

Florida Polytechnic University Board of Trustees Debt Management Policy

A. INTRODUCTION (Purpose and Intent)

Mission of the University

Florida Polytechnic University's mission is to serve students and industry through excellence in education, discovery, and application of engineering and applied sciences.

Purpose of the Policy

To fulfill its mission, the University will need to make strategic capital investments in its facilities that could affect the University's credit. Funding sources, including State funds (appropriations and debt), University debt, internal reserves and philanthropy will be utilized by management to achieve the University's strategic objectives. Debt, particularly tax-exempt debt, provides a low cost source of capital to fund investments and is viewed as a long-term component of liabilities.

The purpose of this document is to establish a policy for the University to use to evaluate the appropriate mix of funding sources, the capital funding structure, and the appropriate use of leverage (the "Policy").

B. STATEMENT OF POLICY

It is the policy of Florida Polytechnic University that debt financing conform to the authority granted by Florida and Federal laws and regulations, its Board of Trustees, and the Board of Governors' Debt Management Guidelines for Capital Outlay Projects revised March 23, 2021, and any subsequent revisions, and that the management of debt be conducted in such a manner as to promote the interests of the University.

This Policy will be implemented, reviewed, and monitored by the University Chief Financial Officer ("CFO"), the University Controller ("Controller"), and the designated financial officer of the appropriate DSO or Component Unit.

C. ENTITIES COVERED BY THIS POLICY

The Policy applies to all units within the University, to direct support organizations ("DSO"), to component units ("CU"), and to units for which the University is financially and legally accountable. DSOs are separate not-for-profit corporations organized and operated exclusively to assist the University in achieving its mission. CUs are organizations operated exclusively to assist the University achieve its mission. In accordance with Florida Statutes and Rules and University Regulations and Policies, these organizations receive, hold, invest and administer property and make expenditures to or for the benefit of the University.

All University, DSO, and CU debt financings, to the extent such debt financings are allowed by applicable law, require approval by the DSO and CU Boards, the University Board of Trustees, and the Florida Board of Governors, and such projects shall be managed by the University Chief Financial Officer or designated financial officer of the appropriate DSO and/or CU.

D. FINANCING OBJECTIVES

The financing objectives below, combined with the judgment of the University, and DSO and/or CU as appropriate, provide a framework for decisions regarding the use and management of debt. The objectives are subject to review and change over time.

1. Identify eligible capital projects for debt financing. Restricting debt to projects that are critical to the mission of the University will ensure that debt capacity is optimally utilized. Projects that relate to the strategic objectives of the University and projects which are self-funding with associated revenues will receive priority consideration.
2. Maintain favorable access to capital. Management will manage the timing and overall level of debt to ensure low-cost and timely access to the capital markets.
3. Limit risk within the debt portfolio. Management will balance the goal of achieving the lowest cost of capital with the goal of limiting exposure to interest rate risk and other financing and credit risks.
4. Manage credit to maintain the highest possible credit rating. Maintaining the highest possible credit rating will facilitate the issuance of debt at favorable cost. Outstanding debt will be limited to a level that will maintain acceptable credit ratings from the credit rating agencies. While maintaining or attaining a specific credit rating is not an objective of this Policy, the University Chief Financial Officer and University Controller will monitor the University's credit ratings and assess factors that might affect those ratings.

E. RESPONSIBILITIES

Pursuant to the delegated authority of the University President, the responsibility for implementing the Policy and its procedures lies with the University Chief Financial Officer. The University Chief Financial Officer may delegate debt management duties to other officers.

The Controller will provide direction for managing outstanding University debt and the respective financial officer of the DSO or CU will be responsible for managing the outstanding debt of the relevant organization. Debt management guidance, review, and recommendations will be provided by the University Chief Financial Officer and Controller.

F. DEBT MANAGEMENT STRATEGIES

To achieve its financing objectives above, the University will adopt the following debt management strategies and procedures. These strategies will be reviewed and modified by the University over time.

1. Funding Strategies

- (a) Only capital projects that relate to the mission of the University will be considered for debt financing.
- (b) Projects which are self-funding or can create budgetary savings will receive priority consideration.
- (c) The Chief Financial Officer will prioritize all projects put forward for funding.
- (d) Projects supported by a security pledge that meet debt service obligations and provide for operations will be considered.
- (e) Cash reserves, philanthropy, and other sources of legally available funds are expected to finance a portion of the cost for the University's or, as appropriate, the DSO's and/or CU's investment in facilities.
- (f) Debt is to be used sparingly and strategically.
- (g) The University, in the context of this Policy, will consider alternative financing arrangements when appropriate and advantageous to the University.

