UNIVERSITY SYSTEM of MARYLAND

VIII-12.00 – Policy on Debt Management

(Approved by the Board of Regents April 7, 1995; Amended on April 20, 2018; June 13, 2025)

A. Introduction

The University System of Maryland (USM) recognizes the importance of responsible debt management to support its mission of advancing education, research, and community service. This Debt Management Policy outlines the principles, responsibilities, and guidelines for managing debt efficiently and prudently to support the financial stability and long-term success of the institutions within the USM.

B. Objectives

The objectives of this policy are to:

1. Ensure responsible management of debt to support the USM's mission.
2. Maintain a credit rating of AA+/Aa1 to ensure favorable borrowing terms.
3. Align debt management with the USM's long-term strategic goals.
4. Enhance transparency and accountability in debt issuance and management.

C. Debt Management Principles

1. Strategic Alignment

Debt issuance and management must align with the strategic priorities of the USM and its constituent institutions, promoting their long-term success and sustainability.

2. Prudent Borrowing

Debt must be incurred only when necessary and when it is in the USM's best interest, considering both current and future financial capacity.

3. Creditworthiness

The USM will maintain strong creditworthiness through sound financial practices, fiscal responsibility, and transparent financial reporting.

4. Risk Management

Proactive measures must be taken to identify, evaluate, and manage financial risks associated with debt, including interest rate, liquidity, and credit risks.

5. Transparency and Accountability

All debt-related activities and decisions will be transparent, and accountability for those decisions will be clearly defined.

D. Responsibilities

1. Board of Regents

The USM issues debt in accordance with Maryland Education Code § 19-102. The USM Board of Regents holds the ultimate responsibility for approving debt issuances and overseeing debt management practices. It will ensure that debt management aligns with the USM's strategic goals and fiscal responsibilities. The Board of Regents approves each project to be financed using the proceeds of USM Revenue Bonds through a bond resolution. Authority to spend and/or the authority to issue debt for a specific project will expire five years after the date of the authorizing resolution. Authority to spend may be extended by the Chancellor, or his designee, under special circumstances.

2. Office of the Chancellor

The Chancellor maintains authority to recommend any debt or debt-like arrangements to the Board of Regents and must be fully informed of any such arrangements prior to presentation to Regents.

The Chancellor designates authority to the Vice Chancellor for Administration and Finance (“VCAF”) of the USM to oversee debt management operations, including developing and executing debt issuance strategies, ensuring compliance with state and federal regulations, and monitoring debt service payments.

The VCAF will review the debt ratios and comparison of key credit metrics reported by other public higher education institutions in the same bond rating category, annually. The Vice Chancellor for Administration and Finance will display the status of actual USM financial metrics relative to the limits and standards of this Board of Regents policy, as well as a comparison of similar ratios based on publicly available financial statements for other public higher education institutions, on its website.

The VCAF, or designee, shall assess the impact of the following types of proposed transactions on System financial health when total consideration, including options/extensions, is $1 million or more:

a. Leases of real property
b. Ground Leases
c. Public Private Partnerships
d. Development/Pre-Development Agreements
e. Conduit Debt Obligations
f. Lease/leaseback and sale/leaseback arrangements.
g. Bondable or Credit Lease Structure
h. Indirect Subsidies of Third-Party Debt (including master leases and contingent leases)
i. Subscription Based Information Technology Agreements
j. Financing arrangements involving Availability Payments
k. Power Purchase Agreements
l. Lines of Credit
m. Subordination of expenses

n. Certificates of Participation

o. Federal and State Loans

p. Any other financial relationship not identified above between the USM and/or its constituent institutions and an external entity involving contracts, subscriptions, facilities or property.

The System will not issue bonds or other forms of debt to support the above listed financing arrangements. The transactions listed above will also be subject to any other applicable Board Policies for review.

3. USM Office

The USM Office of Administration and Finance is to be involved in any financing transaction as early as reasonably possible but must be fully briefed and involved before any legal or verbal commitment is made by an institution and before any letter of intent, memorandum of understanding or legal documents are prepared. Refer to specific procedure documents for detailed processes.

4. Institutional Leadership

Each constituent institution within the USM will be responsible for managing its own finances and seeking approval for capital projects in accordance with the System Funded Capital Program ("SFCP") and State Capital Improvement Plan ("CIP"). Any debt, lease or subscription agreements must be entered into in accordance with this policy.

5. Office of the Attorney General

The Office of the Attorney General must be consulted before any verbal or legal commitments are made to ensure compliance with all laws and to confirm all necessary documents meet proper form and legal sufficiency requirements.

E. Debt Issuance Guidelines

1. Debt issuances will be made through competitive processes whenever feasible, to obtain the most favorable borrowing terms.

2. The USM will maintain its debt portfolio in compliance with relevant State laws.

3. Debt issuances will be monitored to evaluate opportunities for refinancing when advantageous and to ensure compliance with covenants. Refinancing transactions shall be subject to the provisions of this policy.

4. The use of a non-appropriation clause does not affect whether a commitment or obligation is considered debt.

5. All debt issuances and terms will be disclosed and reported in accordance with state and federal regulations.

6. The USM will comply with all Post-Issuance Compliance in accordance with the federal tax code, including but not limited to private business use of bond funded projects and records management and reporting guidelines.

