.

(6) Refinancing of debt

The treasurer, or equivalent position, should monitor the market and look for favorable conditions to refinance previously issued debt to realize savings on debt service. The treasurer, or equivalent position, should consider refinancing if the net present value savings is at least 3%.

(7) Letter of credit

(a) The university may decide to obtain a letter of credit from a financial institution relating to a bond issuance to enhance the credit worthiness of the issuance and result in lower costs of capital.

(8) Financing capital through third-party issued debt

(a) The university may allow a third-party to finance, construct, manage, and/or own a capital project utilizing a privatization model. These arrangements may require the university to ground lease land to a third-party. These arrangements may also require the creation of a non-profit foundation affiliated with a third-party to issue the long-term debt. The privatization model may be advantageous due to third-party expertise, third-party access to capital, and University debt capacity considerations. These projects must follow the same approval process as direct university debt financing.

(C) Short-term debt

(1) The university may require short-term financing or bridge financing for capital projects in anticipation of philanthropy or planned issuance of long-term debt. The interim financing can provide the university with flexibility in the timing and

structuring of the long-term debt financing. This short-term financing may also be appropriate for financing equipment and short-term operational needs.

(D) Internal loans or bridge financing

(1) Internal loans may be granted in special circumstances to colleges/areas for capital projects. The governing criteria may include but are not limited to one or more of the following.

(a) The project meets a strategic initiative of the university and are consistent with the university's mission and vision.

(b) The funding of the project is pledged by donor commitments with multiple-year payment plans, including interest as approved by the executive vice president for finance and administration or equivalent position.

(c) The funding of the project is guaranteed by the college/area through operations and/or carry-forward.

(2) A memorandum of understanding ("MOU") should specify how the debt service will be paid and be executed by a dean/vice president and the executive vice president for finance and administration, or equivalent position or designee.

(3) Principal is expected to be paid in regular installments.

(4) Debt service schedule generally should not exceed five years.

(E) Capital leases and operating leases.

(1) All leases (operating and capital) above $100,000 must be approved by the executive vice president for finance and administration, or equivalent position or designee.

(2) Leases with a notional amount greater than established policy thresholds require the approval by the board of trustees. See latest competitive procurement authority and approval board resolution.

(3) Leases with a notional amount greater than established policy thresholds require competitive procurement methods. See latest competitive procurement authority and approval board resolution.

(4) The determination of capital lease or operating lease classification will be made by the office of finance.

Approved by: /s/ Gregory C. Postel, M.D. President August 18, 2021 Date *Review/Revision Completed by:* *Associate Vice President for Finance,* *Senior Leadership Team*	**Policies Superseded by This Policy:** • *n*/a Initial effective date: June 1, 2015 Review/Revision Date: August 15, 2018, August 18, 2021 **Next review date: August 19, 2024**