

Applicable Employee Classes: All Florida Tech Employees	Reviewed Date: February 2017	Approved by:  Dr. T. Dwayne McCay, President
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Debt Policy

I. Introduction

The University needs to make capital investments in order to fulfill its mission. These investments will require decisions and actions that can affect the University’s financial position and credit rating. Appropriate financial leverage has a useful role and should be considered a long-term component of the University’s balance sheet.

This policy applies to all University staff in analysis of the University’s debt capacity.

II. Objectives

- To provide a guideline on the use of debt proceeds to support the University's capital needs while achieving the lowest overall cost of capital.
- To provide selected financial ratios to ensure that the University continues to operate within appropriate financial parameters while allowing the University to maintain the highest acceptable credit rating that permits it to continue to issue debt at favorable rates.
- To bridge the cash flow gap between the University's available funds and capital needs, management should always ensure that the appropriate leverage exists between cash reserves and the borrowing of debt.

III. Debt Operating Guidelines

Given that the University has a limited capacity for debt, management will allocate the use of debt financing within the University with the approval of the Board of Trustees. This will include the prioritization of debt resources among all uses, including academic projects, equipment financing, real estate investment financial opportunities, and other projects. Generally, the following guidelines will be used, although they are not intended to be all-inclusive. Only projects that relate to the core mission of the University will be considered.

- A project that has a related revenue stream or can create budgetary savings will receive priority consideration. For these projects, the use of debt must be supported by an achievable financial plan that includes servicing the debt and meeting any new or increased operating costs, which could include the funding of a replacement and renovation reserve. For projects that can create budgetary savings, the budget will be reduced to fund the debt service and any additional

savings will be invested into other critical capital projects. However, this priority consideration is not meant to exclude other projects that are key to the University's mission.

- The useful life of a project should be taken into consideration when using long-term debt for the capital investment.
- Fund raising for capital gifts are expected to be a major source of financing the University's investments. A cohesive, long-range facilities plan that addresses the strategic needs of the University and can be clearly articulated to potential donors is key to the success of capital fund raising efforts. In assessing the possible use of debt, all other revenue sources will be considered. Philanthropy, project-generating revenues, Federal and State grants, expendable reserves, and other sources are expected to finance a portion of the cost of a project. Debt is to be used conservatively and strategically.

To fulfill their respective fiduciary responsibilities, it is critical that the Board of Trustees and management know the extent of debt obligations. Debt is defined to include all on-balance sheet or off-balance sheet short- and long-term obligations, guarantees, and instruments that have the effect of committing the University to future payments. The assumption of debt, both direct and indirect, will be subject to Trustees' approval. Any debt issued by subsidiary entities is subject to these policies. The Board of Trustees will continue to approve debt financing, the use of derivative products, and the inclusion of variable rate debt in the University's portfolio.

IV. Debt Ratios

The University has established four ratios to monitor debt levels. These ratios are consistent with the measures used by rating agencies. However, the agencies monitor a number of other statistics and ratios in developing their opinions. Management will review annually all key rating agencies' ratios to monitor compliance with rating guidelines.

Ratio #1: Viability Ratio = Expendable Net Assets/Long-Term Debt:

The viability ratio measures the availability of expendable net assets (unrestricted net assets + temporarily restricted net assets - plant equity) to cover debt should the University be required to repay its outstanding obligations. A ratio of 125% is established as the goal to work towards.

Ratio #2: Debt Burden = Actual Debt Service/Total Expenses:

The debt burden ratio measures the relative cost of debt to overall University expenditures (total expenses - depreciation + principal payments). By maintaining an appropriate proportion of debt service to total expenses, other critical and strategic needs can be met as part of the expense base. The target ratio should be no greater than 7%. A level trend will provide an indication that there is sufficient coverage for debt service while not impeding financial resources to support institutional requirements. A rising trend will signify a demand on financial resources to cover the debt service, which may result in budgetary reductions.

Ratio #3: Leverage Ratio = Available Net Assets/Long-Term Debt:

The leverage ratio is the ratio of the University's net assets less permanently restricted net assets to its debt portfolio. This ratio includes plant equity unlike the viability ratio and is similar to a debt-to-equity ratio. The target for this ratio is to be no less than 200%. The ratio measures the amount of leverage on the University's assets.

Ratio #4: Debt Service Coverage Ratio (bond covenant) = the sum of the unrestricted revenues minus net assets released from restrictions (if included in unrestricted revenues) minus unrestricted expenses plus expenses funded by net assets released from restriction (if included in unrestricted expenses) plus Capital Lease payments (if included in unrestricted expenses) minus or plus unrealized and realized gains or losses on investments (if included in unrestricted income or expenses) minus or plus gains or losses on sales of assets (if included in unrestricted income or expenses) plus capital campaign expenses plus principal and interest payments on indebtedness (if included in building fund expenses) plus Capital Lease payments (if included in building fund expenses) divided by required principal and interest payments on all indebtedness (pursuant to GAAP) plus required Capital Lease payments. The target ratio for each fiscal year is 125%.

The Senior Vice President of Financial Affairs/CFO will provide an annual debt report to the Board of Trustees through the Finance Committee of the Board.

Each new borrowing will continue to be presented to the Board of Trustees for approval.