See Appendix A for Debt Management Practices

F. Financing Commitments (Replacement for Board of Regents Policy VIII–8.00—Policy on Financing Commitments).

1. Financing commitments of $5 million or more, and financing commitments which stipulate prior approval of the Board of Regents shall be approved by the Board. Refer to the Policy on the Capital Budget of the University System of Maryland, VIII-10.20.

2. The Board delegates to the Chancellor the authority to approve all financing commitments which do not require Board approval.

3. Except as provided in paragraph D. 2, the Chancellor has authority to approve financings up to $5 million, and may delegate to the Presidents the authority to approve financings of less than $50,000.

4. Any financing commitments involving pledges of tuition, auxiliary enterprise revenues, or student fees require approval of the Chancellor, or designee.

APPENDIX A

Debt Management Practices

Structure and Maturity
The USM will issue bonds to finance capital projects under the provisions of trust indentures approved by the Board of Regents.

The System will employ maturity structures that correspond to the life of the facilities financed, are complementary to the overall portfolio structure and subject to limitations imposed by the State. As market dynamics change, maturity structures should be reevaluated. Call features should be structured to provide the highest degree of flexibility relative to cost.

Variable rate debt sometimes offers a lower cost of capital, but introduces additional risks. To limit this risk, variable rate debt at the time of issuance will be no more than 25% of the overall USM debt outstanding. Variable rate exposure includes exposure achieved directly through variable rate debt issuance and indirectly by entering into an interest rate swap agreement. Any deviations from traditional fixed rate debt issuances must be reviewed by the Chancellor, or designee, and by the Board of Regents for financings greater than $5 million.

Direct Debt is the preferred financing method. If Direct Debt financing is not feasible, or Indirect Debt financing offers significant benefit to the System, Indirect Debt may be pursued. USM Indirect Debt shall not exceed 50% of USM Direct Debt at the time of issuance.

Refunding Targets
The USM will continuously monitor its outstanding debt portfolio for refunding and/or restructuring opportunities. In analyzing possible refunding opportunities, the University will consider the net present value savings as a percentage of refunded debt as well as the potential cash flow savings from the refunding. In general, the USM will consider refinancing (within Federal tax constraints) when a current or advanced refunding of debt provides a net present value debt service savings of the refunded par amount of the bonds.

The System also will consider refinancing certain obligations within a new money offering, even if savings levels are minimal, in order to reduce the administrative burden and cost of managing many small outstanding obligations.

Financial Health Benchmarks
In evaluating a future debt issuance, the USM will compare its financial profile to those of peer medians of their rating category, for each rating agency Aa1/AA+. The USM recognizes that the financial ratios are one component of the overall credit profile, and that state funding, demand, and other industry dynamics could affect the way in which the rating agencies assess the credit rating of a public higher education institution. The financial ratios, median and peer comparisons will be presented to the Board of Regents on an annual basis.

1. Debt service associated with USM direct debt at the time of issuance may not exceed 4.0% of USM operating revenues plus State Appropriations as defined by Generally Accepted Accounting Principles (GAAP), calculated using the most recent audited financial statements, using principal and interest payments reported on the Statement of Cash Flows, adjusted for any principal paid associated with refinanced debt, and divided into total operating revenues plus state appropriations.

2. Maximum Annual Debt Service (“MADS”) shall not be greater than 50% of Tuition Revenues and Auxiliary Facility Fees in any Fiscal Year, as outlined in the Indenture of Trust.

3. Total Cash and Investments must be at least 90% of Total Adjusted Debt, at the time of issuance, calculated using the most recent audited financial statements, adjusted for spending and debt commitments not yet reflected in the financial statements

APPENDIX B

Definitions

A. Conduit Debt Obligation - A conduit debt obligation is defined as a debt instrument having *all* of the following characteristics:

    i. There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.

    ii. The issuer and the third-party obligor are not within the same financial reporting entity.

    iii. The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.

    iv. The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.

    v. The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

B. Direct Debt – A financing involving a legal commitment or guarantee by the USM to providers of capital, or a legal commitment or guarantee by the USM to a third party to obtain financing for a project. These financings would include but are not limited to: USM revenue bonds; USM Revolving Equipment Loan Program; installment sale arrangements; equipment lease/purchase programs; certificates of participation; leases as reported on the Balance Sheet as liabilities; sale/lease back structures, and Indirect Subsidies of Third-Party Debt.

C. Indirect Debt – Any commitment to make payments, or any contingent future risk that the debt of others may be assumed by the USM that is not characterized as Direct Debt. Additionally, a financing in which the USM makes no legal commitments or guarantees, but retains some financial stake in the facility and/or the project is of some strategic value to the USM. Examples include, but are not limited to, public/private partnerships for student housing.

D. Indirect Subsidies of Third Party Debt – These are transactions in which the USM has agreed (whether or not subject to appropriation and whether or not guarantees or indemnity is provided from others) either to pay or be responsible for any costs to construct or operate a facility, or to divert or permit others to have rights in, the revenues from a project which would otherwise have been payable to the USM.

E. Total Adjusted Debt – This is a measure of overall debt, including capitalized operating leases. It is calculated as the sum of total direct debt and indirect debt.

F. Total Cash and Investments – Measures the wealth of a university and its affiliated foundation(s). This is an important indicator of financial flexibility and resilience, and the ability to generate investment income.

G. Variable Rate Debt – A bond that bears interest at a variable or floating rate established at specified intervals (e.g., flexible, auction, daily, weekly, monthly, or annually).