AUTHENTICATED,
OHIO LEGISLATIVE SERVICE
COMMISSION
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Ohio Administrative Code

Rule 3342-7-09 University policy regarding issuance of debt.

Effective: June 8, 2022

(A) Policy statement. This policy provides a framework for implementing the university's debt strategy. This policy should be reviewed periodically and adjusted to satisfy the university's policy objectives. This policy establishes the university's criteria for issuing debt, and the factors to consider when evaluating the long-term capital structure of the university. These factors include the amount of fixed and variable interest rate exposure in the debt portfolio, the amortization of debt, the university's debt capacity, the amount of taxable and tax-exempt debt, and the criteria for refinancing existing debt. This policy will help the university lower its cost of capital, manage its debt risk, and optimize its debt capacity. The board of trustees shall oversee the university's debt issuance strategy in consultation with the senior vice president for finance and administration.

(B) Criteria for issuing debt. The priority of a certain project, the expected use of a facility, and the likelihood that a combination of philanthropy, existing designated reserves and future budget allocations can fund a portion of the cost of a project are significant factors in determining whether debt is the appropriate financing vehicle for a project. Revenue producing assets such as research facilities and residence halls are prime candidates for debt financing due to their ability to help service the debt. In addition, academic projects that allow the university to meet its strategic objectives are often debt financed. Lastly, the cost of core utility and parking improvements are typically debt financed to match the cost to the useful life of the improvement.

(C) Fixed versus variable rate debt. Historical trends indicate that variable rate debt provides the lowest cost of capital, but variable rate debt would introduce operating budget volatility from rising interest rates. Endowment assets, interest rate caps and swaps, and rate stabilization funds all can help to manage variable rate exposure. The university should consider historical interest rates when considering fixed versus variable rate exposure. The specific amount of variable rate exposure would depend on market conditions and the type of facility to be financed. Before issuing variable rate bonds, the university should determine the assumed variable rate for budget purposes, and its plans to address positive and negative variances from the assumed rate.

(D) Retirement of principal. Bonds issued by the university may mature in annual or periodic installments, either as serial bonds or as term bonds with mandatory redemption requirements. A bullet bond structure is one in which all of the principal of the entire bond issue matures on one date. Bullet maturities provide operating flexibility. However, bullet maturities require the financial discipline to charge the current budget for principal amortization that will not occur for several decades. The budget impact of bullet maturities should be determined prior to issuance. To offset the long-term refinancing risk of bullet maturities, the university should not structure all its bonds as bullet maturities and should structure other bonds as serial or term bonds with periodic amortization of principal. Serial, term or bullet bonds may be structured with optional call features that permit them to be retired prior to maturity by early redemption. . The university's administration has the opportunity to serve as a "central bank" charging debt service for a particular project to the appropriate budget, and recycling the principal portion of the repayment to fund a different project. While this approach introduces some record keeping complexity, the university will issue bonds less frequently, reducing its risks related to market timing, and transaction costs.

(E) Credit rating debt capacity and operating capacity to service debt. The university should understand the potential impact of any increased debt on its credit rating and the cost of bond insurance before issuing new debt. The university's decision to issue additional debt should be primarily focused on the strategic importance of the new facility and not solely on the potential impact of a change in credit ratings or increase in bond insurance premium. The university should continue to monitor the financial performance of peer institutions because the university's credit ratings are a combination of absolute and relative performance versus peers. In addition to credit rating considerations, the university will need to analyze its ability to service any additional debt without adversely impacting operating budgets.

(F) Taxable versus tax-exempt debt. The university may need to issue taxable debt in the future, depending on the use of the facility. For example, if the use of a facility includes a significant portion of private use or requires flexibility for a future change in use, taxable debt may be preferred. The university should continue to maximize the amount of tax-exempt bonds in the debt portfolio to reduce interest expense.

(G) Refinancing of existing fixed rate debt. The university should monitor the markets for opportunities to refinance existing fixed rate debt for savings.

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(1) For the purposes of this policy, "advance refunding" refers to the refinancing of tax-exempt debt with new tax-exempt debt if the optional redemption or maturity date of the refunded bonds are more than ninety days away. An advance refunding can only be accomplished with a taxable structure, at least until the refunded bonds are within ninety days of the optional redemption or maturity date. The university will consider a taxable advance refunding of fixed rate bonds only if present value saving exceed three percent of the par amount to be refunded.

(2) For the purposes of this policy, "current refunding" refers to the refinancing of tax-exempt debt within ninety days of the optional redemption or maturity date. If fixed rate bonds are eligible for a current refunding, the university should refinance the debt if present value savings are greater than one percent of par. Alternatively, the university could refinance the fixed rate bonds with variable rate bonds within ninety days of the optional redemption or maturity date if the university wanted to adjust the mixture of fixed and variable rate bonds in the debt portfolio.

(H) (A) Restructuring of existing university debt. The university may consider restructuring outstanding debt when determined in its best interest by the senior vice president for finance and administration and as recommended to and approved by the board of trustees. The university may restructure debt to remove unduly restrictive bond covenants, smooth irregular debt service payments, achieve costs savings and/or provide budgetary relief.