1. General Powers

   The University of Idaho, Idaho State University, Lewis-Clark State College, and Boise State University may incur debt, with or without the issuance of bonds, to be used for a “project” (as that term is defined in section 33-3802, Idaho Code). The Board shall act by formal resolution and by a majority roll call vote of all the members of the Board to approve the terms of any debt financing transaction. Such indebtedness is not an obligation of the state of Idaho but is an obligation solely of the respective institution and the institution’s respective board of trustees. For indebtedness of a major capital project, an institution shall first obtain approval in accordance with Board policy V.K. (for purposes of this subsection, a major capital project is one in which the project cost exceeds $1,000,000). Student fees, rentals, charges for the use of the projected facility, or other revenue may be pledged or otherwise encumbered to pay the indebtedness. Refunding bonds also may be issued.

2. Responsibility of the Chief Executive Officer

   The chief executive officer of the institution is responsible for compliance with state law and these provisions when any indebtedness is incurred.

3. Expenditure of Excess Revenue

   Bonds are issued to fund projects based on estimated costs. Projects rarely cost the exact amount anticipated and interest is earned on unspent bond proceeds, all of which may result in remaining unspent funds. When a project is completed, these unspent funds may be expended on other projects with the same tax status as the original issuance; provided however, that expenditure of said unspent funds for other projects requires prior Board approval.

4. Debt Policy

   Debt financing allows an institution to pay for a project over a period of time, not to exceed the project’s useful life, rather than pay for it entirely at the time of purchase. This is a financially responsible practice for certain types of capital projects within appropriate limitations and acceptable interest rates. Examples of debt financing include bonds, loans or capital leases. Debt capacity is a valuable tool for an institution and must be managed thoughtfully using a strategy which incorporates current and future financing needs.

a. Objectives
   i. To provide a guideline on the individual and collective total use of debt financing to support the capital needs of an institution governed by the Board while balancing institutional objectives with achieving the lowest overall cost of capital relative to current credit market terms and structure risk.
   ii. To provide a financial ratio with a specific target to ensure appropriate financial parameters that enable an institution to maintain access to capital markets through an acceptable credit rating as determined by a rating agency (Moody’s, Standard & Poor’s, or Fitch’s Investors Service).

b. Principles for Structuring Debt Financing
   i. An institution will consider its debt portfolio holistically so as to optimize the debt portfolio for the entire institution, rather than only on a project-by-project basis, while taking into account an institution’s cash and investments. An institution will manage the timing and overall level of debt to provide low-cost and timely access to the capital markets. An institution will balance the goal of achieving the lowest cost of capital with the goal of limiting exposure to interest rate risk, other financing and credit risks and on-going requirements.
   ii. A project can be considered for debt financing if there is an identifiable repayment source and, where required, an additional reserve fund or income from unrestricted resources to be used should intended repayment sources become unavailable.
   iii. Debt issuances should be consolidated by each institution to the extent it is advantageous so that multiple projects can be accommodated in a single borrowing to reduce overall issuance cost per dollar of debt issued.
   iv. Internal resource loans from unrestricted funds may be used for interim financing until long-term financing can be completed in compliance with IRS regulations.
   v. Institutions may issue fixed or variable rate debt financing instruments. Fixed rate debt provides more long-term interest rate stability than variable rate debt, and therefore will be the preferred financing instrument. However, variable rate debt may be appropriate where it can provide repayment/restructuring flexibility; benefit from historically lower average interest costs; diversify the debt portfolio; and/or provide a hedge to short-term investment balances.

      1) An institution shall evaluate the following three (3) key risk categories associated with a debt offering to finance capital projects when considering the choice between variable or fixed rate debt structures.

a) Rate Risk: the risk that short-term interest rates will increase beyond an institution's debt service provisions, thereby, taking resources away from the other competing programs or uses. Cost-effective interest rate hedge instruments should be considered to mitigate variable rate debt exposure.

b) Tax Risk: the risk that federal tax changes could raise the cost of variable rate debt.

c) Liquidity or Funding Risk: the possibility that buyers in the market would not be willing to buy the bonds sold by current investors during the regular remarketing schedule, causing either an institution or its letter of credit bank to need to purchase those bonds when presented for sale on the market. In addition, an institution considering variable rate debt will give consideration to renewal and repricing factors associated with any supporting letter of credit.

2) In order to limit exposure to interest rate risk, an institution's amount of variable rate debt outstanding shall not exceed twenty percent (20%) of an institution's total debt portfolio without prior Board approval.

vi. Institutions will actively consider current or advanced refunding opportunities of outstanding debt when:

1) The net present value savings are positive, or

2) The refunding will support a strategic need of an institution by providing an opportunity to change debt amortization, or eliminate unwanted covenants or tax regulation.

c. Debt Capacity Review

In an effort to meet the objectives of this policy, the Board has established a limit for overall debt using a debt burden ratio which measures an institution's dependence on debt as a fund source for financing its operations and the relative cost of debt to an institution's total expenditures. By maintaining an appropriate proportion of debt service to expenditures, other critical and strategic needs can be met as part of the expense base. The limit for this ratio is to be no greater than 8.0%. The ratio is expressed in the following equation:

$$\frac{\text{Actual Debt Service}}{\text{Annual Adjusted Expenses}} \leq 8\%$$

i. The numerator of this ratio includes: institution interest expense plus institution principal payments
ii. The denominator of this ratio includes: institution total operating expenses plus institution total non-operating expenses minus institution depreciation expense plus institution principal payments

d. Investor Disclosure and Continuing Disclosure Obligations
Each institution has an obligation under federal law to provide relevant and timely disclosure to bond investors of material events and other institutional information via the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) system.

e. Taxable Debt
Taxable debt is appropriate in instances where projects do not qualify for tax-exempt financing. Certain situations exist whereby the planned future use of the project may materially change to permit more federally funded research-based and/or commercial-related activities that potentially violate current tax-exempt financing laws, or when the taxable rate premium is offset by other cost savings. An institution shall perform an analysis to support determination that taxable debt is warranted.

f. Short-term or Interim Debt
An institution may enter into short-term borrowing agreements to provide interim financing for projects or portions of projects for which an institution ultimately intends to issue long-term debt. Short-term borrowing is subject to the same approvals, limits and ratio calculations as long-term debt.

g. Requesting Approval to Issue Debt
i. In addition to the preliminary official statement and bond resolution documents, an institution shall provide to the Board supporting documents including, but not limited to, rating agency rating report(s), debt service to budget graph, and a ten (10) year debt projection including all revenue assumptions.
ii. The debt burden ratio shall be calculated to show the effect of a new debt issue.

h. Post-Issuance Monitoring Report
Two years following a project purchase or completion for which debt was issued in whole or in part, the institution shall present, as an information item at a regularly scheduled meeting of the Board, a report on debt service revenue assumptions including, but not limited to, capital campaigns, gate or program revenue, and student tuition and fee revenue.

i. Financial Reporting

The executive director may adopt certain reporting requirements in the area of issuance of debt by institutions, and such reports shall be provided at a date specified and contain information as prescribed by the executive director.