APPROVAL OF A REVISED COLLEGE DEBT MANAGEMENT POLICY

RESOLUTION NUMBER 2009-20

WHEREAS, the Trustees of Ivy Tech Community College are authorized and empowered to establish written policies for the issuance and maintenance of debt, and

WHEREAS, the College's existing debt management policy has served as a guide for College borrowing since 1997, and

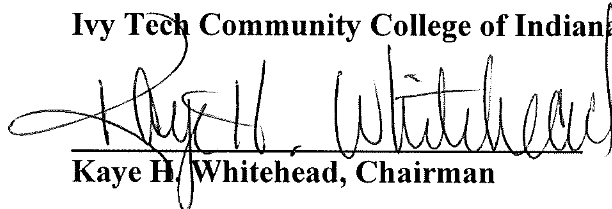
WHEREAS, revisions have been identified that will improve the policy, and

WHEREAS, the Vice President for Finance and Treasurer of the College has presented a revised Debt Management Policy to the Budget and Finance Committee of the Board, and

WHEREAS, the Budget and Finance Committee has reviewed the plan and recommends approval;

NOW THEREFORE BE IT RESOLVED, that the Debt Management Policy attached hereto, is adopted.

State Trustees
Ivy Tech Community College of Indiana



Kaye H. Whitehead, Chairman

William F. Morris, Assistant Secretary

Dated June 11, 2009

Ivy Tech Community College of Indiana **Attachment 1**
Debt Management Policy

Introduction

A policy for debt management serves as a practical guide in the decision making process for the issuance and maintenance of debt. This Debt Management Policy governs the borrowing of funds (through either the issuance of fixed or variable rate obligations or from bank loans) that are payable from, guaranteed by or otherwise supported by College resources.

This Policy will remain in effect until modified by the State Board of Trustees for the College as conditions warrant. The Vice President for Finance and Treasurer will recommend periodic revisions whenever the existing policy impedes meeting the College's borrowing objectives or to accommodate periodic changes in such objectives.

Borrowing Objectives

The primary objective of borrowing is to prudently fund College projects that will advance the College's strategic initiatives. Secondary objectives of borrowing include minimizing the College's cost of capital over an issuance horizon of multiple interest rate cycles, and maintaining or enhancing the College's high credit ratings.

Authorizations

The College derives its borrowing authority from the State of Indiana through State laws and through approvals from State authorities, including the State Board of Trustees, the Indiana General Assembly, the Indiana Commission for Higher Education, the Indiana State Budget Agency, the Indiana Finance Authority and the Governor of Indiana. In addition, Federal law provides for the tax-exempt status of debt financing in certain cases. Debt financing will be pursued only after all necessary internal and external project and financing approvals are received.

Bank Loans

When incurring debt, the College will attempt to consolidate project financings into one debt offering of sufficient size to provide the lowest cost of capital. When such consolidation is not feasible, a smaller debt offering size will generate proportionately higher debt issuance costs because many debt issuance costs are fixed. In such cases, bank loans may be utilized as an alternative to keep the cost of capital as low as possible.

Bank loans will have interest rates that are tied to a variety of indexes or are fixed for up to a five year period in order to provide interest rate diversification. In addition, every effort will be made to eliminate early demand provisions on bank loans, and to seek a line of credit, if economical, to provide further security. The College will schedule regular amortization payments on bank loans, negotiate prepayment provisions in loan agreements, and seek to amortize or repay loans in 20 years or less.

The College will regularly monitor any changes to economic conditions or State policy that may impact the advantages of such debt.

Debt Issuance – Structural Choices

The structural choices for debt issuance are many, and are guided by the needs of the College, market conditions, and the desire to reduce the "all-in" long-term cost of capital. Although lowest cost can never be absolutely determined at issuance (as it depends on the future level of interest rates), several structural choices can be made to increase the likelihood that low cost will be achieved over multiple interest rate cycles.

Fixed vs. Variable Rate Financing. Variable rate debt can provide a lower cost of capital, but introduces volatility to the debt service of the College. Historically, the average interest cost on tax-exempt fixed rate debt has been higher than the average cost on tax-exempt variable rate debt. However, given that there is a limited amount of variable rate debt that can be issued versus fixed rate, the goal is to issue fixed rate debt when long-term interest rates are at a relatively low point in the interest rate cycle and to preserve the capacity to issue variable rate debt for when long-term rates are relatively high.

The College intends to target the use of variable rate debt where the expected debt service savings will directly benefit the College and/or the State and on issues where the interest rate risk can be actively managed. To limit this risk, variable rate debt will constitute no more than 20% of the overall debt outstanding. Also, College cash and cash equivalents invested at a variable rate may serve as a hedge for some of the interest rate volatility produced by variable rate debt. Variable rate debt may be issued as bank loans (described in Section B. above) or as variable rate demand bonds ("VRDBs") or notes ("VRDNs"). Variable rate debt may not be issued as "auction rate" securities or the equivalent.

Term of Borrowing. For capital projects, the term for the amortization of the debt will be based on the type of project, the cash flows dedicated to paying the debt service, State of Indiana guidance, tax regulations, and market conditions. The term of the amortization should not exceed the useful life of the asset. In addition, longer amortization structures are preferred when long-term interest rates are relatively low or the yield curve is relatively flat. Accelerated amortizations should be considered when the yield curve is steep and earlier maturities can provide significant interest cost savings.

The choice between premium, par and discount bonds, as well as call versus non-call, can also have a significant impact on the interest cost of a fixed rate financing and resulting debt service to maturity. These choices depend primarily upon weighing the trade-offs between particular structures with the objective of minimizing the cost of capital over time.

