INTRODUCTION

In order to carry out its mission, North Dakota State University must continually invest in its infrastructure and other capital assets. The University recognizes that in order to be fiscally prudent, it must rely on a diversity of sources to support this investment, including the periodic use of debt instruments.

In general terms, our use and management of debt will be governed by the following principles:

- We will pursue strategies that maintain access to debt markets at a reasonable cost.
- Our tax-exempt debt capacity will be governed primarily by the adherence to targeted financial ratios and the availability of non-endowment revenues to support annual debt service and those revenues will be available as part of the University's annual budget.
- We will use our debt as an integral part of the management of the University’s balance sheet in order to reduce our interest rate exposure, increase the predictability of our debt service requirements and allow us to more closely match these requirements with the overall fiscal environment of the University.
- We will maintain our favorable access to capital and our credit standing through active communication with the market and the bond rating agencies.
- We will continue to monitor our long-term budget framework, and particularly the balance between the core objectives and the relative percentage of our operating budget that can be allocated to debt service in the future.
- University management will implement debt principles and strategy, in consultation with the program, operating and support departments of the University who share responsibility for procuring and managing capital assets.
- Changes to debt principles will be reviewed with the President’s Cabinet.

These principles are intended to apply to all debt of the University, both short- and long-term, including capital leases, revenue bonds, certificates of participation in financing leases and other similar capital market borrowings. The specific application of these principles is outlined below. These principles are divided into three discrete parts relating to: (1) the purposes and uses of debt; (2) debt standards and structure; and (3) debt administration and process. These principles are a guideline for general use, and allows for exceptions in extraordinary conditions. The authority to implement these principles is delegated to the Vice President for Finance and Administration, as further described herein.
STATEMENT OF DEBT MANAGEMENT PRINCIPLES

PART 1: PURPOSES AND USES OF DEBT

CREDITWORTHINESS OBJECTIVES

North Dakota State University seeks to maintain the highest possible credit ratings for all categories of short- and long-term direct debt that can be achieved without compromising delivery of basic services and achievement of adopted principles objectives. There is a direct correlation between the credit rating we achieve and the cost of our borrowing. Therefore, as a general rule, we will seek to acquire and maintain the highest investment grade rating on all of our debt.

The University recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Nevertheless, the University is committed to ensuring that actions within its control are prudent and consistent with these principles.

FINANCIAL DISCLOSURE, INITIAL AND CONTINUING

The University is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, the State Board of Higher Education, the North Dakota University System Office, the North Dakota State Legislature, and the general public to share clear, comprehensible, and accurate financial information. NDSU is committed to meeting secondary disclosure requirements as set forth in Securities and Exchange Commission Rule 15c2-12, and its amendments, on a timely and comprehensive basis.

CAPITAL PLANNING

To enhance creditworthiness and prudent financial management, the University is committed to systematic capital planning, internal cooperation and coordination (including the involvement of the North Dakota University System Office and State Board of Higher Education), and long-term financial planning. Evidence of this commitment to systematic capital planning will be demonstrated through an annual review of the University’s Master Plan.

DEBT LIMITS

Debt of the University is an important tool in the management of the University’s balance sheet. Debt can be used to effectively leverage the assets of the University extending resources that enable the organization to fund its programs and meet its mission.

Debt issued by the University will comply with and be consistent with selected financial ratios as defined under Targeted Financial Ratios:

- Interest to Operations not to Exceed 5%.
STATEMENT OF DEBT MANAGEMENT
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Our tax-exempt debt capacity will be governed primarily by the availability of non-endowment revenues to support annual debt service as those revenues become available as part of the University's annual budget. This requires that we demonstrate income derived from operations other than University investments is sufficient to meet annual debt service requirements.

Finally, the amount of debt that is feasible for the University to undertake will largely be driven by the practical constraints of the creditworthiness objectives described above. The proper application of the creditworthiness objectives will require a reasonable measurement of the impact of any debt, regardless of repayment source or tax status, on the overall creditworthiness of the University.

