Operational Area:	Finance
Responsible Executive:	Chief Financial Officer
Responsible Office:	Budget Office
Effective:	April 1, 2019

Board of Trustees

Policy Statement

University Policy Library

Debt Management

Finance

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I. Introduction

A. **Authority:** C.R.S. § 23-54-102, *et seq*. (2019) authorizes the Trustees of Metropolitan State University of Denver (MSU Denver) to establish rules and regulations to govern and operate the University and its programs. The Trustees retain authority to approve, interpret, and administer policies pertaining to University governance. The Trustees authorize the President of MSU Denver to approve, administer, and interpret policies pertaining to University operations.

B. **Purpose:** The Policy establishes the guidelines by which the University will manage its debt. Ongoing debt management, as well as the University's decisions regarding the use of new debt, are considered in the context of the University's strategic plan. The University's use of debt is a source of funding for University planning initiatives and is a tool by which the University manages its finances, including the balance sheet, annual operating results, and cash flow. The policy addresses:

1. Ongoing debt management including:
    a. Monitoring the University's debt portfolio;
    b. Evaluation of risk and debt capacity and affordability;

c. Compliance with federal and state laws and regulations, notably Internal Revenue Code provisions related to tax-exempt debt and Securities and Exchange Commission regulations; and
d. Internal reporting and discussion with the University's Board of Trustees ("BOT") to inform its consideration of the use of additional debt for University Planning initiatives and overall strategic financial management.
2. Specific processes and approvals for new debt transactions

C. **Scope:** The Policy covers all forms of debt, including:
1. **Enterprise revenue bonds:** The University, an enterprise as defined by the Colorado Taxpayer Bill of Rights and by C.R.S. § 23-5-101.7, may issue municipal bonds that are secured by a specified revenue source. These so-called enterprise revenue bonds may be issued (a) on a senior parity basis to secure payment of principal and interest, or (b) on a subordinate basis where payment of principal and interest is secured by specified revenue sources after payment of senior debt service. Enterprise revenue bonds may generally be issued as fixed rate or variable rate securities, but the University may use derivatives to synthetically fix an underlying variable rate obligation.
2. **Operating and capital leases:** A lease is a liability requiring periodic payments that is incurred for an asset owned (either purchased or constructed) or used by the University.
3. **Financial institution debt:** This type of debt includes any monetary obligation requiring fixed or variable interest repayment to a bank or other financial institution including loans, lines of credit and letters of credit.
4. **Off-balance sheet financing structures:** These structures include any arrangement for financing the University's acquisition, construction, or use

of an asset that creates a financial or operational obligation or contingent liability that is not required to be reported on the balance sheet.

5. **Public-private partnerships:** A contract with a private party to provide a public service or project where the University assumes financial or operational obligations, including in-kind commitments, or where the University assumes substantial risks.

II. Roles and Responsibilities

A. **Responsible Executive:** Chief Executive Officer
B. **Responsible Administrator:** Chief Financial Officer
C. **Responsible Office:** Office of the Chief Financial Officer
D. **Policy Contact:** Chief Financial Officer, 303-605-5306

III. Definitions

A. **Credit profile:** Determined by a variety of factors including financial strength, quality of management, amount of existing debt, academic reputation, competitive position, student demand (enrollment) and liquidity, the University's credit profile determines its debt capacity.
B. **Credit rating:** A third-party's measure of the University's ability to repay debt based upon the third party's rating protocols. Credit ratings affect the cost of capital or relative rate of interest on debt.
C. **Debt affordability:** The ability of the University to repay debt from operating revenues, given competing demands of strategic priorities and the operating environment (e.g., health insurance increases).
D. **Debt capacity:** An estimate of the amount of debt that the University has the ability to borrow and repay, given specified criteria, including maintenance of a minimum credit rating or threshold financial ratios.

E. **Derivatives:** A financial instrument that is dependent upon or derived from underlying financial instruments such as bonds or from market interest rates and indexes.

F. **Financial ratios:** The comparison of one financial value to another. Financial ratios are used by management and third-parties to analyze financial performance, strength and opportunities.

