Wilkes University

Debt Policy

Last Updated: May 1, 2020

This Wilkes University Debt Policy (the "Policy") is intended to assist the University in managing its access to the capital markets and bank credit, minimizing its cost of capital, mitigating risks associated with its debt, and monitoring its debt capacity. The Policy includes guidelines for use by the University in connection with the issuance of debt, consideration of refinancing opportunities, utilization of hedging and other potential interest -rate management agreements, and consideration of relevant factors and risks when evaluating the long-term capital structure of the University. These factors include, among other things, the asset(s) to be financed, the University's debt capacity, the University's risk tolerance, the ratio of fixed and variable interest rate exposure in the debt portfolio, the amortization of debt, hedging strategies (if applicable), and the amount of taxable and tax-exempt debt to be incurred.

This Policy will be reviewed by the Finance Committee of the Board of Trustees no less than every two years.

General Guidelines.

The University will manage its debt structure in accordance with the following guidelines:

1. <u>Purpose and Approval</u>

- Debt will be incurred as a financial tool to enhance the University's resources, and consideration will be given to how proposed projects to be financed will further the mission and strategic goals of the University.

- Debt incurrence will generally occur as needed to fund capital projects and deferred maintenance, forward-fund annual capital expenditures, and extinguish existing debt. In assessing the possible uses of debt proceeds, all revenue sources will be considered, including (i) fundraising; (ii) project-generated revenues; (iii) federal and state grants, subsidies and low interest loans; (iv) expendable reserves; and (v) any other available sources.

- Any proposal for the incurrence of debt and/or derivatives will be reviewed and approved by the University's Finance & Support Operations Committee and, on recommendation from that Committee, approved by the University's Board of Trustees (the "Board").

- The Board may choose to delegate final approval of new debt terms and key structural considerations to the Sub-Committee of the Finance Committee and Finance Committee or other ad hoc committee and/or the Vice-President of Finance, in each case pursuant to parameters or other limitations approved by the Board.

2. Various Forms of Debt

- Long-term debt will be used for capital expenditures, including reimbursing the University for recent capital investment, or to refund prior long term debt. Long term debt will not be used to finance current operations.

- The University may utilize short-term bridge financing strategies when appropriate to fund capital requirements in anticipation of permanent funding. This type of financing should be limited in size unless the University has a binding commitment for permanent funding.

3. The University may consider various interest rate management agreements only to hedge debt and not for speculative purposes or as a source of operating revenue. Debt Capacity, Impact and Structure:

- The University's debt capacity will be governed primarily by its ability to support all incremental costs associated with such debt within the University's operating budget, including (i) debt service (principal and interest payments), (ii) recurring operating and maintenance costs of facilities (new or renovated), and (iii) asset purchases (other than made possible through financing). In evaluating specific projects, however, the University will consider anticipated future revenue, if any, to be generated by the project to be financed, and the related anticipated impact, if any, on the University's financial position. The University will only consider incremental additional debt if its additional bonds test (under its existing bond issues) will be achieved and if pro-forma debt service coverage, including any anticipated future maintenance costs or revenue, will be at least 1.10x.

- The University will seek to understand the potential impact on its credit rating(s) of any proposed change in its outstanding debt portfolio and will strive to maintain an investment grade rating by monitoring its pro-forma financial ratios relative to published medians. The decision to issue debt, however, shall be focused primarily on (i) the University's ability to fund debt service and (ii) the strategic importance of the capital project funded pursuant to the proposed financing. Such decision shall not be made exclusively on the potential impact of any project on the University's credit rating(s).

- The University shall strive to maintain reasonably level debt service amortization and avoid significant balloon indebtedness resulting in undue future refinancing or market access risk. Proposed debt amortization structures will take into consideration (i) the economic life of each asset financed, (ii) the University's curriculum and operational needs, (iii) future anticipated borrowing plans, (iv) projected cash flows, (v) future refinancing opportunities, (vi) fundraising plans, and (vii) strategies for optimizing market opportunities. The University will also evaluate the advantages and disadvantages of arrangements that provide for interest-only payments and for the capitalization of interest, particularly during the construction phase of financed projects.

- The University will maintain reasonable daily and weekly liquidity in excess of any outstanding debt that has a commensurate demand feature and/or acceleration provisions, which may include, but not be limited to, certain bank debt, variable rate demand bonds or other debt with similar optional or mandatory tender features.

Specific Guidelines

The University will follow the following guidelines with respect to specific debt features:

1. Financial, Reporting and Other Covenants. The University will undertake to provide timely and consistent financial and reporting covenants, including information concerning any security or other pledged collateral, for the benefit of all holders of University debt on a parity basis, except in cases when subordinated debt is expressly approved by the Board. The University will meet its continuing disclosure obligations required under its public bond issues as prescribed by a separate Continuing Disclosure Policy. The University will also maintain an "Investor Relations" section on its website, through which voluntary financial and other disclosures may be periodically posted.