2. Debt Capacity Assessment

- (a) This Policy requires the assessment of University debt capacity using key financial ratios. These ratios should be consistent with those used in the capital markets and will constitute benchmarks for debt capacity. The ratios will be evaluated over the past several years and will be compared to appropriate industry medians at specific rating levels.

The following ratios, supplemented from time to time with other measures, will be calculated on a University-wide basis 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:

- Actual Debt Service Coverage (x)
Measures the actual margin of protection for annual debt service payments from annual operations.
The Sum of:
operating surplus (deficit)
plus depreciation expense
plus interest expense
Divided by total principal and interest expense.
- Actual Debt Service to Operations (%)
Measures the ability to pay debt service associated with all outstanding debt and the impact on the overall budget.
Actual annual debt service

Divided by total operating expenses.

- Operating Margin (%)

Measures the operating surplus on each dollar of operating revenue.

Operating surplus (deficit)

Divided by total operating revenue.

- Expendable Financial Resources to Direct Debt (x)

Measures coverage of direct debt by financial resources that are ultimately expendable.

The Sum of:

unrestricted net assets

plus restricted expendable net assets

plus foundation unrestricted / temporarily restricted net assets

less foundation net investment in plant

Divided by outstanding direct debt.

- Expendable Financial Resources to Operations (x)

Measures coverage of operating expense by financial resources that are ultimately expendable.

The Sum of:

unrestricted net assets

plus restricted expendable net assets

plus foundation unrestricted / temporarily restricted net assets

less foundation net investment in plant

Divided by total operating expense.

- (b) Target ratios or Policy limits may be established as part of this Policy. These targets or limits will vary depending on risk tolerance and strategic objectives.
- (c) The above ratios will be in addition to the required ratios defined in each financing document.

3. Debt Instruments

- (a) Tax-Exempt Debt. Tax-exempt debt is beneficial and efforts will be made to maximize the amount of tax-exempt debt outstanding under the Policy.
- (b) Taxable Debt. The University debt portfolio will be managed to minimize the amount of taxable debt outstanding. Taxable debt will be used to fund projects ineligible for tax-exempt financing.

4. Financing Structures

- (a) Funding risk is reduced by maintaining diverse sources for project financing in addition to debt, including gifts and donations, equity contributions and public-private partnerships.
- (b) Funding risk is also reduced by maintaining diverse sources of pledged revenues or security for the debt.

- (c) Consideration will be given to the credit quality of the proposed transaction and likely credit ratings, access to public or private capital markets, competitive or negotiated sales, credit enhancement, bond covenants, debt service reserves, whether funded by bond proceeds or cash balances, compliance and reporting requirements.

5. Variable Interest Rate Exposure

- (a) Due to the typically low interest rate cost of variable rate debt relative to fixed rate debt, it may be beneficial for the University to maintain a portion of outstanding debt in a variable rate mode.
- (b) Variable rate debt, however, introduces a number of significant risks: the potential volatility of debt service requirements, a risk that associated credit arrangements that expire prior to the maturity of the underlying debt may be difficult or costly to renew, financing arrangements that may include rating triggers or covenants that could accelerate debt repayment and collateral pledge requirements. Thus, the amount of variable rate debt not swapped to fixed rates will be limited as a portion of the total amount of outstanding University debt. Fixed rate debt will be the primary source of capital infrastructure financing.
- (c) The amount of variable rate debt will vary depending on liquidity constraints, capital market conditions and the level of interest rates.

6. Off-Balance Sheet Financing

- (a) Off-balance sheet financing may be considered by the University when it is desirable to work with a third party for risk sharing and for leasing.
- (b) The effect of such financing will be considered on the cost of capital, credit ratings and debt capacity, making the assumption that the financing is included on the balance sheet.
- (c) Off-balance sheet financing will conform to the Florida Board of Governors' Public-Private Partnership Guidelines, effective as of March 28, 2019, and any subsequent amendments thereto.

G. DEBT MANAGEMENT PRACTICES

1. Debt Administration

- (a) The University Chief Financial Officer, who may delegate duties to other officers, will be responsible for structuring new University transactions, managing project funds and developing repayment schedules from units. The designated financial officer of the appropriate DSO or CU will have similar responsibilities for the DSO or CU.
- (b) The University's outstanding debt will be managed by the Controller. The DSO's and CU's outstanding debt will be managed by the designated financial officer of the DSO and CU.