G. **Intercept Program:** A credit enhancement program for Colorado higher education institutions that reduces the relative market rate of eligible municipal bonds.

H. **Interest rate risk:** The chance that a financial instrument's value or cost of repayment will change due to a change in market interest rates.

I. **Leverage:** The amount of debt relative to the amount of assets.

J. **London Interbank Offered Rate (ICE LIBOR) Index (Formerly BBA LIBOR):** ICE LIBOR is a benchmark rate commonly used for variable rate transactions, that provides an indication of the average interest rate at which a LIBOR contributor bank can obtain unsecured funding in the London interbank market for a given period, in a given currency.

K. **Liquidity risk:** The risk stemming from lack of marketability of a financial instrument.

L. **Master Resolution:** The Master Institution Enterprise Bond Resolution adopted by the BOT on November 4, 2009, as amended, which establishes its authority to issue bonds and incur indebtedness.

M. **Municipal Market Data (MMD) Index:** A benchmark index commonly used for fixed rate municipal transactions.

N. **Present Value (PV) Percentage Savings:** Cash flow savings over time arising from refinancing debt, discounted to the economic present value using the new refinancing rate, and expressed as a percent of refunded par.

O. **Securities Industry and Financial Markets Association (SIFMA) Index:** The principal benchmark index for tax-exempt variable rate transactions. The index is a national rate based on a market basket of high-grade, seven-day, tax-exempt variable rate bond issues.

P. **Swap:** A derivative in which two counterparties exchange cash flows of one party's financial instrument of those of the other party's financial instrument.

IV. Policy Statement

A. **Authority:** Pursuant to C.R.S. § 23-54-102, the Board of Trustees of Metropolitan State University of Denver is responsible for fiscal oversight of the University. This policy establishes the guidelines by which the University will manage its debt.

B. **Debt Portfolio Strategy**

1. As a matter of policy, the University does not manage its debt to achieve a particular credit rating. Instead, University debt management is carried out to support the goals of strategic, capital, technology, financial and other University plans. University debt management considers and balances issues of risk, debt capacity and debt affordability to maintain the highest possible credit profile while meeting strategic goals.
2. Determinants of the University's credit profile include a breadth of elements such as amount of debt, financial strength, legal security, institutional risk, quality of management, liquidity, competitive advantage, and academic caliber. Because of this breadth, the University will consider its debt portfolio holistically. Individual, debt-structuring decisions will not be based solely on the particular project being financed but will seek to optimize the overall University debt portfolio.
3. A foundational precursor to debt portfolio management is sound overall financial management, including Board of Trustees' discussion of annual audited financial statements and the University's Composite Financial Index (CFI)—the four financial ratios used to analyze the University's financial condition over time, relative to its strategic goals. The University's debt

portfolio management will also include analysis of financial ratios that focus on liquidity, leverage and portfolio risk. These additional ratios will be reviewed with the Board of Trustees annually and in conjunction with Board of Trustees approval to assume additional University debt greater than $1 million.

4. The University's Independent Registered Municipal Advisor and Bond Counsel should be consulted to assist in considering key issues related to debt portfolio management, including:
    a. Alignment of the University's debt mix (i.e. short-term and long-term, fixed-rate and variable-rate, and derivatives) with Board of Trustees direction regarding liquidity, leverage, and risk;
    b. Consideration of lines of credit or other means of short-term borrowing for cash flow purposes;
    c. Management of the structure, interest rate, and maturity profile of debt to meet liquidity and repayment objectives;
    d. Obtaining low cost capital while limiting exposure to market fluctuations;
    e. Maximizing the rate of return on capital investments through the alignment of debt terms, repayment schedules, and risk/interest rate tradeoffs with the asset(s)' useful life and other characteristics;
    f. When assuming new debt, consideration of trends in student demand (enrollment), research funding, current and projected financial reserves, operating performance, the ability to generate cash flow in support of debt service, and competing needs for University resources;
    g. Review of current and forecasted economic and market conditions;
    h. Monitoring the debt portfolio for refunding and restructuring opportunities and pursuing them when they provide interest or

cash flow savings and/or meet other strategic objectives of the University;

i. Management of overall interest rate exposure and liquidity risk through a combination of University cash balances (working capital and reserves), the type of instrument used, and/or by third party sources of liquidity; and

j. Consideration of derivatives as an effective way to manage the University's liquidity, leverage and portfolio risk in conjunction with the University's strategic plan.