2. Variable Rate Debt. It is acknowledged that a degree of exposure to variable interest rates within the University's overall long term debt portfolio may be desirable in order to (i) take advantage of repayment/restructuring flexibility, (ii) benefit from historically lower average interest costs, (iii) diversify the debt portfolio, and (iv) provide a natural hedge to short-term working capital balances. The University's actual amount of variable rate exposure at any given time will depend on market conditions, availability of other available permanent funding or financing, and the type of facility to be financed.

3. Refinancing & Restructuring of Debt. The University will review all outstanding debt on an annual basis to determine if refinancing opportunities exist. Refinancing or restructuring of current debt (within federal tax law constraints) may be used to reduce the University's debt service obligations or to modify covenants to provide an advantage to the University's financial position. Generally, the University will consider refinancing or restructuring whenever a current or advanced refunding of existing debt offers the opportunity for savings, on a net present value basis, of at least three percent (3.0%) of the par amount refunded. Lesser savings may be justified in the case of other compelling institutional objectives, and may be influenced by another need to issue debt (i.e. lowering the cost of issuance for the refunding), call options on existing debt, an analysis of interest rate trends, and/or an interest in modifying existing financing covenants. In any advance refunding, the estimated amount of negative arbitrage will be considered relative to the estimated amount of net present value savings.

4. Bank Debt. The University's use of bank loans as a form of short or long term indebtedness will be determined based on economic benefits, market factors at the time of issuance, market access, interest rates, prepayment terms, defaults and remedies available to all debt holders, and financial and reporting covenant requirements. All terms and covenants imposed on the University by banks should be consistent with market conventions and those accepted by peer institutions and should not serve to subordinate the rights of other holders of University debt. Additional debt tests, financial covenants, events of default,

remedies, and notification/cure periods should not substantially limit the University's financial flexibility or present undue acceleration risk and should otherwise be generally consistent with similar existing covenants and terms, if any. Any new bank facilities should include provisions related to changes to pricing due to tax reform and will provide fallback language related to the sunsetting of LIBOR as an index, if such facility prices from the LIBOR index.

Credit Enhancement. The University's use of credit enhancement, including bond insurance and letters of credit, will be determined based on economic benefits, market factors at the time of issuance, market access, interest rates, prepayment terms, defaults and remedies available to all debt holders, and financial and reporting covenant requirements. Terms and covenants imposed on the University by credit enhancers should be consistent with market conventions and similar terms accepted by peer institutions. Additional debt tests, financial covenants, and events of default and remedies imposed solely from the use of credit enhancement should not substantially limit the University's financial flexibility and should be generally consistent with similar existing covenants and terms, if any. Interest Rate Hedging. The University's use of interest rate management agreements as a hedging strategy will be determined based on inherent risks relative to economic benefits, market factors at the time of issuance, market access, interest rates, prepayment terms, defaults and remedies available to all debt holders, and financial and reporting covenant requirements. Careful consideration will be given to, among other things, (i) counterparty risk, (ii) interest rate risk, (iii) termination risk and expense, (iv) basis risk, (v) market conditions, (vi) financial covenants and (vii) events of default and remedies, none of which should substantially expose the University to undue risk or limit the University's financial flexibility. The University will attempt to mitigate risk by structuring any interest rate derivative to mirror the underlying debt being hedged, including matching the variable rate index to mitigate basis risk and/or matching the amortization schedule. The University will look to integrate swaps to the underlying tax exempt debt whenever possible, to enable the tax-exempt refinancing of termination payments. Additionally, such transactions shall not serve to subordinate the rights of holders of University debt.

5. Taxable & Tax-Exempt Debt. As an organization described in Section 501(c)(3) of the Internal Revenue Code, the University is permitted to issue tax-exempt debt through an authorized financing conduit. The federal and state laws and regulations permit the University to issue tax-exempt bonds for qualifying projects. Projects financed through the use of tax-exempt debt must satisfy a number of requirements imposed by federal law. If a project does not qualify for tax-exempt financing, the University may need to issue taxable debt. The University will seek to limit its use of taxable debt to those situations in which the use of tax-exempt debt is not legal, unfeasible, or the size of the borrowing or spreads between taxable and tax-exempt rates do not warrant the University undertaking the requirements imposed by federal law on tax-exempt financings. In these cases, the University will consider whether it should amortize the taxable debt before its tax exempt debt, to reduce its overall cost of capital.