Stevens Institute of Technology

Institutional Debt Guidelines

May 2019

BACKGROUND

Stevens Institute of Technology ("Stevens" or the "University") is a premier, private, technological research University. In order to provide its students, faculty and staff with the resources and facilities to support Stevens educational and research missions, Stevens may require long-term debt financing from time to time.

GOAL

Stevens' goal in establishing debt guidelines is to frame current and future discussion on the use of debt to meet the University's mission and goals. This document attempts to articulate factors to consider in structuring any individual borrowing, potential limitations on the use of debt, a process that may be utilized prior to committing to any new borrowings, and an approach to managing existing debt.

The intent of these guidelines is to provide a useful framework that will remain relevant to Stevens in evaluating the use of debt in the future and not to forestall borrowing when appropriate or to attempt to predict all considerations of the University in the future. Circumstances may arise that warrant deviation from these guidelines.

PROCESS FOR ISSUING AND MONITORING DEBT

The Stevens Board of Trustees (the "Board") has final decision-making authority on all debt issuance, subject to the prior approval of the Finance Committee of the Board. The CFO, Vice President for Finance and Treasurer (the "CFO") is responsible for evaluating and recommending financings to the University's management team, Finance Committee and the full Board, including proposed financing structures.

Prior to any new financing, the CFO, in conjunction with other members of the management team, will review the purpose of the capital project(s) being financed, the fit with Stevens' Strategic Plan and mission, the impact of the project(s) on future operating performance and cash flows, and the impact of borrowing and capital spending on the income statement, balance sheet, and key financial ratios. Forecasting tools that assess the budgetary and audited financial statement impact of large capital projects and borrowings are likely to be important to the approval process, as well as expectations for the impact on Stevens' credit rating. Private business use considerations should be assessed in connection with determining the appropriate mix of tax-exempt and taxable debt. In consultation with the University's external financial advisor(s), an assessment of debt capacity and debt service affordability should be performed when evaluating the appropriateness of the size of the debt to be issued.

The primary components of the debt guidelines are expected to be reviewed periodically, as they provide an overview of the process and factors for consideration in utilizing debt. The CFO will provide periodic updates and reports to the Finance Committee on the University's debt portfolio, including key financial and credit metrics, rating updates and reports, compliance requirements, call dates, refinancing opportunities, expirations of any debt related agreements and other topics as needed. The frequency of the updates will be at the judgement of the CFO and Finance Committee but is initially expected to be approximately annually. During the annual review (or earlier, as may be necessary), the CFO or his/her representative will propose any actions for the Finance Committee and Board to consider related to the debt of the University.

Key financial and credit metrics that are monitored are expected to focus on both operating and balance sheet metrics and would likely include some form of benchmarking for each metric against peer organizations (i.e. competitive peers and/or other universities rated at similar credit rating levels). For example, operating metrics may include one or more of the following: 1) Debt service to operating expenses (%), 2) Debt to Cash Flow (x), and 3) Debt service coverage (x). Balance sheet metrics may include one or more of the following: 1) Expendable Financial Resources to Debt (x), 2) Cash and Investments to Debt (x), and 3) Debt to Net Assets (%).

Stevens' Strategic Plan includes a Liquidity Ratio goal (Goal I5) which must be considered in monitoring debt. The goal is for the Liquidity Ratio to be a minimum of 1.0 by 2022 (the equivalent of approximately three months of operating expenses, based on fiscal year end audited financial statements).

BASIC TENETS OF BORROWING

Stevens' capital needs will usually fall into several categories, including deferred maintenance and renovations (painting, new furniture, etc.), major capital renewal (new boilers/HVAC, gut renovations, upgrades, etc.) and new construction. In determining the sources of funds for a capital project, the University often may be choosing between using debt or using available cash flow and philanthropy. In evaluating the choice of funding alternatives, the University considers a variety of factors including the impact of borrowing on forecasted financial performance, the opportunity cost of preserving liquidity and cash reserves, the cost of financing, and the administrative burden of managing the debt portfolio.