5. In addition, as part of the University's Debt Portfolio Management, and in the course of evaluating the issuance of Enterprise Revenue Bonds under the Master Resolution, the University may consider using credit enhancement to secure a transaction when it materially lowers the cost of debt and does not require material additional debt or operating covenants by the University. On the date of adoption of this Policy, the most prevalent form of credit enhancement is the Colorado Higher Education Revenue Bond Intercept Program ("Intercept Program") which provides free enhanced credit ratings of "AA-" and "Aa2" to a transaction. The University would be eligible to participate in the Intercept Program if it meets two minimum requirements: (1) maintenance of an underlying rating in the "A" category and (2) demonstration of at least 1.50x debt service coverage on its outstanding bonds. As with all financings, the ability to meet the minimum requirements to utilize the Intercept Program, or other credit enhancement products available in the prevailing market at the time of pricing, would be evaluated before a transaction is executed by the Chief Financial Officer/Board Treasurer, the University's Independent Registered Municipal Advisor, and any underwriter or commercial banker procured.

C. **Post-Issuance Compliance:** Federal and state laws and regulations, which are subject to change, govern the University's post-issuance compliance requirements. These requirements include, but are not limited to, federal tax reporting, Intercept Program reporting, and continuing disclosure. While post-issuance compliance may be most rigorous with bonds, it includes monitoring and reporting compliance related to all forms of debt. The University's Chief Financial Officer is responsible for post-issuance compliance. The Chief Financial Officer will designate a Post-Issuance Compliance Officer with responsibility in the following areas. Internal procedures may provide more specific information and protocols.

1. **General recordkeeping and record retention:** Recordkeeping and record retention will include preparing financial statements in accordance with Generally Accepted Accounting Principles, providing documentation for external financial audits, and demonstrating compliance with federal and state laws and regulations.
2. **Tax documentation assembly and closing filing requirements:** Filing requirements include, but may not be limited to, timely filing of Internal Revenue Service Form 8038-G or Form 8038-TC.
3. **Arbitrage investment limitations and rebate requirements:** Internal Revenue Code Section 148 and related regulations restrict yield on the gross proceeds of tax-exempt bonds. The Post-Issuance Compliance Officer will review these arbitrage requirements when investing gross proceeds from tax exempt bonds. The Post-Issuance Compliance Officer will also ensure that arbitrage rebate calculations are performed as required.
4. **Bond proceed spending requirements:** Spending requirements include both time period limitations and use of proceeds limitations under Internal Revenue Code Section 148.

5. **Limitations on private use of facilities funded by tax-exempt bonds:** Internal Revenue Code Section 141 (and related regulations and revenue procedures) place limitations on private use or "bad use" of facilities funded by tax-exempt bonds. The Post-Issuance Compliance Officer will review contracts for management of space or provision of services in facilities constructed with tax exempt bonds for potential private use.
6. **Continuing disclosure:** The Post-Issuance Compliance Officer will ensure continuing disclosure compliance in accordance with Rule 15c2-12 adopted by the Securities and Exchange Commission ("SEC") under the Exchange Act of 1934.
    a. With the issuance of any bond, the University will enter into a continuing disclosure agreement for the benefit of the owners of such bond issues. Under the agreement, the University will file certain ongoing financial information and other reporting data with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system at emma.msrb.org, as well as notices of certain material events as set forth in Rule 15c2–12. The University is required to deliver such information in the form and within the time period established by the continuing disclosure agreement.
    b. As of September 2014, the University entered into an engagement with Digital Assurance Certification, LLC ("DAC"), whereby DAC has been engaged to file and disseminate information provided by the University in connection with its continuing disclosure agreements. The University may engage or appoint alternative agents to assist in satisfying its continuing disclosure requirements.