PART 2: DEBT STANDARDS AND STRUCTURE

ALLOCATION OF DEBT TO TAXABLE OR TAX-EXEMPT SECTOR

Presently, procurement policies of the State Board of Higher Education require that any individual expenditure requiring debt issue be presented to the Board for approval, pursuant to North Dakota Century Code Chapter 15-55. As a result, the determination to finance such an acquisition as either taxable debt or tax-exempt debt can be made at the time of such approval for expenditures.

The University recognizes the benefits associated with tax-exempt debt, and therefore will manage the tax-exempt portfolio to maximize the portion of tax-exempt debt outstanding.

The University will manage its debt portfolio to minimize its taxable component. Unlike tax-exempt debt, taxable debt will not be considered a perpetual component of the University's liabilities. Taxable debt will be utilized to fund projects ineligible for tax-exempt financing or for those projects for which the University wants to preserve maximum operating flexibility; however, the University will manage its overall debt portfolio and total financing sources in order to minimize (or eliminate) the need for taxable debt.

TERM OF DEBT

Debt will be structured so as to be consistent with a fair allocation of costs to current and future beneficiaries or users of the asset(s) being financed with the proceeds of the debt. The implication of these principles will generally require that debt be issued only for a time period that is consistent with the life span of the project for which the debt was issued. Tax-exempt debt must be limited to a term of not more than 100% of the estimated useful life of the asset(s) being financed with proceeds of the issue.
STATEMENT OF DEBT MANAGEMENT PRINCIPLES

DEBT STRUCTURE

Debt may be issued, if secured by housing and auxiliary facilities revenues, for the purposes of financing the construction, renovation, improvement or acquisition of certain facilities in connection to student housing, parking facilities, student recreation (e.g., Memorial Union), food service (e.g., Central Food Service Facility) and student health services (e.g., Wellness Center). Debt secured by Housing and Auxiliary Facilities Revenues may be issued to fund certain facilities authorized by the legislature, even if not within the system described above, on a subordinate basis. Facilities financed to meet such objectives are to be considered within the Housing and Auxiliary Facilities System and management of the System is under the control of the Vice Presidents for Finance and Administration and Student Affairs. Debt secured by Housing and Auxiliary Facilities Revenues will comply with debt service ratios as required under the applicable bond indenture.

Debt may be issued, if secured by lease revenue, by a public entity on behalf of the University to provide a means to finance capital improvements to be leased to the University. However, debt obligations are limited obligations of the issuing public entity, payable solely from lease payments made by the University. Moreover, the University may consider entering into a lease agreement with a 501(c)(3) nonprofit corporation (e.g., NDSU Research and Technology Park, Inc.) in order to finance any facility or project that can be leased to the University.

Debt may be undertaken for temporary periods, such as construction or completion of an asset; or, for permanent periods, in which the intent at the outset of the financing transaction is to borrow funds for the life of the asset. Debt will be structured to achieve the lowest possible net cost to the University given market conditions, the urgency of the capital project, and the nature and type of security provided. Moreover, to the extent possible, the University will design its overall debt so as to preserve its credit capacity for future use.

The University will attempt to structure its debt so as to be of maximum benefit to the University's overall financial strategies, including accessing the relevant market at the lowest possible cost. The University will amortize the debt in the most effective manner possible to preserve the borrowing capacity of the revenues earmarked for repayment of the debt.

NDSU’s Vice President for Finance and Administration will manage overall debt principles and strategies, in consultation with the program, operating and support departments of the University who share responsibility for procuring and managing capital assets. Major initiatives or changes in the debt arena will be reviewed with the President’s Cabinet.

CHOICE OF INTEREST RATE MODALITY

Interest may be paid periodically to the lender as current interest or at the maturity of the loan as deferred interest. The modality, or basis for computation of the interest payment, can significantly affect the rate of interest paid by the borrower. Fixed rates of interest for long-term debt are usually reflective of the greater credit and inflation risks that may occur over long periods than are interest rates that can vary in response to these
forces. As a result, the University will seek to borrow in the interest rate modality that provides the lowest possible cost of funds, consistent with the prudent management of risk of change in interest rate environment.

The selection of interest rate modality arises from the facts and circumstances of individual borrowings. As a general rule, variable rate borrowings may present the least costly funds, albeit at somewhat greater risk. Under current circumstances, the University intends to refrain from issuing debt in one modality (e.g., variable, current interest) and then synthetically convert to another (e.g., fixed, current interest) through use of a short-, intermediate-, or long term swap to a fixed rate. If the University decides to implement the use of interest rate swaps, a policy addressing the use of such products will be developed prior to implementation.

