STOCKTON UNIVERSITY

POLICY

Debt Management Policy

Policy Ad

- Commercial Paper: The University has not utilized this method of financing (both tax-exempt and taxable series). Commercial paper can provide substantial financial flexibility to the University including the ability to manage and optimize cash balances, provide an alternative to lease transactions, and other purposes. However, at this time the University is not contemplating the use of commercial paper but may explore this option in the future and will be subject to the ratios established by this debt policy.
- Derivative Products: Management recognizes that derivative products may enable more opportunistic and flexible management of the debt portfolio. Derivative products, including interest rate swaps, may be employed primarily to manage or hedge the University's interest rate exposure for a specific period of time. The University will utilize a framework to evaluate potential derivative instruments through consideration of its variable rate allocation, market and interest rate conditions, impact on future financing flexibility, and the compensation for assuming risks, or the costs for eliminating certain risks and exposure. In addition, the University will analyze and quantify the cost/benefit of any derivative instrument relative to achieving desirable long-term capital structure objectives. Under no circumstances will a derivative transaction be utilized that is not understood fully by management or that imposes inappropriate risk on the University. Risks include, but are not limited to, tax risk, interest rate risk, liquidity risk, counterparty credit risk, basis risk, and any other potential risks either imposed or removed through the execution of any transaction. In addition, management will consider and disclose the potential impact of any derivative product in the University's financial statements. Management will regularly report on the status and performance of its derivative products. Given the complexity associated with derivative products, they will be considered when conventional financing sources are relatively more expensive (e.g. exceed the portfolio blended interest rate), and can achieve desired financial objectives more efficiently or at a significantly lower risk-adjusted cost than traditional structures. Management is required to present any recommended derivative product to the Finance and Professional Services Committee for approval.
- Other Financing Sources: The University recognizes that various types of financing activities may also impact the University's credit and are often more expensive than traditional debt structures. Therefore, all non-traditional financing structures including guarantees and third party debt can only be considered once the economic benefit and the likely impact on the University's debt capacity has been determined. Specifically, for any third-party or developer based financing, management will ensure the full credit impact of the structure is evaluated and quantified to the extent possible prior to execution, and this analysis must be presented to the Finance and Professional Services Committee.

The University intends to optimize the portfolio of debt for the entire University rather than on a project-by-project basis, and takes into account the University's cash and investments. Therefore, management will make decisions regarding project prioritization, subject to Board approval, variable rate allocation, and financing structures within the context of the overall needs and circumstances of the University.

Variable Rate Debt

It is recognized that a degree of exposure to variable interest rates within the University's debt portfolio may be desirable in order to:

-take advantage of repayment/restructuring flexibility;
-benefit from historically lower average interest costs;
-diversify the debt portfolio; and,
-provide a hedge to short-term working capital balances.

Management will monitor overall interest rate exposure, analyze and quantify potential risk, and coordinate appropriate fixed/variable allocation strategies. The portfolio allocation to variable rate debt (potentially new issues and refunding) and the use of interest rate swaps and other derivative products recognizes the desire to manage interest rate risk. The amount of variable rate debt outstanding shall not exceed thirty-five percent (35%) of the University's outstanding debt. This limit is based on the University's desire to limit annual variances in its debt portfolio, provide sufficient structuring flexibility to management, keep the University variable rate allocation within acceptable external parameters, and utilize variable rate debt (and/or swaps) to optimize debt portfolio allocation and minimize costs.

$$\frac{\text{VARIABLE RATE EXPOSURE}}{\text{TOTAL LONG-TERM DEBT OUTSTANDING}} < .35$$

If and when commercial paper is utilized the University will exclude from this calculation project-related commercial paper used in advance of expected long-term financing since it is used for interim purposes and should not be included in the University's desired long-term variable rate allocation calculation. The University recognizes that during some periods it may be desirable to maintain a lower variable-rate allocation within its 35% limit, depending on prevailing long-term rates and/or opportunities in the short-term market.

To mitigate liquidity and interest rate risk, the Vice President for Administration and Finance or designee upon the approval of the Investment Committee will invest the appropriate level of working capital funds in accordance with the Investment Policy to hedge debt interest rate exposure. The intent is not to provide a "perfect hedge" but rather to provide "reasonable" cushion to allow the University to weather unforeseen market conditions.

Refinancing of Existing Fixed Rate Debt

The University should continually monitor the markets for opportunities to refinance eligible existing fixed rate debt for savings. The University should refund fixed rate bonds in advance of their optional redemption date only if present value savings exceed 3% of the par amount to be refunded. If fixed rate bonds are within 90 days of their optional redemption date Stockton should refinance the debt if present value savings are greater than 1% of par. Alternatively, the University could refinance the fixed rate bonds with variable rate bonds within 90 days of the redemption date in an effort to adjust the mixture of fixed and variable rate bonds in the debt portfolio.

Approval History:

	Date
Board of Trustees	02/16/11