D. **Monitoring and Reporting:** On an annual basis the University, with assistance from its Independent Registered Municipal Advisor, will review the University's debt portfolio and credit profile. The debt portfolio includes all forms of debt—as described in Section II, above, and will be reviewed in the context of the University's current and projected balance sheet, operating results and cash flow. The review will look forward 12-18 months to identify possible refunding or restructuring opportunities and likely projects or circumstances where new debt may be used (debt outlook). A report on the debt portfolio and debt outlook will be prepared for discussion by the Board of Trustees Finance Committee. The report will include information on financial ratios measuring liquidity, leverage and risk, in comparison to peers. On an ongoing basis, the University, with assistance from its Independent Registered Municipal Advisor, will monitor financial markets for interest-rate trends and changes in the terms and types of financial instruments that may inform decisions on the most favorable timing and structure of new debt, refinancing of existing debt, or payoff of existing debt.

E. **Debt Transaction Process and Approval:** Debt transactions and any related asset construction or acquisition are subject to University procurement policy and fiscal rules. They may also be subject to statutory and regulatory requirements and processes through the Colorado Department of Higher Education, Colorado Commission of Higher Education, and Colorado Joint Budget Committee, and Colorado Capital Development Committee. In addition, the following University processes and approvals apply to issuing bonds and borrowing money (new debt or refinancing).

   1. **Enterprise Revenue Bonds:**

      a. Enterprise revenue bonds may be issued for new construction, refinancing existing debt or a combination of both. On November 4, 2009, the University adopted a Master Institution Enterprise Bond Resolution that defines the general parameters and conditions for the University to issue bonds. In addition, each bond issuance requires that the Board adopt supplemental resolutions that define parameters of the issuance including interest rates, projected savings and other requirements.

b. In consultation with the University's Independent Registered Municipal Advisor, the Chief Financial Officer/Board Treasurer is responsible for identifying potential refinancing opportunities to support the University's financial goals including, for example, interest rate savings or debt service restructuring to change projected cash flow. The University does not have automatic thresholds for refinancing (e.g., 3.0% Net Present Value Percentage Savings), but considers current benefit versus future benefit, liquidity and risk.
c. In addition, the Chief Financial Officer/Board Treasurer may identify bonds as a capital project financing method.
d. Potential bond issuances will be reviewed with the Board of Trustees Finance Committee to include a review of the existing debt portfolio and the potential effect on operating budget and cash flow, including the effect on student capital fees. If a bond issuance emerges as a likely action, the Chief Financial Officer/Board Treasurer and General Counsel or designee, in consultation with the independent Registered Municipal Advisor, will engage external Bond Counsel to prepare a supplemental resolution that 1) defines the parameters under which bonds may be issued and 2) delegates to the pricing delegate, subject to the parameters, the authority to set specific terms of a bond issuance.
e. Final bond documents are signed by the Board Chair and the Board Treasurer.

2. Operating and Capital Leases
    a. All leases require approval as to form by the General Counsel or designee and approval of action by the Chief Financial Officer or designee.
    b. Leases over $100,000 require approval by the Chief Financial Officer and General Counsel.
    c. Leases greater than $1,000,000 require approval by the Board.
3. Financial Institution Debt
    a. When loans, lines of credit, or letters of credit are considered as University financial-institution debt, this debt will be discussed in advance with the Board of Trustees Finance Committee.
    b. All financial institution debt requires approval as to form by the General Counsel or designee and approval of action by the Chief Financial Officer or designee.
    c. Financial institution debt greater than $100,000 requires approval by the President. Financial institution debt greater than $250,000 requires approval by the Board.
4. Off-balance sheet financing structures and Public-private partnerships
    a. All off-balance sheet financing and public-private partnerships require approval of form by the General Counsel or designee and approval of action by the Chief Financial Officer or designee.
    b. All off-balance sheet financing structures or public-private partnerships that create a financial and/or operational obligation and/or a contingent liability must be approved by the Board prior to entering into such an arrangement.

