Section:	XII.1.2	
Title:	Debt Policy	
Effective Date:	February 23, 2016	
Approved By:	Board of Trustees	
Responsible Unit:	Office of the Treasurer (609) 771-2186	
Related Documents:	N/A	
History:		
Version	Date	Notes
2.0	February 23, 2016	Revised
1.0	December 4, 2007	New policy; Initial release

I. INTRODUCTION

In support of its mission, The College of New Jersey (the "College") must make ongoing strategic capital investments in academic, student life, and other plant facilities. The College develops and manages a comprehensive list of capital projects to support its priorities and objectives and must utilize an appropriate mix of funding sources, including state bonds and appropriations, College bonds, capital leases, internal reserves, operating funds, grants and private gifts, to achieve this goal.

This Debt Management Policy (the "Policy") formalizes the link between the College's strategic planning process and the issuance and management of debt. Debt is considered a limited resource that must be managed strategically in order to best support the College's priorities. As part of its review of each project, the College evaluates all funding sources to determine the optimal funding structure to achieve the lowest expected long-term cost of capital within acceptable risk parameters and to preserve the greatest amount of future financing flexibility.

This Policy will also serve as a guideline to identify the qualitative factors and quantitative tests to be utilized by management and the Board of Trustees (the "Board") to prioritize its capital and operating needs while taking into consideration the College's overall financial health, liquidity, and present and future debt capacity.

This Policy is intended to be an evolving document which will be maintained by management and the Board to meet the changing needs of the College over time.

II. DEFINITIONS

Within policy section.

III. POLICY

A. OBJECTIVES

The objectives stated below provide the framework for decisions regarding the use and management of traditional and non-traditional external debt and internal borrowing. The Policy and objectives are subject to re-evaluation and change over time:

1. **Identify and Prioritize Projects for Debt Financing:** Outlines a process for identifying and prioritizing capital projects considered eligible for debt financing and assuring that debt-financed projects have a clear and feasible plan of repayment.

2. **Monitor Key Financial and Credit Parameters:** Defines the quantitative tests that will be used to evaluate the College's overall financial health, liquidity and present and future debt capacity. Also defines project-specific quantitative tests, as appropriate, which will be used to determine the financial feasibility of an individual project.

3. **Manage Credit to Maintain the Highest Possible Credit Rating:** Manages the College's external and internal debt to maintain the highest possible credit rating consistent with the College's capital objectives, available repayment resources and sufficient liquidity. The College will not seek to limit its borrowing for needed capital projects solely to maintain a credit rating; however, it will evaluate the impact of all borrowings on its credit rating and the impact on borrowing costs.

4. **Limit Risk Within the Debt Portfolio:** Establishes guidelines to limit the risk of the total external debt portfolio. The College will manage debt on a portfolio basis, rather than on a transactional or project specific basis, and will evaluate the use of fixed and variable rate debt to achieve the lowest cost of capital while limiting exposure to market interest rate shifts.

5. **Market Access:** Maintain the College's favorable and timely access to capital.

B. GUIDELINES FOR PRIORITIZING CAPITAL PROJECTS

Projects will be prioritized if they meet one or more of the following. Generally, projects that relate to the College's core mission and have associated revenues will be given higher priority for debt financing.

1. **Core Mission Test:** Only projects that relate to the mission of the College, directly or indirectly, will be eligible for debt financing. Those projects that most directly advance the core mission of the College will be given priority. Restricting debt to projects that are critical to the mission of the College will ensure that debt capacity is optimally utilized.

2. **Self-sufficiency Test:** A Project that can generate revenue to cover its capital and associated operating costs will be given priority. If the College can fund projects to advance its core mission without reducing its debt capacity, such projects should receive priority consideration.

3. **Risk Reduction Test:** If a project is considered critical in terms of life/safety or is necessary to comply with environmental or legal standards, it will be given priority.

C. FUNDING SOURCES

This Policy relates to all forms of debt financing including long-term, short-term, fixed rate, and variable rate debt as well as other forms of financing including both on-balance sheet and off-balance sheet structures that impact the credit of the College. This Policy also contemplates the use of financial derivatives that may be used in managing the College's debt portfolio and in structuring transactions to best meet the College's financial objectives within an acceptable risk tolerance.

The College issues bonds through The New Jersey Educational Facilities Authority (the "EFA"). EFA was created in 1968 to help public and private colleges and universities in New Jersey finance the construction, improvement, acquisition and refinancing of various capital projects. The College has also periodically received funds from the State of New Jersey in the form of grants for which matching funds from the College are generally required.

Additionally, the College will annually assess the use of its internal reserves for significant asset renewal projects or other purposes deemed to be in the best interest of the College's and in accordance with its Reserve Policy.

