

Debt Issuance and Repayment

University Operations – Financial Management

CWU Policy 202-01

Effective: December 27, 2022

Policy Review Date: YEAR

Policy Executive: Senior Vice President – Finance and Administration

Responsible Office/Unit: Finance and Business Auxiliaries

Policy Statement:

Applicability:

Content:

Policy

(1) Introduction

- A. This statement sets forth the policies governing the issuance and repayment of debt by Central Washington University.

(2) PRIOR TO ISSUING DEBT:

A. Authority

1. The board of trustees of Central Washington University is vested by statute with the authority to issue bonds to fund certain capital projects (see RCW 28B.10.300) and to enter into financing contracts to acquire real and personal property (see RCW 28B.10.022 and RCW 39.94.030).
2. The board of trustees has delegated to the president and the senior vice president of finance and administration the authority to consider and make recommendations to the board concerning the financing of capital projects and any other borrowings.
3. The administration is charged with all aspects of managing, issuing and servicing debt for the university. These functions are performed by the office of business and financial affairs.

B. Goals of Issuing Debt

1. Provide cost-effective funding for acquiring or replacing capital assets.
2. Match costs with benefits over the useful life of capital improvements.
3. Leverage other capital funding sources.
4. Meet short-term operating or emergency cash flow needs.

C. Cash Versus Debt Funding

1. Generally, debt funding will be considered as the preferred option for larger one-time capital projects. Smaller routine capital projects should be funded on a cash basis unless there is a cost-effective source of borrowing that is readily available.
2. Debt should be considered for capital projects only when there is a dependable long-term source of revenue available for repayment. Variable or significant one-time sources of revenue should be used to fund capital projects and should not be considered a funding source for the repayment of bonded debt.

D. Issuance Criteria

1. **Legal Authority:** All debt will be issued in compliance with the university's legislative authorities and applicable state and federal laws and regulations
2. **Debt Capacity:** Issuance of debt is subject to the university's overall debt capacity and capital plans as determined by the senior vice president of finance and administration and approved by the board of trustees.
3. **Access to Capital Markets:** To maintain cost-effective access to debt capital markets, the university will manage its debt program to maintain at least an "A" rating.
4. **Financial Evaluation:** Issuance of debt is subject to a financial evaluation demonstrating the university's financial capacity and ability to meet all current and future debt obligations and covenants on a pro-forma basis.
5. Any type of debt instrument must be approved by the senior vice president of finance and administration, who will obtain the required state approval and ensure compliance with state laws and prior bond covenants and restrictions.

E. Debt Structure

1. **Source of Security and Source of Repayment:**
 - a. The University has two sources of security and sources of repayment: Local general funds of the university and the System. As mentioned above the university does not have the authority to pledge tuition revenue.
 - b. The establishment of the university system revenue bond program (the "System") offers strength that will enable the university to achieve flexible and attractive access to the capital markets. The System currently is comprised of four auxiliary funds, which include: student services and activities, university store, parking, and housing

and dining. Under the leadership and recommendations of the senior vice president of finance and administration, the university will review the specific revenues pledged under the System to ensure continued acceptance by capital markets and the successful management of its debt.

- c. Regardless of the source of repayment, to determine a project's financial feasibility, the university will prepare a multi-level analysis, looking at net revenues of the (i) project and associated (ii) Fund as a whole compared to debt services and operating expenses. The minimum debt service coverage levels, over the term of the borrowing, for these levels of consideration should be:
 - i. Project coverage: 1.00x
 - ii. Fund coverage: 1.25x
- d. The net present value (NPV) of each project, at a reasonable discount rate, should be positive, meaning the discounted cash flows in exceed the discounted cash flows out. A long-term cyclic maintenance and repair plan should be prepared for every bonded project. These costs need to be included in the NPV and debt service coverage considerations.
- e. Projects of particular significance to the university may be presented to the board for exception to the coverage levels and NPV consideration.

2. Term of Indebtedness:

- a. The term of debt issued by the university will reflect market conditions at issuance. Where financially feasible, debt will be retired as soon as possible to recapture debt capacity for future use. Maturity of debt will not exceed the average economic life of the capital improvements or equipment being financed.

3. Interest Rates:

- a. In most circumstances, the university will issue fixed rate debt that reflects the university's sources of repayment. Variable rate debt will be considered when the financial benefits closely match the financial risk or where the use of variable rate debt significantly benefits the university.

