its mission and strategic objectives. Loyola may utilize ng to pay for costs associated with acquisition and construction of capital iquidity and cash flow requirements. This Debt Policy sets forth guidelines d administration of debt, the issuance of which is subject to review by the ittee and approval of the University's Board of Trustees.

d Oversight

cial Officer is responsible for management of the University's debt portfolio cy and consistent with other applicable University polices and board debt-related matters and any oversight or reporting requirements in this the Chief Financial Officer to the University's Treasurer. Prior to the all short and long-term obligations, guarantees, and other material debt liquidity lines of credit), the Chief Financial Officer will present the nance Committee and seek its recommendation for approval by the Board

or the Treasurer will report at least annually to the Finance Committee on debt portfolio and on any plans regarding debt. This review will include, sment of the University's maintenance of certain credit metrics consistent lit rating. (Exhibit I)

se of Debt

by the Board of Trustees:

ncur long-term debt for general corporate purposes, which include those ne corporate mission, including to acquire and construct capital assets.

cumstances, short-term debt may be issued to finance cash flow or other may also fund capital projects expected to be refinanced with long-term for such a refinancing is approved at the time of the short-term financing.

urred unless projected debt service requirements (principal and interest ny net swap payments) and operating costs associated with any new capital d by the debt can be accommodated within the University's future operating

There is a high correlation between an institution's credit rating and its cost of borrowing. This Debt Policy assumes an objective to maintain long-term bond ratings in an investment grade category.

## E. Projects That May be Considered for Debt Financing

The University will utilize long-term debt financing generally for capital projects, unless otherwise approved by the Board. In general, this will include:

- Capital projects where it is unlikely that sufficient donor funding for the project will be secured.
- Capital projects where all or the majority of the project is to be funded through gifts and contributions; however, the timing of payment of those gifts and pledges may not match cashflows during or that extend beyond the construction period.
- Capital projects which are projected to generate sufficient cash flow to cover operating expenses that substantively cover the full costs of debt service.

## F. Other Considerations Regarding the Use of Debt

1. Term of Debt

The University will determine the appropriate final maturity and the specific amortization schedule of a proposed debt issue by evaluating its overall debt portfolio. Considerations will include the life of the assets being financed, interest rate costs, risk assessment, general market conditions, and the University's future financial plans. The University has a practice whereby principal is funded by a general asset reserve over the life of the debt issuance to assure that the principal payments will not duly impact the operations of any one fiscal year. It is the University's intentions to continue to fund principal through this asset reserve in compliance with this debt policy.

2. Refinancing and Restructuring of Debt

The Chief Financial Officer and the University's licensed financial advisor, in consultation with the University's external financing partner, will periodically review all outstanding debt to determine if refinancing opportunities exist. Refinancing or restructuring of current debt may be done to benefit the University's financial, operational, or strategic position.

3. Use of Tax-Exempt versus Taxable Debt

In determining whether to use tax-exempt or taxable debt for a given capital project, the University should analyze both alternatives. Considerations in this analysis may include the following:

- Tax law limitations on use of tax-exempt financing.
- Rate, costs, and speed of issuance.
- Market conditions.
- Project use and operating flexibility.

4. Use of Call Options

The University will consider the use of call options to provide flexibility in its debt portfolio. In considering the use of non-callable bonds, bonds with substantive call penalties, or make whole calls, the University

- Variable rate borrowing levels can trend in the same direction as market-wide interest rate indices, such as Fed Funds or SOFR.

Risks of publicly issued variable rate debt include:

- Interest rate risk: Rate resets are subject to market forces and may increase borrowing cost over the budgeted rate or the rate of fixed rate debt.
- Put risk: Traditional variable rate debt is puttable in daily/weekly reset modes – the University must have enough available liquidity (required to demonstrate this to rating agencies) to fund the investor put option. This can be in the form of internal liquidity or externally purchased liquidity from a bank provider.
- Bank risk (pricing). If external liquidity is purchased from a bank to support the bonds to provide liquidity support for the put feature on any variable bonds, the University is exposed to price changes at the end of each term of the liquidity support.
- Bank risk (credit risk). If external liquidity is purchased from a bank to support the liquidity requirement, the bonds are exposed to credit risk of the bank (an outside party). Any material credit risk to banks (e.g. downgrades) will expose the University's bonds to potential changes in rate, thus leading to interest rate risk.
- Remarketing risk. The risk that bonds cannot be placed to investors at any acceptable rate.

