Colorado Mesa University Debt Policy

Approved by the Colorado Mesa University Board of Trustees December 16, 2021

Debt-financing allows CMU to pay for an asset over a period of time, up to 120% of its useful life, rather than pay for it at the time of purchase or construction. The debt policy establishes guidelines for the prudent use and management of CMU's debt. It shall apply to all forms of institutional debt including revenue bonds, certificates of participation, leases for capital projects in excess of $2M, revenue notes issued for the acquisition of property in excess of $2M and other capital purposes. Short-term operational liabilities or payables are not subject to this policy.

The undertaking of additional debt and its related structure shall take into consideration the following, at a minimum: consistency with CMU's strategic priorities and capital goals; CMU's overall financial health; future capital and operational costs; consistency with legal and existing document requirements. CMU may use debt financing for academic, administrative and auxiliary facilities and equipment; infrastructure; or property acquisitions.

Principles

1. When issuing debt, CMU will seek the most advantageous source of financing available, considering structure, rate, term, all-in costs and other relevant factors.
2. The University will consider on a case-by-case basis whether to utilize the CO Higher Education Intercept Program to provide credit enhancement to the transaction.
3. The University reserves the right to use either fixed or variable rate debt, taking into consideration bond market conditions, the University's liquidity position, debt payment schedule and risks associated with variable rate debt.
4. The use of capitalized interest will only be considered for projects whose identified funding stream will not be able to immediately generate sufficient revenues to repay debt.
5. All debt-financed projects must have an identified revenue stream (or cost reduction) and must be supported by an achievable plan of finance that includes servicing the debt and meeting any new or increased operating costs.
6. Internally restricted or unrestricted funds may be utilized up to a reasonable level to support the project investment prior to accessing external debt. These will be limited to levels which do not jeopardize the maintenance of appropriate operating reserves needed to protect the University.
7. External borrowing will not fund debt service reserve requirements unless it is cost-effective to do so.

8. External borrowings will be coordinated to the extent practical so that multiple project needs can be accommodated in fewer borrowings thereby reducing issuance costs.
9. As much as possible, the timing of borrowings will be structured to minimize the effect of negative arbitrage on the size of the borrowing.
10. All structures and terms of debt will be considered when issuing new debt and the most appropriate transaction in light of the University's needs and current market conditions will be selected.
11. The University will consider refunding outstanding debt when net savings for the refinancing, measured on a net present value basis, are positive or if not positive, when the refinancing accomplishes other strategic objectives including budgetary relief, reducing or eliminating future risk, or changing the security structure or covenant package for bondholders.
12. University administration will decide the best use of refunding savings, including shortening the repayment period; however, other economic factors may be considered.
13. Call options on outstanding debt will be exercised when the call offers net present value savings when compared to the alternative investment opportunities for those funds, or if other economic rationale exists.
14. The cost of debt-financed capital projects should be paid by the future users of the capital assets over the period the debt is outstanding or up to 120% of the useful life of the asset (as legally permitted). However, the University reserves the right to issue debt for a shorter maturity period, where it makes economical and is consistent with the University's strategic goals.
15. The University will not default on its bond covenants and obligations. Meeting debt service obligations will be prioritized over competing budgetary needs. Cash flow will be managed internally to ensure timely payment of debt service.
16. Compliance with debt reporting, continuing disclosure requirements and financial covenants will be closely monitored and adhered to and validated by external auditors.

Financing Procedures

The following shall be considered before issuing debt:

1. The impact upon the University's debt capacity, recognizing it is a subjective measure. While bond rating agencies, other related industry guidelines and budget planning shall be considered, other factors such as how the project helps meet the University's strategic goals are equally important.
2. The risks including, but not limited to, public/private use and potential debt taxability; default risk, liquidity risk, interest rate risk.
3. The merits of and projections of the pledged revenue stream(s).

The CFO will ensure that:

4. A. General Counsel has reviewed all documents for compliance with legal requirements.
5. B. Proper Board of Trustees, based on the recommendation of the Board Finance and Audit Committee and legislative approvals are in place and others notified, as required.

6. The Board of Trustees approve the financial assumptions, financing plan and financing parameters, including any legally required resolutions.
7. All existing covenants and debt service obligations are met.
8. Annual debt servicing budget plans are in place to maintain 125% debt service coverage ratio requirements. Prior to the issuance of any additional bonds, the 125% debt service coverage ratio will be analyzed.
9. Proper processes for engagement of underwriters, financial advisors, bond counsel and other external consultants are followed.
10. A formal or informal competitive process is utilized to solicit the best rates, terms and conditions to support the University's needs.
11. The issuance of debt is structured cost effectively and in the best interest of the University.
12. The approved current or future years annual budget includes sufficient funds to cover increased debt service payments and operating costs.
13. Timely issuance of debt to minimize costs, but also meet the University's construction and acquisition timeline needs.
14. Monitor debt payments and ensure timely payment.
15. Post-issuance compliance and reporting requirements are met.

Related References: Statutory Citations: CRS 23-5-102