4. Debt Service Structure:

- a. Debt service payments will be structured to match cash flow. Other payment options will be considered if financially appropriate.

5. Subordination:

- a. Since the university intends to use the System as the primary financing vehicle for any university borrowings, the university is unlikely to utilize subordinate lien debt.

6. Refunding Bonds:

- a. The university will monitor refinancing opportunities with a goal to issue current or advance refunding bonds when a material debt service savings (generally 5% net present value) can be obtained.

7. Redemption Provisions:

- a. The university will seek redemption provisions equal to or better than market.

8. Credit Enhancement:

- a. The university will consider credit enhancement when it is cost beneficial and/or materially increases the liquidity of the debt obligations in the secondary market.

F. Type of Debt Instruments

1. The types of debt instruments that the university may use include, but are not limited to: revenue bonds, lease-backed or conduit issues, financing contracts, reimbursable state-issued obligations, short-term notes and credit lines. As noted above, however, the university's primary borrowing vehicle for non-state funded capital projects will be the issuance of university system revenue bonds.
2. The university does not have the authority to issue general obligation bonds.

G. Authorized Methods of Sale

1. Competitive sales will be used when an underwriter's expertise is not required to aid in structuring and marketing debt.
2. Negotiated sales will be used when the expertise of the underwriter is considered necessary in the structuring and marketing of debt.
3. Private placements will be considered in the rare instances when the size and/or structure of the debt issue do not justify a public offering.

H. Selection of Service Providers

1. Bond Counsel: The senior vice president of finance and administration will recommend and the board of trustees approves the selection of bond counsel. The university, in consultation with the attorney general's office, will select special assistant attorneys general through a competitive RFP process.
2. Financial Advisor: The university's financial advisor is selected through a competitive RFP process. The financial advisor provides a broad range of financial services relating to bond financings. The senior vice president of finance and administration will recommend and the board of trustees approves the selection of a financial advisor.
3. Selection of Other Service Providers: The selection of other service providers (underwriters, insurers, trustees) associated with individual debt transactions are typically delegated to the university administration by the board of trustees as recommended by the senior vice

president of finance and administration s. These additional service providers are selected through a competitive process.

(3) SUBSEQUENT TO DEBT ISSUANCE

A. Monitoring of Debt Program

1. **Repayment of Debt and Compliance Monitoring:** Debt service payments will be made in an accurate and timely manner. Compliance with debt covenants and post-issuance federal tax requirements will be monitored at least annually. The senior vice president of finance and administration has the primary operating responsibility to monitor the university's compliance with debt covenants and post-issuance federal tax requirements. The senior vice president of finance and administration shall develop and maintain procedures for tax-exempt bonds, build America bonds, recovery zone economic development bonds and other bonds issued by the university for which a federal tax advantage is provided by the internal revenue code of 1986, as amended (the "Code"), to ensure that the university will be in compliance with requirements of the Code that must be satisfied with respect to such bonds after the bonds are issued.
2. **Debt Capacity:** The university's debt capacity depends on a variety of factors. For planning purposes, the university will determine its debt capacity by the measurement of debt service to operating expense budget. This is a standard ratio used by Moody's Investors Service and is published as an industry median report. The university's goal should be to maintain this ratio at or near the median for small public universities with similar credit ratings, preferably A1. The university will evaluate debt capacity at least annually or as often as necessary for capital planning purposes.
3. **Reporting:** The senior vice president of finance and administration will annually present a report to the finance committee of the board of trustees on debt payments made, annual filings to regulating agencies submitted, compliance with existing debt covenants, debt issued, debt outstanding, credit ratings and the university's estimated debt capacity.
4. **Minimum Reserves:** Each fund or department with outstanding debt should maintain on-hand reserves adequate to meet its obligated maximum annual debt service. Reserves for this purpose are defined as Net Position excluding Investment in Capital Assets and the effects of GASB 68.
5. **Underscoring the need to maintain the revenue producing capacity of the bonded assets required in the debt covenants, reserves above the minimum described in (D) should be maintained. See the university's reserve policy for further discussion.**

History:

*Responsibility: BFA; Authority: BOT (approved: 06/2004); Reviewed/Endorsed by: Cabinet/PAC;
Review/Effective Date: 03/02/11; 4/19/17; 12/27/2022; Approved by: A. James Wohlpart, President]
Reformatted and Assigned new Policy Number - Previous Policy CWUP 2-10-045, June 2025*