

UNIVERSITY CORPORATION AT MONTEREY BAY BOARD POLICY

Policy 209

Debt Issuance Policy

Section: 200- Financial

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1) PURPOSE

Environmentally preferable purchasing (“EPP”) is the purchase of products and services that have a lesser effect on human health and the environment in their manufacture, use, and disposal when compared to other goods and services that serve the same purpose. Environmentally preferable purchasing protects the environment. EPP can also protect human health, save money, and improve the overall quality of purchases.

2) POLICY

Title 5, California Code of Regulations, Section 42500 (c) gives auxiliary organizations the authority, upon prior approval of the campus president and in accordance with the policies of the Board of Trustees, to issue debt instruments to finance or refinance projects in connection with their mission. Executive Order No. 876, which supersedes Executive Order No. 703, from the Office of the Chancellor, requires that campus presidents ensure that the Trustees’ policy is implemented.

a) Financing Options.

- i) CSU Systemwide Revenue Bond Program. The University Corporation at Monterey Bay (“University Corporation”) must use the CSU Systemwide Revenue Bond (“SRB”) program to finance revenue-based non-state funded capital outlay projects.
- ii) Alternative Financing Activities. An alternative financing structure may be utilized if the Corporation is able to demonstrate that it is significantly more beneficial than the SRB and if the CSU Board of Trustees (“Trustees”) approves the alternative structure.

b) Terms and Definitions

- i) Project. Construction of a facility or group of facilities related to the same use and constructed at the same approximate time (e.g., one or more residence halls constructed with one construction contract).
- ii) Stand-Alone Project. A single Project operated by the Corporation that is supported by the project-related revenue, or all of the Corporation’s available revenue.
- iii) Debt Program. A program operated by the Corporation that provides the source of repayment for debt for more than one University Corporation-operated Project (e.g., two separately financed Corporation-operated food service facilities). A general revenue pledge of all available Corporation revenue makes it possible for the entire auxiliary organization program to be classified as a single Debt Program.
- iv) Net Revenue Debt Service Coverage Ratios (“DSCR”). A DSCR consists of annual gross revenue, less annual operating expenses divided by annual debt service. This ratio serves as a benchmark at the Systemwide and campus level for decisions about new debt and the management of debt.

c) Process.

- i) Authority. The authority to issue debt instruments under the SRB program resides with the Trustees. The Trustees shall approve each issuance of debt instruments under the SRB program. The Office of the Chancellor shall determine the timing and structure of each issuance of SRB bonds as well as the formula by which debt service and other debt management costs will be allocated to campuses and auxiliary organizations.
- ii) Financing Lease. Each Corporation Project funded via the SRB program will be supported by a financing lease between the Corporation and the CSU, the legal structure of which will be one that is permitted by the provisions of the State University Bond Act and the SRB Master Resolution.
 - (1) If the Corporation has no existing debt obligations when a Project is approved, the lease shall contain provisions that:
 - (a) Pledge all available corporation revenue to the Trustees for payment of the lease obligations;
 - (b) Require deposit of all pledged revenues into a pledged “gross revenue fund” bank account;
 - (c) Establish criteria for issuance of additional bonds; and
 - (d) Covenant that the Corporation will set rates or otherwise maintain pledged income that will generate the required net revenue.
 - (2) If the Corporation has existing debt obligations when a Project is approved, the lease shall contain provisions that:
 - (a) Require the Corporation to abide by the criteria of existing bonds for the issuance of “parity” debt;
 - (b) Establish that the Trustees share in pledged revenue with all other bondholders on a parity basis; and
 - (c) Require that the Trustees receive the same covenants as existing bondholders for the issuance of additional bonds and the same coverage required for a rate covenant for the existing bonds.
 - (3) The financing lease will be considered parity debt with all other existing Corporation debt.
 - (4) The financing lease payment from the Corporation to the CSU shall be calculated to include the following:
 - (a) Debt service associated with the bonds including the cost of participation in the commercial paper program, interest, and principal on bonds issued to permanently finance the Project and other debt management related costs of the CSU; and
 - (b) Any costs incurred by CSUMB for operation and maintenance of the financed facility, in accordance with Executive Order No. 753.
- iii) Project and Debt Program DSCR. The DSCR for a Corporation SRB Project that is part of the University Corporation’s debt program must be equal to a minimum of 1.1, and the related University Corporation debt program equal to a minimum of 1.25. The DSCR for a University Corporation SRB Stand-Alone Project must equal a minimum of 1.25. The DSCR is computed from pledged revenue, operating expense and debt service that is related to the specific University Corporation Project or debt program.
- iv) Reserves. It is the responsibility of the campus president and the campus chief financial officer to ensure that a reserves policy is in place for projects funded by debt. Reserves

should be developed from project revenues for projects funded by debt issued by the Trustees. These reserves should address major maintenance and repair/capital renovation and upgrade, working capital, capital development for new projects, and catastrophic events. The adequacy of the reserves applicable to the projects funded by debt should be assessed every three years and the appropriate adjustments and changes should be made to account for changing conditions.

- v) Review Process for Alternative Financing Activities. For all transactions requiring review by the Trustees or the Office of the Chancellor, a review package will be developed. The review package documentation must clearly demonstrate significant benefits to the campus, benefits that would not be available if the SRB program were used. The review package must clearly describe the detailed structure of the proposed financing.
- (1) The applicable items in the list below may be included in the review package along with any other information deemed relevant or helpful for the reviewers.
- (a) The description of the roles and responsibilities of transaction participants;
 - (b) The summary of Project bids received in support of the level of financing proposed and a sources and uses of funds for the transaction;
 - (c) The financial plan showing how the debt will be repaid, and the campus contingency plan in the event that the Corporation is unable to meet the financial obligation;
 - (d) The involvement of expert legal, tax, and financial professionals in providing assistance with the financing;
 - (e) The legal basis for the issuance of the debt;
 - (f) The credit pledged to repay the debt, credit ratings, and arrangements for bond insurance;
 - (g) The status of the master plan, capital outlay, or other physical planning issues;
 - (h) A review of a ground lease, or changes in the Corporation’s written agreement to perform functions at the campus, or any other pertinent documents of the transaction;
 - (i) Any other facts or issues that may be pertinent to the transaction such as the type of facility and the type of services and resources that the campus community will gain from the new or improved facility; and
 - (j) For transactions involving refinancing plans, the objective of the plan and financial information indicating how the objectives will be achieved.
- (2) The following evaluation criteria will be considered in reviewing the proposed alternative financing structure:
- (a) The impact the proposed alternative financing structure would have on the CSU’s financial statements;
 - (b) The extent to which the financing will be counted as a use of the Trustees’ credit;
 - (c) The relative cost of the proposed alternative financing;
 - (d) The proposed use of financing techniques that involve greater repayment risk than are typically used in the SRB program; and
 - (e) Any other short-term or long-term impacts to the Trustees’ credit profile.

3) RELATED DOCUMENTS

- a) Title 5 California Code of Regulations Section 42500 (c)
- b) State University Bond Act
- c) SRB Master Resolution
- d) RFIN 03-02-02: CSU Policy for Financing Activities

- e) Executive Order No. 753: Allocation of Costs to Auxiliary Enterprises
- f) Executive Order No. 876: Financing and Debt Management Policy – Project Development and the Systemwide Revenue Bond Program