FITCHBURG STATE UNIVERSITY

DEBT POLICY

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> **"…The University's mission is to encourage the development of the whole person and prepare our students for careers that meet the needs of their varied communities. The University is committed to providing affordable, lifelong learning opportunities in undergraduate, graduate and continuing education."**
>
> ***Source: Fitchburg State University Mission Statement***

I. GOALS AND OBJECTIVE:

Teaching and learning form the core of Fitchburg State University's institutional mission. The University's five year strategic plan identifies specific goals and objectives critical to achieving its mission. Included in the plan is the recognition of the need for capital investments while ensuring the long term viability of the institution. As such, this debt policy is intended to create a framework by which Fitchburg State University can manage its debt portfolio as an integrated component of the overall resource management of the institution.

For purposes of this policy, debt is defined as all short and long term obligations, guarantees and instruments that have the effect of committing the University to future payments and therefore impact its credit. In addition to bonds, notes and leases, debt also includes obligations that impact the University's debt capacity even if those transactions are not included in the University's financial statements or disclosed in the notes thereto.

The broad objectives of this policy are as follows:

- To strategically utilize debt to fund mission critical projects;

- To maintain the University's creditworthiness and access to capital markets that result in debt issued at favorable rates; and

- To maintain an appropriate balance between cash reserves and debt capacity that achieves a low long term cost of capital and allows for the investment of working capital.

II. DEBT FUNDING SOURCES:

Fitchburg State University, under the aegis of the Board of Higher Education (BHE), receives funding for capital projects from three sources: Commonwealth General Obligation Bonds; bonds issued by the Massachusetts Health and Educational Facilities Authority (HEFA); and bonds issued by the Massachusetts State University Building Authority (MSCBA).

General Obligation Bonds:

General obligation bonds provide capital funding for all of state government. Portions of the funds available through this source are assigned to various agencies through debt caps determined by the Executive Office of Administration and Finance. The cost of this debt, and its availability, depend on the creditworthiness of the Commonwealth as a whole. The Commonwealth, not the University specifically, is responsible for the payment of this debt.

HEFA and MSCBA:

HEFA and MSCBA debt is issued by quasi-public authorities for specific types of capital projects and are paid for via dedicated revenue streams. HEFA states its mandate as providing financing or refinancing for any capital project related to the "primary charitable purpose" of an institution. The MSCBA issues debt to finance student activity and residential buildings. The cost and availability of HEFA and MSCBA debt depends on the creditworthiness of the individual University for which a project is being financed.

Capital leases:

Whenever feasible, Fitchburg State University will use the Commonwealth of Massachusetts Equipment Lease-Purchase (TELP), Massachusetts Higher Education Consortium (MHEC), leases and other viable leasing mechanisms within the Commonwealth's rules and regulations.

Alternative Financing:

The University will work closely with the Board of Higher Education, various state or federal agencies, and other State University's to explore and/or develop other potential debt financing vehicles.

III. GENERAL DEBT POLICY:

Given the limited debt resources, management will allocate the use of debt financing with the approval of the University's Board of Trustees. Debt resources will be prioritized among all uses including: academic projects; equipment financing; major capital renewal; real estate investment; and other projects.

- Only projects that further the mission and strategic goals of the University, either directly or indirectly, will be considered for debt financing.

- Consideration of debt financed projects should include analysis and review of the impact the debt will have on the operating budgets and overall financial health of the institution. Analysis should include appropriate pro forma financial calculations (including ratio analysis) and should demonstrate the University's ability to assume the debt.

- The use of debt for projects with a related revenue stream must be supported by an achievable financial plan that includes servicing the debt and meeting any new or increased operating costs. The plan should include contingencies in the event that the assumptions used in the plan are not realized.

- The useful life of the project should be taken into consideration when using long term debt.

- Fund raising for capital gifts should be considered a source of financing, as well as, state and federal grants, expendable reserves, and other sources that can be expected to finance a portion of the cost of a project.

- Debt is to be used conservatively and strategically.

- The University will limit its overall debt to a level that, when viewed in the context of its current and future strategic objectives, is intended to optimize creditworthiness over the long term. As a general guideline, the University will maintain a debt burden ratio of no more than 5%.

- The debt policy will be periodically reviewed and amended as necessary to reflect changing conditions.

IV. FINANCIAL RATIOS

This policy establishes guidelines to measure the total amount of debt outstanding and to assess overall financial health. The following ratios are consistent with ratios utilized in the higher education industry and should be reviewed at least annually and on a pro forma basis when considering debt financed projects.

Viability Ratio

This ratio measures the availability of expendable net assets to pay off long term debt. A ratio of 1.0 or higher indicates an institution has sufficient net assets to satisfy debt requirements.

Ratio = Expendable Net Assets/Long-Term Debt

Debt Burden Ratio

This ratio expresses annual debt service payments as a percent of total expenses. It measures an institution's ability to repay debt service on all outstanding debt and its impact on the institution's overall budget.

Ratio = Annual Debt Service/Total Expenses

As a general guideline, it is believed that if more than 5% of an institution's budget were devoted to debt service, that institution's flexibility to devote its resources to other needs would be compromised. It is understood that rising expenses could make this ratio seem more attractive, though misleading, and is evaluated in conjunction with an institution's income statement.

Primary Reserve ratio

This ratio provides a snapshot of an institution's financial strength and flexibility. The ratio indicates how long the University could operate using expendable reserves without relying on additional new assets generated by operations. Trend analysis indicates whether an institution has increased its net worth in proportion to its rate of growth. A negative or decreasing trend indicates a weakening financial condition.

Ratio = Unrestricted & Expendable Net Assets / Total Operating Expenses

Return on Net Assets Ratio

This ratio reports whether an institution's resources are growing and if it is financially better off than in previous years. It is important to assess this ratio as a linear trend – an increasing trend indicates an increase in net assets and an increased likelihood that the institution is able to set aside financial resources to strengthen future flexibility. Single year events, like a substantial gift or extreme investment performance, can cause significant year-to-year volatility.

Ratio = Increase (Decrease) in Net Assets / Beginning of Year Net Assets

Net Operating Revenues Ratio

This ratio indicates whether operating activities resulted in a surplus or deficit. A positive ratio indicates the University experienced an operating surplus; a continuing decline or pattern of deficits indicates financial problems.

Ratio = Adjusted Net Operating Revenues / Adjusted Total Income

V. REPORTING:

The President, or his designee, will report on the status of University debt and adherence to this policy to the University's Board of Trustees.

VI. OVERSIGHT:

The Vice President of Finance is responsible for the administration, monitoring and reporting requirements associated with debt. The Vice President of Finance is responsible for ensuring adherence to this policy, updates, and periodic review of the University's debt.

VII. REVISIONS TO POLICY:

Any revisions to this policy will require approval by the College's Board of Trustees and then forwarded for reference purposes to the Board of Higher Education.

Adopted: By vote of the Board of Trustees November 28, 2006