- (c) The Controller will review debt management practices and new transactions reported by the University, and the DSOs and CUs, at least on a quarterly basis with and will provide guidance and recommendations to the University Chief Financial Officer.
- (d) In circumstances where the University issues debt for capital projects benefiting multiple units, the Controller will pool the debt and allocate funds and financing costs for the various projects to the units on a consistent basis.
- (e) The University Chief Financial Officer will review proposals for new financed projects and rank them according to the foregoing University objectives and strategy.
- (f) The University Chief Financial Officer will review, at least annually, the University's debt capacity, repayment sources and other capital market, budget, and financing considerations.
- (g) The University Board of Trustees and the DSO and CU Boards, if applicable, must approve capital projects before issuing the debt.

2. Structure

- (a) To obtain the lowest possible financing costs, debt should be structured with the strongest possible authorized security.
- (b) Debt maturity structures will not exceed the useful life of the facilities financed.
- (c) Debt service should not exceed the expected revenues used to repay the debt at any time.
- (d) Call features should be structured to provide maximum flexibility relative to cost.

3. Methods of Sale

- (a) Negotiated or competitive debt transactions will be considered on a case-by-case basis.
- (b) Private placements will be considered for debt transactions where the size is too small or the structure is too complicated for public debt issuance.

4. Purchase of Insurance or Other Credit Enhancement

- (a) 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.

5. Selection of Underwriters and Advisors

- (a) A competitive selection process will be utilized to select senior and co-managing underwriters. This process will serve to select a group of lead underwriters for debt issuance for a specified period. The process will also be utilized to pre-qualify a roster of other firms for participation on the

underwriting team. A competitive or negotiated process will be utilized for any single issue.

- (b) Financial and legal advisors to the University and DSO's and CU's for debt issuance and management requirements will be selected from a request-for-proposal process from time to time to serve for a specified period. Advisors may be selected for any single issue utilizing a competitive or negotiated process.

6. Refunding Targets

- (a) Outstanding debt will be monitored for refunding opportunities.
- (b) As a guideline, refunding debt that produces a 5% or greater net present value will be considered.
- (c) Refunding outstanding debt will also be considered if the University benefits from eliminated restrictive covenants, payment obligations, reserve and/or security requirements or other obligations, or from consolidation into larger, more cost-effective transactions.

7. Communications

- (a) Communication and partnership with the Florida Board of Governor's Office ("Board Office") and the State Division of Bond Finance ("DBF") is crucial in the University managing its debt. As such, communication points between the University, the Board Office, and the DBF shall adhere to those established in the Board of Governors' Debt Management Guidelines for Capital Outlay Projects revised March 23, 2021, and any subsequent revisions.

H. Reporting to the Board of Trustees

The Controller will present an annual report to the Board of Trustees on debt issued and outstanding, the estimated University debt capacity, and the credit ratings. The designated financial officer of the DSO or CU will submit information as requested by the Controller for this annual report.

I. Reporting Subsequent Events and Amendments to the Board of Governors

The Controller will timely notify the Board of Governors and the Division of Bond Finance of any proposed changes in the terms or conditions of debt issued by the University or DSO. No material changes shall be made without specific Board authorization, which may include items such as, but not limited to:

- Extending maturities
- Changes in bond covenants
- Changes in pledged revenues
- Debt acceleration
- Cross default

- Changes to remedies provided to investors
- Variable rate refundings
- Other actions that may reduce debt service coverage or credit ratings
- Termination or modification of swap agreements
- Use of derivatives

J. ARBITRAGE AND INVESTMENT OF BOND PROCEEDS

Compliance with arbitrage requirements on invested tax-exempt bond funds will be maintained. Proceeds that are to be used to finance construction expenditures are excepted from the filing requirements, provided the proceeds are spent in accordance with requirements established by the IRS. Any arbitrage rebate liability should be calculated and funded annually.

K. DISCLOSURE

Primary and continuing disclosure requirements will be met in accordance with Rule 15c2-12 of the Securities and Exchange Commission (SEC), Florida Statutes or Rules, as applicable, and best practices including applicable policies, procedures, and guidelines. Financial reports, statistical data and descriptions of any material events will be submitted as required under outstanding bond indentures.

Adopted by the Florida Polytechnic University Board of Trustees on May 24, 2022.

Chair's signature:  _____