

RADFORD UNIVERSITY

Policy Title: Debt Management Policy	Effective Date: 3/30/2007
Policy Number: FA-PO-1200	Date of Last Review: 2/15/2022
Oversight Department: Office of the Vice President for Finance and Administration	Next Review Date: 2/1/2025

1. PURPOSE

The *Debt Management Policy* for Radford University (University) outlines the University's philosophy on debt; assists the Board of Visitors in making informed debt management decisions; provides guidance on the undertaking of debt obligations that will benefit the University; provides a structured framework for the approval, issuance, and management of the University's debt portfolio and financial resources; defines the roles, responsibilities, and reporting requirements of the Board of Visitors and University management; provides an ongoing process for the University to evaluate the level of annual debt service, consolidated debt burden, and long-term commitments; and ensures that existing and proposed debt issues are strategically managed consistent with financial resources in order to maintain a strong financial profile.

2. APPLICABILITY

The *Debt Management Policy* applies to the Radford University Board of Visitors and all University employees involved in the debt management process and/or the ongoing development, execution, evaluation, and approval of the *Debt Management Policy*.

3. DEFINITIONS

Annual Debt Service Cost: The maximum annual debt service cost (principal and interest payments) payable within any fiscal year on the University's direct debt reduced by any amounts whereby the agreed upon funding source is from the University's foundations.

Bond Counsel: An attorney (or firm of attorneys) retained by the issuer to give a legal opinion that the issuer is authorized to issue proposed securities, the issuer has met all legal requirements necessary for issuance, and interest on the proposed securities will be exempt from federal and/or state income taxation. Typically, bond counsel advises the issuer of statutory requirements; prepares authorizing resolutions or ordinances, trust indentures, official statements, closing documents, and other documents required for the issuance of securities; conducts validation proceedings; and supports the issuer in the event of litigation.

Capitalized Interest: A portion of the proceeds of an issue set aside to pay interest on the securities for a specified period of time. Interest is commonly capitalized for the construction period of a revenue-producing project.

Call (i.e. Redemption): A transaction in which the issuer returns the principal amount represented by an outstanding security (plus, in some cases, an additional amount, or “premium”). Redemption can be made at maturity of the security, as a result of the issuer’s call of the securities prior to their stated maturity date, or in the case of variable rate debt, because of the security holder’s election to exercise a put or tender option privilege.

Call Provisions: The terms of the bond contract giving the issuer the right, or requiring the issuer to redeem or “call” all or a portion of an outstanding issue of bonds prior to their stated dates of maturity at a specified price, usually at or above par and stated as a percentage of the principal amount called.

Debt Service Reserve Fund: The fund in which moneys are placed which may be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements. The reserve fund may be funded with bond proceeds, or it may only be partly funded at issuance and reach its full funding requirement over time. If allowed in the bond documents, a surety policy from a bond insurance company or other qualified provider may be used to satisfy the debt service reserve requirement.

Direct Debt: Direct obligation of the University incurred to fund capital projects reduced by the amount of direct debt of the University’s foundations.

Financial Advisor: A consultant who advises the issuer on matters pertinent to the issue, such as structure, timing, marketing, fairness of pricing, terms, and bond ratings.

General Revenue Pledge: Bonds or other obligations secured by the general operating revenues (rather than specific project revenues) of an institution of higher education. General operating revenues may include total gross University sponsored overhead, unrestricted endowment income, tuition and fees, indirect cost recoveries, auxiliary enterprises revenues, general fund appropriations and other revenues not required by law to be utilized for another purpose.

Moral Obligation Debt: Refers to the structure under which the state or University pledges to consider replenishing a deficiency in the debt service reserve fund arising from the need to draw money from the fund when the underlying project revenues prove to be insufficient to service the debt.

Operating Expenses: Represented by the total operating expenses on the Statement of Revenues, Expenses, and Changes in Net Position plus scholarship allowances from student tuition and fees and scholarship allowances from auxiliary enterprises.

Present Value: The value at the current time of a cash payment or stream of payments, which is expected to be received in the future, allowing for the fact that an amount received today, could be invested to earn interest until the future date(s).