F. Interest Rate Management Requirements – Derivatives

1. Applicable Definitions

   a. **Counterparty:** A participant in a swap or other derivatives agreement who exchanges payments based on interest rates or other criteria with another counterparty.

   b. **Counterparty Long-term Debt Rating:** Lowest prevailing rating from Standard & Poor's / Moody's maximum cumulative mark-to-market.

   c. **Hedge:** A transaction entered into to reduce exposure to market fluctuations.

   d. **Interest Rate Swap:** A transaction in which two parties agree to exchange future net cash flows based on a predetermined, interest-rate indices calculated on an agreed notional amount. The swap is not a debt instrument and there is no exchange of principal.

   e. **ISDA Master Agreement:** The International Swaps and Derivatives Association, Inc., is the global trade association for the derivatives industry. The ISDA Master Agreement is the basic governing document that serves as a framework for all interest rate swap, swap enhancement, and derivative transactions between two counterparties. It is a standard form used throughout the industry.

   f. **Mark-to-Market:** A calculation of the value of a financial instrument, such as an interest-rate swap, based on the current market rates or prices of the underlying indices.

   g. **Notional Amount:** The size of the interest rate swap and the dollar amount used to calculate interest payments.

2. **Interest Rate Swap Transactions:** The interest rate management guidelines set forth below govern the use of derivatives by the University and are to be used by the University in the evaluation of interest rate swap

transactions for the purpose of either reducing the cost of existing or planned debt, or to hedge the interest rate of existing or planned debt. By using swaps in a prudent manner, the University may be able to take advantage of market opportunities to reduce costs and reduce interest rate risk. The use of swaps must be tied directly to existing or proposed University debt instruments, and the University will not enter into swap transactions for speculative purposes. Prior to entering into any swap transaction, the Chief Financial Officer/Board Treasurer, President, and the Board of Trustees will discuss and evaluate the benefits and risks of the use of derivatives from both a financial and legal perspective, that is informed by information provided by the University's Independent Swap Advisor and Bond Counsel.

3. **Counterparty Diversification:** The University recognizes that counterparty diversification is desired as a risk-management strategy. Therefore, the University will consider maintaining relationships with multiple, financial partners for the provisions of investment banking, derivative, and liquidity services.
4. **Methods of Procuring Swaps:** Swaps may be procured via competitive bids or on a negotiated basis. A competitive bid will include a minimum of three firms with counterparty credit ratings at least in the "AA" category unless otherwise approved by the President and the Board of Trustees. Swaps may be procured by negotiated methods if a determination is made that due to the complexity of a particular transaction or for other reasons, a negotiated bid would be in the best interest of the University.
5. **Risks Considered Prior to Implementation of Swap:** When implementing an interest-rate, swap transaction, the University will consider the following risks:
   a. **Termination Risk:** The University will consider the merits of including a provision that permits it to optionally terminate a swap agreement at any time over the term of the agreement (elective

termination right). In general, exercising the right to optionally terminate an agreement should produce a benefit to the University, either through receipt of a payment from a termination or if a termination payment is made by the University, or due to a conversion to a more beneficial debt instrument or credit relationship. If no other remedies are available, it is possible that a termination payment by the University may be required in the event of termination of a swap agreement due to a counterparty default or following a decrease in credit rating.

b. Amortization Risk: The amortization schedules of the debt and associated swap transaction should be closely matched for the duration of the swap. Mismatched amortization schedules can result in a less than satisfactory hedge and create unnecessary risk. In no circumstance may the term of the swap transaction extend beyond the final maturity date of the affected proposed or existing debt instrument, or in the case of a refunding transaction, beyond the final maturity date of the refunding bonds. See C.R.S. § 11-59.3-103.

c. Basis Index Risk: Basis risk arises as a result of movement in the underlying variable rate indices that may not be in tandem, creating a cost differential that could result in a net cash outflow from the University. Basis risk can also result from the use of floating, but different indices. To mitigate basis risk, any index used as part of an interest rate swap agreement will be a recognized market index, including but not limited to the SIFMA or the LIBOR.

d. Tax Risk: Tax risk is the risk that tax laws will change, resulting in a change in the marginal tax rate on swaps and their underlying assets. Tax risk is also present in all tax-exempt debt issuances.