Unless allowed by State authorities, the College will utilize a maximum amortization of 20 years. When issuing fixed rate bonds, the College will strive to keep maturities as short as possible within State fee replacement appropriations in order to minimize interest costs.

Third-Party Credit or Liquidity. In some market environments, the use of bond insurance (for fixed-rate issues) or liquidity and letter of credit facilities (for variable rate issues) can lower interest costs. These decisions depend on the trade-off between the cost of these enhancements and the lower yield achievable with their use. The use of bond insurance on fixed rate financings should be considered on an issue by issue, and in some cases, a maturity by maturity basis. In addition, the likelihood that the new issue may be called in advance of maturity should be taken

into account when measuring this trade-off. Credit enhancement for variable rate financings should only be acquired on a "pay-as-you-go" basis, as opposed to an up-front premium. A liquidity facility will likely be required for the issuance of VRDBs or VRDNs, unless the College provides self-liquidity.

Special Case: Refundings. Refunding currently outstanding bonds represents an additional means for the College to reduce its cost of capital. The opportunity to generate refunding savings generally depends on five factors: Callability, Rate Reduction, Time Beyond Call, Call Premium, and Escrow Efficiency. When these factors are favorably aligned, a refunding will be most beneficial to the College.

The College will regularly monitor interest rates in the market to determine which issues can be refinanced to reduce debt service costs. The decision to refinance a bond issue will be based on the net present value savings or any structural changes achieved by the refinancing. Generally, a net present value savings of 3% of the callable refunded bonds will be used as a preferred savings threshold; however, other considerations could raise or reduce this threshold. Such considerations include: 1) the remaining time to the first call date, 2) the sensitivity of refunding savings to changes in interest rate, and 3) the extent that negative arbitrage is incurred. Current refundings of issues that are within 90 days of their first call date, or thereafter, may have lower thresholds and should be completed at the earliest opportunity. Advance refundings of issues that are more than 90 days from their first call date may have higher thresholds depending upon the length of time, or window of opportunity, until the first call date. Since an outstanding tax-exempt issue can only be advance refunded once, the College must weigh the current savings opportunity against potential future savings opportunities. Advance refundings that incur significant negative arbitrage should be undertaken cautiously and only at savings levels much higher than 3%. Any time that the College issues debt for new project purposes, it should consider and evaluate its refunding opportunities in order to economize on its fixed costs of issuance.

Debt Issuance - Process

The debt issuance process is designed to ensure that the borrowing objectives of the College are met. For negotiated financings, a Request-for-Proposal process will be followed to choose an underwriting team that is most suited to the College's projected financing needs, and that is well positioned to offer the lowest interest costs. Due to the ongoing nature of debt issuance this RFP selection process will normally occur every 3 to 5 years, with the selected team available during that time to provide underwriting services to the College.

The College's debt issuance can also be accomplished through a competitive sale, if deemed to be in the best interests of the College. For a competitive sale, the College or its financial advisor will prepare the official statement and notice of sale and will coordinate the bidding and award of the debt. For either a negotiated or a competitive sale, market conditions may influence the timing of the sale.

General Timeline. A general timeline for a new debt offering by the College - from project concept through debt issuance - is listed below. Because each debt offering is in many ways unique, in some cases factors may be added to or subtracted from this list, or occur in a slightly different order.

1. Purpose supports College strategic initiatives and has high priority
2. Purpose/issuance is permissible under law, tax status determined
3. Internal approval is granted
4. External approval is granted
5. Major structural issues raised and resolved
6. Underwriting team engaged
7. Interest rate environment evaluated
8. Minor structural issues raised and resolved
9. Bonds offered for sale
10. Sale completed
11. Issue is closed and proceeds available
12. Investment of proceeds

Credit Rating & Debt Capacity

The College will limit its total indebtedness in order to maintain high quality credit ratings on its outstanding debt. Key financial ratios that are directionally correlated with credit rating level will be monitored to ensure adherence to this objective. These key ratios and other credit factors are listed below with brief explanation for each:

(i) *Unrestricted Resources to Debt:* Unrestricted Net Assets/Outstanding Debt

(ii) *Expendable Resources to Debt:* Unrestricted Net Assets, plus Restricted Expendable Net Assets, plus Foundation Unrestricted and Restricted Expendable Net Assets (less Foundation Net Investment in Plant)/Outstanding Debt

(iii) *Total Resources to Debt:* Expendable Resources (defined above), plus Restricted Non-Expendable Net Assets of the College and Foundation/Outstanding Debt

(iv) *Debt Service to Operations:* Annual debt service/Total Operating Expenses (less scholarships & fellowships), plus Interest Expense

(v) *Operating Margin:* Total Revenue less Total Expenses/Total Revenue

(vi) *Enrollment Trends:* Growth in FTE, Part-Time vs. Full-Time, Retention, and Affordability

In order to maintain its high credit ratings, the College will need to prioritize potential debt financed projects and carefully allocate this resource toward the highest priority projects. The College will periodically assess its debt capacity by comparing its key financial ratios with industry medians and with peer institutions.

Continuing Disclosure and Reporting

The College will prepare an annual continuing disclosure report of updated financial information, debt service schedules, operating data and student statistics that have been previously disclosed in the College's official statements for outstanding financings that are subject to disclosure requirements under SEC Rule 15c2-12 (the "Rule") or other regulations. The College will also disclose any "material events", as defined in the Rule, that may occur between annual disclosure reports. In addition, the College will comply with arbitrage