VIII—12.00 – Policy on Debt Management

(Approved by the Board of Regents April 7, 1995; Revised April 20, 2018)

I.

cost of capital with the goal of managing interest rate risk.

Managing outstanding debt in such a manner to take advantage of interest rate cycles and refunding opportunities.

II. Debt Caps

A. Direct and Indirect debt will be managed with the objective of maintaining a rating in the "AA+" or equivalent category from the three major rating agencies (Moody's, Fitch, and S&P).

B. Debt service associated with USM direct debt may not exceed 4.0% of USM operating revenues plus State Appropriations as defined by GeneralTc0003Tj/TT61Tf.2240TD.00320Tcj/T

F. The Vice Chancellor for Administration and Finance (VCAF) will review the debt ratios and comparison with similar metrics reported by other public higher education institutions in the same bond rating category, annually. In the event of unusual financial circumstances, the VCAF may recommend to the Board of Regents a one-year waiver to the debt limitations. The Vice Chancellor for Administration and Finance will display the status of actual USM financial metrics relative to the limits and standards of this Board of Regents policy, as well as a comparison of similar ratios based on publicly available financial statements for other public higher education institutions, on its website.

G. The Board of Regents will take these debt limitations into consideration when approving any initiative that has any impact on USM debt capacity.

III. Debt Management Strategies

A. Fixedversusvariablerate allocation– Variable rate debt sometimes offers a lower cost of capital, but introduces additional risks. To limit this risk, variable rate debt will be no more than 50% of the overall USM debt outstanding. Variable rate exposure includes exposure achieved directly through variable rate debt issuance and indirectly by entering into an interest rate swap agreement.

B. RefundingTargets– The USM and its financial advisor will continually monitor and periodically review the USM's outstandingthe

5. The USM will consider, to the extent it deems relevant, any rating reports or criteria regarding interest rate swaps by rating agencies.

6. In reviewing proposed or possible interest rate swaps or options, USM shall consider each of the following types of risks, as applicable: Counterparty Risk, Termination Risk, Tax Risk, Basis Risk, Tax Exemption Risk, as defined in Appendix A.

IV. Process

A. The VCAF, or designee, shall assess the impact of the following types of proposed transactions on debt capacity:

   1. Leases in which the System or an institution is the lessee, with respect to a single facility, multiple facilities, or other asset in which the cumulative (i) consideration is expected to exceed $500,000 in any year; (ii) aggregate rent exceeds $2 million, or (iii) the initial lease term exceeds ten years. The USM will consider the dollar amount of the lease, the percent of the building being leased, the lease term, and any financial obligations or risks assumed by the tenant.

   2. Ground Leases.

   3. Public Private Partnerships

   4. Lease/leaseback and sale/leaseback arrangements.

   5. Bondable or Credit Lease Structure

   6. Indirect Subsidies of Third-Party Debt

   7. Any other financial relationship not identified above between the USM and/or its constituent institutions and an external entity involving facilities or property.

B. The use of a non-appropriation clause inastithersfinancialUSand

V. **Financing Commitments** (Replacement for Board of Regents Policy VIII—8.00 – Policy on Financing Commitments).

A. Financing commitments of $5 million or more and financing commitments which require specific approval of the Board of Regents as a condition of the financing shall be approved by the Board.

B. The Board delegates to the Chancellor the authority to approve all financing commitments which do not require Board approval.

C. Except as provided in paragraph 4, the Chancellor may delegate to the Presidents the authority to approve financings of less than $50,000.

D. Any financing commitments involving pledges of tuition, auxiliary enterprise revenues, or student fees require approval of the Chancellor, or designee.

E. Refinancing transactions shall be subject to the

Appendix A

Definitions

A. Available Resources – Unrestricted Net Assets of the USM + Unrestricted Net Assets of the USM Affiliated Foundations + Accrued Vacation Liabilities as defined by Generally Accepted Accounting Principles (GAAP).

B. Direct Debt – A financing involving a legal commitment or guarantee by the USM to providers of capital, or a legal commitment or guarantee by the USM to a third party to obtain financing for a project. These financings would include, but are not limited to: USM revenue bonds; USM Revolving Equipment Loan Program; installment sale arrangements; equipment lease/purchase programs; certificates of participation; leases as reported on the Balance Sheet as liabilities; sale/lease back structures, and Indirect Subsidies of Third-Party Debt.

C. Indirect Debt – Any commitment to make payments, or any contingent future risk that the debt of others may be assumed by the USM that is not characterized as Direct Debt. Additionally, a financing in which the USM makes no legal commitments or guarantees, but retains some financial stake in the facility and/or the project is of some strategic value to the USM. Examples include, but are not limited to, public/private partnerships for student housing.

D. Indirect Subsidies of Third-Party Debt – These are transactions in which the USM has amsuee

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F. Interest Rate Swap Risks – One or more of the following risks may be associated with an Interest Rate Swap, depending on the