The Chief Financial Officer/Board Treasurer will need to understand and document tax risk for a contemplated swap transaction as part of the approval process.

6. **Form of Agreements:** Each new ISDA Master Agreement will contain terms and conditions, as set forth in the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, as amended, and such other terms and conditions, including schedules, credit support agreements, and confirmations, as deemed necessary.
7. **Legality/Approval:** To enter into an ISDA Master Agreement (that governs each swap transaction), the Chief Financial Officer/Board Treasurer and University President will recommend such action to the Board of Trustees. The Board of Trustees must determine that entering into an ISDA Master Agreement is in the best interests of the University prior to approving the Agreement. Board of Trustees approval of the ISDA Master Agreement is contingent upon issuance of an opinion by the University's third-party bond counsel that the agreement relating to the swap transaction is a legal, valid, and binding obligation of the University and that entering into the transaction complies with applicable state and federal laws. C.R.S § 11-59.3-103 requires, *inter alia*, that any swap be reported to the State Treasurer. The University will comply in all respects with C.R.S § 11-59.3-103.
    a. **Records Retention:** The Chief Financial Officer of the University will be responsible for overseeing all records related to any of the University's derivatives. Such person will ensure that such records are accessible within 5 days of any request and are maintained for at least 5 years after the termination of the applicable derivative. At a minimum, the University will have copies of all derivatives, including Master ISDA agreements, modifications, notations and any related agreements, as well as any correspondence with

counterparties with respect to such agreements, including collateral demands and price quotations, during such period.

b. **Swap Advisor:** Prior to entering into any derivative, the University will select and retain a consultant (the "Swap Advisor") to provide guidance with respect thereto and to act as the University's "Qualified Independent Representative," as defined in the regulations of the U.S. Commodity Futures Trading Commission promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

   i. To be eligible to serve as the swap advisor, an entity or person must:

      a) have substantial experience advising state and local governments with respect to swaps;

      b) be independent from any counterparty or proposed counterparty to any swap transaction (including not being associated with the counterparty within one year prior to advising the University on a swap transaction with the counterparty), and not be referred, introduced or recommended to the University by any such counterparty;

      c) not be subject to statutory disqualification under the Commodity Exchange Act or the Securities Act of 1933;

      d) disclose any material conflicts of interest that could affect its judgment with respect to its duties as the University's Swap Advisor; and

      e) comply with all applicable state and federal laws with respect to political contributions to public officials.

ii. The University will review the performance of the Swap Advisor annually to ensure compliance with this policy and the service provided by the Swap Advisor. In connection with this annual review, the Swap Advisor will represent, in writing, that it meets the above criteria and that it will at all times act in the best interests of the University.

iii. The University will consult the Swap Advisor with respect to all proposed derivatives, including any modifications, cancellations and options. The Swap Advisor will provide the University with its evaluation of such Swap Agreements, including

a) Suitability: whether the swap transaction meets the University's stated objectives, financial limitations and complies with this Policy.

b) Fair Pricing: The Swap Advisor is not required to provide pricing or price quotations but will evaluate the price being offered and obtain quotations from other dealers as necessary.

c) Risks: The Swap Advisor's evaluation of the risks of the swap transaction in accordance with this Policy.

iv. The Swap Advisor will also consult with the University with respect to the management of the University's derivatives, including such matters as recordkeeping and legal compliance issues.

V. Policy History

A. **Effective:** April 1, 2019

B. **Revised:** This policy supersedes section 4.15 of the *MSCD Trustees Manual*, 2007.

Review: This policy will be reviewed every five years or as deemed necessary by University leadership.

VI. Policy Approval

Janine Davidson, Ph.D.
President, Metropolitan State University of Denver

John Paul Pogge, Esq.
Chair, Board of Trustees, Metropolitan State University of Denver