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# **THE UNIVERSITY OF NEW MEXICO'S**



## **DEBT MANAGEMENT POLICY**

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**Approved by:  
President of the University**

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## **UNIVERSITY'S DEBT POLICY**

### **A. Purpose**

The University of New Mexico (the "University") recognizes the foundation of any well-managed debt program is a comprehensive debt management policy. A debt management policy sets forth the parameters for issuing debt and managing the outstanding debt portfolio. It provides guidance to decision makers regarding the purposes for which debt may be issued, types and amounts of permissible debt, timing and method of sale that may be used, and structural features that may be incorporated. Adherence to a debt management policy helps to ensure that the University maintains a sound debt position and that credit quality is protected.

It is the intent of the University to establish a debt management policy to:

- Ensure high quality debt management decisions;
- Impose order and discipline in the debt issuance process;
- Promote consistency and continuity in the decision making process;
- Demonstrate a commitment to long-term financial planning objectives; and
- Ensure that the debt management decisions are viewed positively by rating agencies and the investment community.
- Ensure that any issuance or refunding of debt is in the best interest of the University and structured in the most cost effective way.

### **B. Implementation**

The University's debt policy shall be implemented by the University's Debt and Investment Advisory Committee who shall develop comprehensive debt management guidelines that provide for the following:

- Full and timely payment of principal and interest on all outstanding debt;
- Debt shall be incurred only for those purposes as provided by State statute;
- Capital improvements should be developed, approved, and financed in conjunction with the capital improvement budgeting process;
- The payment of debt shall be secured by the pledge of specified system revenues or special limited facility revenues of the University;
- Principal and interest retirement schedules shall be structured to: (1) achieve a low borrowing cost for the University, (2) accommodate the debt service payments of existing debt, and (3) respond to perceptions of market demand;
- Debt incurred shall generally be limited to obligations with serial and term maturities but may be sold in the form of capital appreciation bonds and other structures if circumstances warrant;
- The average life of the debt should be no greater than the projected average life of the assets being financed;
- The University shall maintain good communications with bond rating agencies to ensure complete and clear understanding of the creditworthiness of the University; and
- Every financial report and bond prospectus shall follow a policy of full, complete, and accurate disclosure of financial conditions and operating results. All reports shall conform to

the necessary guidelines to meet the disclosure needs of rating agencies, underwriters, and investors.

## **DEBT AND INVESTMENT ADVISORY COMMITTEE**

### **A. Purpose**

It is the role of the Debt and Investment Advisory Committee to develop and maintain a debt management policy that shall be subject to the approval of the President of the University; and to review and structure the plans for all capital financings.

### **B. Responsibilities**

The responsibilities of the Debt and Investment Advisory Committee shall be to:

- Develop and maintain comprehensive debt management guidelines in accordance with the University's Debt Management Policy;
- Review and evaluate results of debt financing operations including, but not limited to:
  - Issuance of long-term and short-term debt obligations;
  - Selection of bond type, structure, methods of sale, and marketing of bonds, and
  - Investor and rating agency communications;
- Review expenditures of bond proceeds and the status of various projects being financed for timeliness of spent bond proceeds and compliance with other federal tax regulations regarding private activity and investment of bond proceeds;
- Review and evaluate services provided by the bond counsel, disclosure counsel, tax counsel, financial advisor, rebate specialist, underwriters, and other service providers in bond transactions for effectiveness and quality of service;
- Review and revise periodically the Debt Management Policy based upon the Debt and Investment Advisory Committee's review of operations and market conditions;
- Adopt and annually review Disclosure Procedures for Bonds and Loans;
- Adopt and annually review Post-Issuance Tax Compliance Procedures; and
- Prepare reports, as appropriate, for the Regents' Finance and Facilities Committee and for the Board of Regents on the following:
  - Financing shortfalls; and
  - All bond financings in progress or anticipated for the subsequent fiscal year.

### **C. Membership**

A permanent committee chaired by the Executive Vice President for Administration, the Debt and Investment Advisory Committee is composed of representatives from Health Science Center, UNM Hospital, Financial Services, the Office of Planning, Budget, and Analysis, and other members designated by the Executive Vice President for Administration.

## **CREDIT RATINGS**

### **A. Rating Target**

The University shall make every reasonable effort to maintain or improve its underlying high quality long-term credit ratings of Aa3/AA- and short-term ratings of VMIG1/A3, respectively for Moody's Investor Services and Standard and Poor's Investor Services. The University shall continue to apply for ratings on issuances which have been rated by one or more of the rating agencies in the past. The University shall maintain a line of communication with the bond rating agencies (Moody's and Standard & Poor's), informing them of major financial events at the University as they occur. All communications, both oral and written, in response to requests for information shall be made by the Executive Vice President for Administration or designee. The University shall proactively report all financial information to the credit rating agencies, financial advisor, and counterparties for the University's outstanding debt. The University staff, with the assistance of its financial advisor, shall prepare the necessary materials for presentations to the bond rating agencies. The University either shall notify the bond rating agencies by telephone or through written correspondence when the University begins planning for a debt issuance or refunding.

### **FIXED VS. FLOATING RATE DEBT MIX**

The University will strive to maintain a benchmark ratio of fixed versus variable rate debt that is appropriate to the higher education sector and a flagship research university.

### **ACTIVE DEBT MANAGEMENT**

The University has over \$337 million of outstanding principle at the time this policy was updated. The goals of the Debt Management Policy are to create future funding capacity for the University's capital plan while managing student fee levels and maintaining its current rating as referenced earlier.

### **EVALUATION OF THE USE OF RISK MANAGEMENT PRODUCTS**

The University will evaluate the use of risk management products versus traditional products and will only use products if they produce significant value or significantly reduce risk exposure.

The university will consider refunding outstanding debt only when savings for the refunding, measured on a Net Present Value (NPV) basis, are positive, or when the refunding accomplishes other statistic objectives including budgetary relief or reducing or eliminating future risks.

During the Debt and Investment Advisory Committee's quarterly meetings, its members will review current market conditions for risk management products and will evaluate how current conditions affect existing swaps and/or any proposed future risk management transactions.

As needed, the Debt and Investment Advisory Committee will provide a memo to the Regents' Finance and Facilities Committee regarding opportunities or concerns related to its debt structure.

### **ATTACHMENTS**

Exhibit A: Disclosure Procedures for Bonds and Loans

Exhibit B: Post-Issuance Tax Compliance Procedures