Likewise, fixed rate debt provides a different set of advantages and considerations for the University. Fixed rate is known as the most conservative form of debt that ensures a known debt service obligation for the University, which can assist management in planning and budgeting. In low interest rate environments, fixed rate debt can provide financing at relatively low cost for extended periods of time with all future risks transferred to investors at the time of bond sale. Considerations of fixed rate debt are the higher yields in the fixed rate market and less call flexibility compared to publicly-placed variable rate debt (fixed rate d(l)-6 (ac6 (e m)-Tw 2.34 0 (d)2 (e)6 (-4 (3)1g)(J Tf)

- Reduce risk, including:
  - Interest rate risk
  - Tax risk
  - Liquidity renewal risk
- Provide greater financial flexibility.
- Generate interest rate savings.
- Manage exposure to changing markets in advance of anticipated debt issuances (through the use of anticipatory hedging instruments).

Among others, the University may utilize the following financial instruments on a current or forward basis, after identifying the objective(s) to be realized and assessing the risks.

- Interest rate swaps, including fixed, floating and/or basis swaps.
- Interest rate caps/floors/collars.
- Options, including swaptions, caps, floors, collars, and/or cancellation or index-based features.

This list is not intended to be a limitation on other derivative instruments that the University may consider and use. A longer discussion of swaps and derivatives, as well as their advantages and disadvantages, can be found in the University's Interest Rate Swap Policy.

3. <u>Authorization</u>

The Chief Financial Officer xtd[xtd[()]TJ0 T9i42y .(T)-3)4 (nd deh4 (r)3 (s)-1 (i)0078Tj/TT2 1 T2 Tw 6.11 0 Tc

- Financing the project will allow the University to meet existing and the proposed financial covenants in loan and bond agreements;
- Net revenues produced by the project are sufficient on their own to cover debt service; or
- If the project does not on its own support its related debt service, it can be demonstrated that projected University-wide cash flow available for debt service is sufficient to cover incremental debt service, while meeting the financial metrics consistent with an investment grade rated institution.

Where the University identifies a capital project to be funded through the issuance of long-term debt and is supported by revenues to be generated by the new project, the projected revenues will flow through the operating budget.-

- A list of upcoming decision points associated with the debt portfolio.

Approved by the Finance Committee on 12/11/2024.

Additional References:
- Interest Rate Swap Policy
- Tax-Exempt Bond Post-Issuance Compliance Policy

EXHIBIT I

# EXHIBIT II

## Financial Covenant

Debt Service Coverage
Calculation as of June 30, 2023

| | | FY 2023 |
|---|---|---|
| Revenues[1] | $ | 655,589 |
| Expenses[2] | $ | 634,884 |
| Operating Income | $ | 20,705 |
| plus | | |
| Depreciation & Amortization | $ | 57,893 |
| Interest Expense | $ | 8,786 |
| Income Available for Debt Service | $ | 87,384 |
| | | |
| Capitalized Lease Obligations (FY 22 Audit) | $ | - |
| Scheduled Maturities of Debt (FY 22 Audit) | $ | 11,153 |
| Interest Expense (FY 23 Audit) | $ | 8,786 |
| Debt Service Requirements[3] | $ | 19,939 |
| | | |
| Debt Service Coverage Ratio[4] | | 4.38 |

[1] Defined as, for any period, (a) for the Borrower, the sum of (i) tuition and fees, net of scholarships, plus (ii) all other revenues classified as "Operating Revenues" in or derived from the audited financial statements of the Borrower and (iii) excluding all non-operating revenues, income derived from the sale of assets not in the ordinary course of business or any gain from the extinguishment of debt or other extraordinary item, or earnings which constitute Escrowed Interest or earnings on amounts which are irrevocably deposited in escrow to pay the principal of or interest on Indebtedness and (b) in the case of any other Person, gross revenues less sale discounts and sale returns and allowance, as determined in accordance with GAAP; but (c) excluding in any event, (i) any realized or unrealized gains or losses resulting from changes in the value of investment securities, and (ii) any gains on the sale or other disposition of fixed or capital assets not in the ordinary course; provided, however, that if such calculation is being made with respect to the Borrower and any Affiliate, such calculation shall be made in such a manner so as to exclude any