D. STRUCTURING DEBT

The College recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, risks, and costs. All potential funding sources are reviewed by management within the context of the Policy and overall debt portfolio to ensure that any financial product or structure is consistent with the College's goals and objectives. Regardless of what financing structure(s) is/are utilized, a full understanding of the transaction, including (i) quantification of potential risks and benefits, (ii) analysis of the potential impact on College creditworthiness and debt affordability and capacity, and (iii) impact on the College's balance sheet and projected budget are performed.

Tax-Exempt versus Taxable Debt

The College recognizes that tax-exempt debt is a perpetual component of its capitalization due in part to its substantial cost benefits. The College will manage its debt portfolio to maximize the use of tax-exempt debt relative to taxable debt whenever possible.

The College may use taxable debt for those projects that have an intended use or other characteristics that preclude the use of tax-exempt debt. The College will strive to allocate its available resources among its various capital projects to minimize or eliminate the need to issue taxable debt, thereby minimizing the cost of capital.

Fixed Rate versus Variable Rate Debt

Particularly in low interest rate environments, the College should consider locking in long- term fixed rate debt to maximize the predictability of its future obligations. However, due to the financing flexibility and lower interest rate cost typically associated with variable rate debt, it may be desirable, depending on market conditions, to maintain a portion of the College's aggregate debt on a floating rate basis. Variable rate debt introduces a level of volatility into the College's debt portfolio and must therefore be evaluated closely prior to implementation.

The College has established a target allocation such that the amount of variable rate debt outstanding (adjusted for derivatives) shall not exceed 30% of the College's total outstanding debt. This limit is based on the College's desire to: (i) limit annual

variances in its debt portfolio, (ii) provide sufficient structuring flexibility to management, (iii) keep the College's variable-rate allocation with acceptable credit parameters, and (iv) utilize variable rate debt to optimize debt portfolio allocation and minimize costs. Although the College believes that over the long-term up to 30% of its debt portfolio may be outstanding on a variable rate basis, during some periods it may be desirable to maintain a higher fixed rate allocation.

Derivative Products

The College recognizes that derivative products may enable more opportunistic and flexible management of its debt portfolio. Derivative products, including interest rate swaps, may be employed primarily to manage or hedge the College's interest rate exposure. The College utilizes a framework to evaluate potential derivative instruments by considering (i) its current variable rate debt allocation and rate exposure, (ii) existing market and interest rate conditions, (iii) the impact on future financing flexibility, and (iv) the compensation for assuming risks or costs for eliminating certain risks and exposures.

Risks of derivative products include, but are not limited to, tax risk, interest rate risk, liquidity risk, counterparty risk, basis risk, and termination risk. The College should only consider the use of such products if:

(i) The transaction does not impose unacceptable risk to the College;
(ii) The College is appropriately compensated for the assumption of any risk;
(iii) Management understands the risks and benefits of any transaction that is considered;
(iv) Management presents the expected benefits and risks associated with any proposed transaction to the appropriate members of the Board; and
(v) The College receives independent legal and financial advice concerning the merits of the prospective derivative transaction.

Detailed guidelines for the use of derivative products can be found in the College's Interest Rate Swap Policy adopted by the Board on December 4, 2007.

Other Financing Sources

Given limited debt capacity and substantial capital needs, opportunities for alternative and non-traditional transaction structures may be considered, including off-balance

sheet financings. The College recognizes these types of transactions often can be more expensive than traditional debt structures; therefore, the benefits of any potential transaction must outweigh any potential costs.

All structures can only be considered once the economic benefit, or cost, and the likely impact on the College's debt capacity and credit has been determined. Specifically, for any third-party or developer-based financing ("Public Private Partnership"), management ensures the full credit impact of the structure is evaluated and quantified to the best of its ability.

Other Structuring Consideration

1. **Method of Sale:** Competitive, negotiated, and private-placement transactions will be considered on a case-by-case basis in order to achieve the lowest cost of capital based on the complexity and structuring features of the transaction.
2. **Credit Enhancement:** Insurance and other credit enhancement opportunities will be evaluated and utilized if they are considered cost effective and when they do not require material debt and operating restrictions.
3. **Redemption Provisions:** Call features should be structured to provide maximum flexibility relative to cost.
4. **Useful Life:** Debt must be related to useful life of asset financed, including conformance with any IRS rules governing useful life calculations in tax-exempt issuance when appropriate.

E. REFUNDING GUIDELINES

The College will continuously monitor its debt portfolio for refunding and/or restructuring opportunities.

