CASE WESTERN RESERVE UNIVERSITY EST. 1826

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CASE WESTERN RESERVE UNIVERSITY
Policy for the Use and Management of Debt

adopted by the Board of Trustees on October 20, 2018

A. INTRODUCTION

The University uses a variety of sources to fund its capital needs. To fund major capital projects, the University relies primarily on philanthropy.

The University may use long-term debt to finance certain capital needs. Long-term debt is a scarce resource, and therefore it should be used sparingly and only for clearly established strategic needs.

The University uses short-term debt (*i*) to provide bridge or construction financing for capital projects, and (*ii*) to support its operating liquidity.

B. OBJECTIVES

The objectives of this policy are to provide:

- Guidelines for assessing the strategic use and the deployment of long-term debt as a strategic resource.
- Guidelines for using short-term debt for interim financing and liquidity support.
- A process for assessing and managing risks associated with debt.
- A monitoring and reporting framework.

C. Debt Strategy

1. Strategic Use of Long-Term Debt for Capital Purposes

University long-term debt capacity is a strategic resource which must be carefully managed. While the University attempts to maximize the use of philanthropy, grants and internal funds to fund capital projects, the strategic use of long-term debt can provide additional support for mission critical investments and increase financial flexibility. Any deployment of long-term debt must be approved by the Board of Trustees. Long-term debt will be used only for projects the administration consider strategically important to the University's mission.

The University has a strong policy preference for maintaining its credit ratings at least at their current level (A1/AA-). For that reason, long-term debt will be used only when the Treasurer has advised the Finance Committee that the University has sufficient debt capacity to support the desired debt issuance without jeopardizing the University's credit ratings.

2. Prioritization of Projects for Debt Financing

The University recognizes that debt is a limited resource. Debt should be used prudently for capital projects that are consistent with the mission and vision of the University.

In prioritizing projects to be financed, the University should consider the following:

a. Available debt capacity and the ability to absorb the cost of additional debt in the operating budget.
b. Purpose of debt – bridge financing or long-term financing.
c. Source of repayment of debt including specific revenue streams, philanthropy or other sources.
d. Budget impact or expected return on investments.
e. Reputational impact, such as academic excellence or impact on the community.

3. Long-term debt portfolio management

The University will manage its long-term debt, with respect to both tenor and interest rate mode, on a portfolio-wide basis. The University will regularly adjust the portfolio with the goal of achieving the lowest blended cost of capital within acceptable risk parameters. The University has identified the following ranges for its debt portfolio mix:

a. 65% - 100% fixed rate debt
b. 0% - 35% variable rate debt
c. No more than 20% unhedged variable rate debt

There are several considerations to look at when deciding on the type and amounts of debt to issue:

a. Current and expected market conditions
b. Debt amount to be issued vs. overall debt
c. Budgetary pressures
d. Budget surpluses
e. Liquidity levels

Conservative management. The University considers the potential reward for taking on risk in its debt portfolio to be small, and therefore will be appropriately conservative in the portfolio's management.

Tax-exempt debt preferred. Although tax-exempt debt is preferred, the University should also evaluate the use of tax-exempt versus taxable debt based on the use of proceeds and the relative cost of each type of debt. The University recognizes that there may be certain situations where the cost of taxable debt may be advantageous even if the project could be financed on a tax-exempt basis.

Limited use of variable rate debt. The University may use variable rate debt to reduce its cost of capital only after evaluating the associated risks, including:

- *market risk*: the risk that interest rates will rise
- *liquidity risk*: the risk that a variable rate product cannot be rolled in the market
- *renewal risk*: the risk that a variable rate lender or credit provider does not renew
- *pricing risk*: the risk that structured product costs, such as bank credit support or dealer fees, rise
- *tax risk*: the risk that tax-exempt rates may increase or fluctuate due to legislative or regulatory changes or that such changes may foreclose the tax-exempt market to the University.

Diversification of credit exposure. When the debt portfolio is exposed to external credit risk (*e.g.*, standby bond purchase agreements, letters of credit, direct placements), the University will diversify its exposure among financial institutions and should seek to limit to any one financial institution of no more than 25% of the total notional amount in the debt portfolio

4. Short-term Debt

a. Capital Financing

The university may use short-term debt to finance capital projects only if it (*i*) has adequate long-term debt capacity to take out the short-term debt, or (*ii*) has philanthropic commitments to repay the short-term debt.

b. Liquidity Support

The University may use short-term taxable debt, including bank debt, to provide liquidity for operations. The University will have loan agreements with at least two lenders, and renewal dates for the loan agreements with such lenders should be staggered.

5. Derivative Transactions

a. Description
"Derivative Transactions" refer to agreements providing for payments based upon levels of changes in interest rates, including without limitation to agreements commonly referred to as interest rate swaps or hedges, that are entered into in connection with bonds, notes or other obligations issued on behalf of the University.

b. Permitted Uses

Derivative Transactions may be used to manage the University's risk profile, including but not limited to tax risk, liquidity risk and interest rate risk. The University should evaluate Derivative Transactions on a standalone basis, in the context of the debt portfolio and in the context of the University as a whole.

c. Portfolio Management

The University should evaluate the credit quality of any counterparty for Derivative Transactions and should diversify exposure to any one financial institution if possible and economical.

D. REPORTING AND COMPLIANCE

The University will comply with all legal and contractual requirements for ongoing continuing disclosure related to its debt portfolio, including disclosure requirements under applicable SEC or MSRB rules and regulations undertaken in its continuing disclosure agreements. The University may employ one or more dissemination agents to assist it in compliance with such requirements.

E. BOARD OVERSIGHT AND PERIODIC REQUIRED REVIEW

The Treasurer will annually submit to the Finance Committee a report on the University's debt program, sufficiently detailed to enable the Committee to ensure that the University is adhering to this policy. The report will include an assessment of debt affordability and capacity, specifically (*i*) an enumeration of external outstanding debt and its cost, and (*ii*) an estimate of the University's current debt capacity.

The Finance Committee will review this policy not less than once every five years.