CALL OPTIONS

The University will consider the use of call options to reduce the University’s overall cost of capital and to provide maximum flexibility in its debt portfolio. The use of non-callable debt beyond 10 years requires the approval of the Vice President of Finance and Administration in that certain circumstances, such as the sale, disposition, or sharing of an asset financed with tax-exempt debt may require the repayment of such debt first. Moreover, in some interest rate environments and because of potential future tax changes, long-term non-callable debt may be disadvantageous to the University.

DERIVATIVES AND NON-TRADITIONAL FINANCIAL PRODUCTS

The University will seek to control its interest rate exposure through the use of fixed rate debt without having to consider the use of such derivatives and non-traditional financial products designed to offset such risks. Examples of such non-traditional products include: interest rate swaps, interest rate caps and collars, “synthetic” refunding transactions, float contracts, residual interest tax-exempt securities, forward interest rate products, and option products. The University intends to refrain from the use of derivatives unless it is determined later that the use of such products reduces the University’s overall cost of capital or provides structuring advantages not available in the traditional public finance marketplace. If the University intends to use derivatives and non-traditional financial products, policies addressing the use of such products will be amended to be consistent with state law and financial prudence.

SUBORDINATE AND NON-RECOUSE DEBT

The University may issue subordinate lien debt if it is financially beneficial to the University and is consistent with the University’s creditworthiness objectives as set forth in these principles. Examples would include debt supported by a particular revenue stream after fulfillment of a legal pledge to an existing lender who enjoys a senior lien position to the new lender. In terms of debt secured by the net revenues of the Housing and Auxiliary Facilities System, the University may consider issuing subordinated debt to finance the construction of additions to preexisting facilities with a claim immediately junior to the claim of the University’s outstanding senior lien Housing and Auxiliary Facilities Revenue Bonds.
In other instances, the University may choose to issue “non-recourse” debt, that is, borrowings that are repayable only from specific revenues (e.g., bookstore sales) but not from the general resources of the University derived from other activities.

**BOND RATING**

External economic, natural, or other events may affect the creditworthiness of the University’s debt from time to time. Nevertheless, the University is committed to ensuring that actions within its control are prudent and appropriate to maintain a high-quality credit rating.

The University’s long-term bond rating from Moody’s Investors Service and Standard and Poor’s, if applicable, shall remain in the A category, and, more specifically, the pro forma issuance of debt shall not result in a rating below the A3/A- level.

The University’s current ratings are A1 by Moody’s for the Housing and Auxiliary Facilities Revenue Bonds and A2 by Moody’s for the lease-based financings.

**TARGETED FINANCIAL RATIOS**

Interest to Operations not to Exceed 5%. While debt service to operations has traditionally been quoted as a metric to assess debt service burden, the increasing use of bullet maturities and other variations of deferred principal makes the calculation of debt service more difficult. Moreover, maturing debt can, and frequently is, extended to increase the average life of the debt in accordance with the economic life of the assets financed. As a result, the regular payments of interest, which generally cannot be deferred, are a more appropriate measure of the current burden on operations from debt.

**CREDIT ENHANCEMENTS**

Credit enhancement (letters of credit, bond insurance, etc.) will be used to the extent that net debt service on the bonds is reduced by more than the costs of the enhancement, measured in present value terms. In order to calculate the economic effectiveness of a credit enhancement, the University will compare the present worth of the debt service required on the proposed transaction on both an enhanced and un-enhanced basis to determine the economic benefits of the enhancement offered. Credit enhancement which does not produce economic benefits, in present value terms, will be considered only if acceptance of the enhancement directly furthers other University goals and objectives.
STATEMENT OF DEBT MANAGEMENT PRINCIPLES

PART 3: DEBT ADMINISTRATION AND PROCESS

REFUNDING AND RESTRUCTURING OF DEBT

Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding or if it relieves the University of certain limitations, covenants, payment obligations or reserve requirements that prove disadvantageous to the University.