For advance refunding transactions, the College will consider refunding candidates in aggregate and on an individual maturity basis, evaluating net present value savings, the production of negative arbitrage, the amount of time to the call date, and the amount of time from the call date to maturity. As tax law only permits bonds to be advance refunded one time, advance refunding transactions must weigh the current opportunity against the possibility of effectuating the same opportunity in the future.

In general, the College will consider refinancing when an advanced refunding transaction produces net present value savings of at least 3.00%. Additionally, each bond/maturity being refunded should meet both of the following criteria:

(i) Net present value savings of greater than 1.00%; and
(ii) Efficiency of greater than 50%

$$\text{Bond Efficiency} = \frac{\text{Net Present Value Savings}}{(\text{Net Present Value Savings} + \text{Negative Arbitrage})}$$

These refunding criteria serve as a guideline for measuring the overall savings and efficiency of a transaction, however, the College may elect to move forward with a transaction that does not meet these criteria if it is determined to be in the best interests of the College. A refunding will also be considered if it relieves the College of certain limitations, covenants, payment obligations, or reserve requirements that reduce flexibility. Refunding criteria will be reviewed and may be modified as market conditions fluctuate.

F. BOND RATINGS

The College should manage its aggregate debt portfolio with the goal of maintaining a credit rating deemed acceptable by the Board. Although the attainment or maintenance of a specific rating is not the main objective of this policy, maintaining an acceptable credit rating will permit the College to continue to issue debt and finance capital investments at favorable interest rates. The minimum target underlying rating for the College is a rating in the single "A" category as established by each of the major rating agencies.

The 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. This Debt Policy is shared with external credit analysts and other parties in order to provide them with the background on the College's philosophy on debt and management's assessment of debt capacity and affordability, which is subject to ongoing review to remain consistent with the College's evolving needs and objectives.

G. FINANCIAL RATIOS

In assessing its current financial health, current debt portfolio, and when planning for additional debt, the College takes into account both its Debt Affordability and Debt Capacity. Debt Affordability focuses on the College's ability to service its debt through its operating budget and identified revenue streams and it is driven by the strength and flexibility of the College's income and cash flows. Debt Capacity focuses on the College's financial leverage, focusing on debt funding as a percentage of the College's total capital. Debt Capacity is a measure used by the credit rating agencies, and impacts the College's credit quality and resulting borrowing costs. Nevertheless, from an internal project planning and debt repayment perspective, it is the debt affordability measure that impacts the operating budget. The College will evaluate these factors in assessing its debt affordability and debt capacity including its strategic needs, market position, alternative sources of funding and relationship with the State.

The following ratios will be calculated using the audited financial statements and reported annually and on a pro forma basis when new debt is issued, and will be revised to reflect any changes in the capital markets and accounting standards:

Debt Affordability Measures

1. Peak Debt Service to Operations (%)
   Measures the ability to pay the maximum debt service associated with all outstanding debt and the potential impact on the future operating budgets.

2. Actual Debt Service Coverage (x)
   Measures the actual margin of protection for annual debt service payments from annual operations. A higher ratio means that the College has a net revenue stream available to meet its debt burden should economic conditions change.

3. Debt to Cash Flow (x)
   Measures total debt outstanding compared to the College's annual operating cash flow. A lower ratio means more cash is available to cover the outstanding debt.

4. Operating Margin (%)
   Measure the institution's capacity to maintain fiscal balance. Positive operating margins provide greater cushion for debt service and operational flexibility.

Debt Capacity Measures

5. Expendable Resources to Debt (x)
   Measure the coverage of the outstanding debt by financial resources that are ultimately expendable. A higher ratio means more funds are available to cover debt.

6. Expendable Resources to Operations (x)
   Provides a snapshot of financial strength and flexibility by indicating how long the College could function using its expendable reserves without relying on additional resources.

H. CONTINUING DISCLOSURE AND REPORTING REQUIREMENTS

The College will continue to meet its ongoing disclosure requirements in accordance to Securities and Exchange Commission Rules 15c2-12. It will provide updated financial information and operating data and timely notice of specified material events in accordance with said rule, as required under its individual bond indentures and as described in its "Disclosure Policy Concerning Municipal Securities."

The Annual Financial Report (audited financial statements), prepared by the College and presented to the Board, will discuss the status of all outstanding bond and note indebtedness. The financial statements presented to the Board will provide detailed information on the College's outstanding bonds and notes including, by series, the amounts outstanding, interest rates, maturities, summary of the changes in outstanding indebtedness, the associated debt service requirements and fiscal year to date valuation of any related swap.

This policy will be reviewed periodically by the Finance and Investment Committee of the Board of Trustees to ensure financial and operational flexibility.