**Long Term Debt Policy**

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| **Effective Date:** | June 16, 2026 |
| **Recommended by:** | TAP Finance & Investment Committee |
| **Next Scheduled Review:** | December 1, 2027 |
| **Policy Number:** | 30.10.00 |

## 1. Purpose

This Long-Term Debt Policy establishes guidelines for the issuance, management, monitoring, and retirement of long-term debt by Toro Auxiliary Partners (TAP). The purpose is to ensure that any indebtedness:

- Supports TAP's mission, programs, or capital infrastructure;
- Is fiscally prudent and sustainable;
- Complies with California Education Code §89904(b), Title 5 regulations, and CSU auxiliary best practices;
- Does not compromise TAP's fiscal Stability, liquidity, or reserve levels.

## 2. Scope

This policy applies to all forms of long-term debt, including but not limited to revenue bonds, bank loans, capital leases, installment purchase agreements, and other obligations extending beyond 12 months.

Excluded from this policy are trade payables and short-term borrowings.

## 3. Policy Statement

- Debt may be used only for major capital projects, facility improvements, or equipment acquisition aligned with TAP's strategic and capital plans
- Debt shall not be used to fund recurring operating deficits or ongoing operational expenses
- Overall indebtedness must be assessed in light of debt service capacity, reserves, cash flow, and contingent liabilities.
- TAP shall maintain prudent levels of debt, ensuring the ability to meet all current and future obligations without undue financial strain.

**4. Authorization and Approval**

ALL proposed debt issuances must be reviewed and recommended by the Finance & Investment Committee and approved by the Board of Directors.

Management shall provide, at a minimum:

a) Business case and strategic rationale;

b) Alternatives analysis (including pay-as-you-go and leasing options);

c) Multi-year financial projections, including debt service coverage and sensitivity analyses;

d) Identification of security, covenants, and associated risks;

e) Confirmation of compliance with CSU and campus requirements.

**Following Board approval, the Executive Director (or designee) is authorized to negotiate terms and execute debt instruments consistent with the approved parameters.**

**5. Limits and Metrics**

**TAP shall monitor and maintain prudent financial metrics, including but not limited to:**

- Debt Service Coverage Ratio (DSCR): Net operating income divided by annual debt service, minimum 1.25×.
- Debt to Operating Expense Ratio: Not to exceed [20%] of annual operating expenses.
- **Liquidity:** TAP shall maintain sufficient liquid reserves, including a target of at least 90–180 days cash on hand or liquidity sufficient to cover a minimum of 1.0× annual debt service.
- Reserve Coverage: Unrestricted reserves must meet established targets prior to assuming new debt.
- Amortization: Debt terms shall not exceed the useful life of financed assets.
- Additional metrics may be utilized as deemed appropriate by management and the Board.

**6. Use of Proceeds and Project Account Requirement**

Debt proceeds shall be restricted to their approved purpose and tracked in segregated accounts.

The Controller (or designee) shall:

- Monitor the use of proceeds;
- Perform periodic reconciliations;
- Ensure funds are not redirected without appropriate approval.

Unexpended proceeds shall be invested in accordance with TAP's Investment Policy.

**7. Post-Issuance Compliance**

TAP shall maintain appropriate post-issuance compliance procedures, including:

- Ongoing monitoring of the use of proceeds;
- Compliance with applicable tax and regulatory requirements (if applicable);
- Retention of relevant records for the life of the debt plus any required period thereafter.

**8. Monitoring and Reporting**

Management shall provide quarterly reports to the Finance & Investment Committee including:

- Outstanding principal and maturity schedule;
- Debt service requirements;
- Compliance with covenants;
- Key financial metrics, including DSCR and liquidity measures.

Debt-related disclosures shall be included in TAP's annual financial statements and audit presentations.

**9. Refinancing and Pre-Payment**

Refinancing shall follow the same approval process as new debt and must demonstrate either:

- Net present value savings; or
- A clear strategic or financial benefit.

Prepayment of debt shall be evaluated based on cost-benefit considerations and reported to the Board of Directors.

**10. Covenants and Risk Management**

The Controller (or designee) is responsible for monitoring compliance with all debt covenants.

- Any material non-compliance shall be reported promptly to the Executive Director and Board, along with a corrective action plan.
- TAP shall maintain appropriate insurance coverage for financed assets.
- Interest rate risk shall be managed prudently; the use of variable rate debt shall be limited and require explicit Board approval.

- The use of derivative or hedging instruments is prohibited unless specifically authorized by the Board.

**11. Review of Policy**

This policy shall be reviewed at least every two years by the Finance & Investment Committee, with any recommended changes submitted to the Board of Directors for approval.

**12. Exceptions**

Any exceptions to this policy must be approved by the Board of Directors and documented with supporting rationale and a mitigation plan.

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