In general, refunding for economic savings will be undertaken when net present value savings of at least three percent (3%) of the refunded debt can be achieved. Refunding with savings of less than three percent (3%), or with negative savings, may be considered if there is a compelling principles objective. The measurement of savings may consider benefits to the University from sources other than the proposed bond transaction, such as reduced ongoing costs or reductions in staff time devoted to the administration of outstanding debt.

INVESTMENT OF BOND PROCEEDS

Investment of bond proceeds will be consistent with those authorized by the controlling bond documents, existing state law, federal tax considerations and by the University's overall investment policies.

It will also be the University's policy to select investment advisors, if appropriate to the facts and circumstances of an individual borrowing or borrowing program, on a basis similar to that which it uses to engage investment advisors for its investment portfolio. The University will execute the investment directives for bond proceeds through the applicable advisor for such proceeds.

BOND COUNSEL

Not all borrowing venues will permit the University to name its own bond counsel. Where circumstances permit, the University will retain external bond counsel. All debt issued by the University will include a written opinion by bond counsel affirming that the University is authorized to issue the debt, stating that the University has met all statutory requirements necessary for issuance, and determining the federal income tax status of such debt. The Vice President for Finance and Administration, in consultation and agreement with the University's General Counsel, will select bond counsel.

BORROWER'S COUNSEL

In certain instances, the University may choose to engage the services of counsel for the purposes of assisting in the various aspects of the preparation of the selected borrowing, including the preparation of an official statement, private placement memorandum or other form of offering, disclosure or continuing disclosure document to be disseminated in connection with the sale of the University's debt. In performing these services,
borrower’s counsel is clearly representing the University, as the issuer of the debt, and no other person or entity, as is the case where underwriter’s counsel prepares such documents.

FINANCIAL ADVISOR

In certain instances, the University may choose to engage the services of a financial advisor for the purposes of assisting in the analysis of various aspects of the proposed borrowing, including the use of non-traditional financial products, variable rate borrowings or other specialized forms of debt. In performing these services, the financial advisor is clearly representing the University, as the issuer of the debt, and no other person or entity, as may be the case where the financial advisor may be associated with a broker/dealer firm or investment management firm. Engagement of a financial advisor on each University debt issue is not required, as certain types of financing transactions may be accomplished without the need for outside assistance. The decision to seek professional financial advise will be made by the Vice President for Finance and Administration.

FISCAL AGENTS, PAYING AGENTS AND TRUSTEES

The University will utilize a fiscal agent, paying agent or trustees on all University indebtedness, as may be required by the type of debt instrument being used. Fees for such services on outstanding bonds will be paid from the resources supporting the debt service on the instrument. The University’s Controller will administer the review and journalizing of transactions from monthly statements furnished by the fiscal agent, paying agent or trustee, as the case may be.

COMPENSATION FOR SERVICES

Compensation for bond counsel, borrower's counsel, underwriting services, swap providers, financial advisors, and other financial service providers will be consistent with industry standards. It is the University’s intent that such compensation reflects the level of skill required to complete the transaction, the degree of complexity of the work, and the quality of services delivered.

DISCLOSURE

The University will continue to meet its ongoing disclosure requirements in accordance to SEC rule 15c2-12. The University will submit financial reports, statistical data, and any other material events as required under outstanding bond indentures.

ARBITRAGE COMPLIANCE

The Controller shall maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the Federal Tax Code. The University may employ the services of an outside consultant to calculate its arbitrage rebate liabilities and prepare periodic tax returns associated with rebatable arbitrage earnings.
STATEMENT OF DEBT MANAGEMENT
PRINCIPLES

UNSOLICITED FINANCING PROPOSALS

Any unsolicited financing proposal to the University involving directly or indirectly the lending or pledging of the University's credit, shall be referred to the Vice President for Finance and Administration for review.

ANNUAL REVIEW OF DEBT PORTFOLIO

The Vice President for Finance and Administration will manage these debt principles, in consultation with the program, operating and support departments of the University who share responsibility for procuring and managing capital assets. Major initiatives or changes in the debt arena will be reviewed with the President's Cabinet of the University. The Vice President for Finance and Administration will report annually to the President’s Cabinet on the status of the University’s debt portfolio.