Stevens' borrowings will typically:

- Be for major capital renewal or new construction and not to fund general operating costs, deferred maintenance or to leverage the investment portfolio. Under some circumstances, borrowing for short-term operating cash flow needs or to bridge pledge payments may be necessary. Normally, this is done by using the University's line of credit facility.

- Have a duration that generally matches the expected useful life of the project as allowed under federal tax regulations.
- Comply with all governmental requirements for the use of tax-exempt debt and with Stevens' own tax-exempt bond compliance policies and procedures. The availability of tax-exempt financing to Stevens carries a significant cost advantage, and access to tax-exempt financing should be managed carefully.

CREDIT RATINGS AND ACCESS TO CAPITAL MARKETS

The Board does not believe borrowing decisions should be driven solely by credit rating considerations. However, ensuring ongoing access to the capital markets is important to the financial flexibility of Stevens. Stevens' credit rating has improved in recent years and borrowing terms have improved, including eliminating the need for a mortgage and for financial covenants. Therefore, while a credit rating is not a sole determining factor in financing decisions, maintaining a rating comfortably above investment grade is important to financial flexibility. In its use of debt and management of its finances, Stevens will target a rating of at least "BBB/Baa2" and preferably in the "A/A" category over the long-term. The University currently has a single rating of "A-/stable" with Standard and Poor's.

STRUCTURE OF DEBT

Once Stevens has determined that new debt financing or a debt restructuring is appropriate, the University will consider the trade-offs between various financing vehicles and the cost of financing. The CFO will be responsible for assessing the variety of debt structures available to Stevens, in consultation with the Finance Committee and Stevens' financial advisor(s). The review of options should consider a wide array of factors, including carefully assessing the risk characteristics of each financing structure, the appropriateness of the vehicle for the University's financial position, and the type of financing best suited for a particular project. Stevens may consider the use of derivatives within the debt portfolio, with explicit approval of the Finance Committee and the Board required in order to enter into such agreements.

The primary trade-offs Stevens may face are between the risk associated with a financing structure and the cost of financing (generally the lower risk to the University, the higher the cost of financing).

- Risks to Consider:
    - Affordability of the project and assumptions underlying the repayment plan and how this coincides with the financing structure, including the need for flexibility to repay borrowings in advance of scheduled maturities
    - Potential for changes in short-term and long-term interest rates

- Length of commitment of lenders and issues related to this length of commitment not matching the financing term (e.g., the potential need to refinance at an undesirable time)
    - Financial strength of lenders and any potential vulnerabilities posed by the lenders to Stevens
    - Potential for changes in tax laws and impact on the University

- Cost:
    - Stevens may consider all available financing vehicles in order to achieve the lowest financing costs, although lower cost options typically carry additional risks.

Cost analysis would typically include reasonable estimates of one-time or recurring transaction costs and the potential for significant changes in costs against current and expected levels.

Debt is only one part of Stevens' overall financial profile. As part of managing the debt portfolio, Stevens will attempt to consider strategies to enhance its overall financial profile and/or reduce its risk profile by considering all aspects of Stevens' financial profile when making debt-related decisions (and vice-versa), including working capital management and investment of the endowment.

SCOPE OF GUIDELINES

These guidelines are intended to apply to any financial obligation that has similar characteristics as debt including bonds, notes, capital leases, operating leases, lines of credit and long-term purchase agreements, regardless of whether it is recognized as such in the audited financial statements. Accounting treatment of various financial transactions can change over time and the accounting treatment of a transaction at any given point in time should only be one consideration in a financing structure decision. The lack of recognition in the financial statements of a transaction would not, on its own, preclude Stevens from considering these debt guidelines in evaluating the transaction. For example, operating leases and public-private partnership arrangements are often viewed as alternatives to debt financing. However, they carry their own set of risk/reward tradeoffs which should be carefully reviewed and evaluated as part of these guidelines.

May 20, 2019 - Approved by Finance Committee