Present Value Savings: A method of calculating the aggregate amount of savings on a refunding transaction. In each semi-annual period, the present value of the debt service on the refunding bonds is subtracted from the present value of the debt service on the refunded bonds using the arbitrage yield on the refunding bonds as the discount rate. The present value savings in each year are added together to result in the aggregate present value savings.

Refunding: A procedure whereby an issuer refinances outstanding bonds by issuing new bonds. Bonds are usually refunded either to reduce the issuer’s interest costs or to remove a burdensome or restrictive covenant imposed by the legal terms of the bonds being refinanced. The new bonds are called the “refunding bonds” while the bonds being refinanced are called the “refunded

bonds.” An advance refunding is a type of refunding where outstanding securities are refinanced by the proceeds of a new issue of securities more than 90 days prior to the date on which the outstanding securities become due or are callable. The proceeds of the new securities are deposited in escrow and invested in U. S. Government or federal agency securities, with principal and interest on the escrowed securities used to pay principal and interest on the refunded bonds up to and including the redemption or call. The Internal Revenue Code restricts the yield on such escrowed securities. A current refunding is a type of refunding where the proceeds of the new bonds are used within 90 days of closing to retire the refunded obligations. If the proceeds are not used immediately (i.e. on the day of closing) to retire the refunded obligations, it may still be necessary to establish a portfolio of escrow securities. However, the Internal Revenue Code does not impose the same yield restrictions on current refunding that they do on advance refunding.

Terms and Structure: As it relates to Code of Virginia § 2.2-2416, “terms and structure” is deemed to include the following: type of debt instrument/obligation, security, size, method and timing of sale, interest rate structure, principal amortization method, call provisions, number and level of credit ratings, investment of proceeds, credit enhancements, synthetic features (e.g. caps, floors, forwards, swaps), disclosure, refunding parameters, method of selection of financing term, etc.

4. POLICY

The University utilizes a long-term strategic plan to establish institutional priorities and objectives, and incorporates the issuance of debt into its strategic plan to fund critical capital initiatives.

5. PROCEDURES

A. Consideration of Impact on Student Costs

The University will factor into its capital and debt capacity decision-making process a consideration of the impact on tuition and fees used to cover long-term maintenance costs and debt service.

B. Financing Considerations

The University will seek the lowest cost source of financing available while ensuring that its overall debt structure is not exposing the University to unnecessary future interest rate risk. Financing considerations can include, but are not limited to:

1. For self-supporting revenue bonds, the University may wish to utilize the Commonwealth Treasury Board General Obligation Revenue Bond Financing Program authorized by Article X, Section 9 (c) of the Constitution of Virginia.
2. For other University debt obligations, the University may wish to utilize the Virginia College Building Authority (VCBA) unless a financing alternative is clearly superior to this VCBA pooled loan program.
3. All available financing structures should be reviewed prior to adopting a final plan of finance. The review should include, but is not limited to, an analysis of:
 - a. Fixed rate, variable rate, and synthetic alternatives
 - b. Bank qualified designations
 - c. Public sale or private placement
 - d. Credit-enhanced, stand-alone credit, or non-rated credit transactions

- e. Long-term, short-term, or interim financing alternatives
- f. Tax-exempt or taxable financing

C. Funding Source Considerations

The University will evaluate all funding sources acknowledging factors such as but not limited to cost, benefit, and risk in relation to the overall debt portfolio. Funding sources can include, but are not limited to:

1. If the proposed funding source is from future general revenues of the University, the operating budget shall be modified to reflect use of the net revenues.
2. If the proposed funding source is from existing assets of the University, the existing assets shall be valued at that time and separated from other existing assets and invested in such a manner as to preserve the principal value of the asset to ensure that it will be sufficient to pay annual debt service when needed.
3. If the proposed funding source is based upon alternative financing, the Financing Plan shall be approved by the Vice President for Finance and Administration & Chief Financial Officer (VPFA/CFO) in a manner consistent with the *Debt Management Policy*.
4. If the proposed funding source is from future gifts from the Foundation or other individual donors, the VPFA/CFO shall ensure that an alternative funding source is identified to fund the applicable debt service should the gifts not be received as scheduled.

D. Synthetic Products

1. The University may desire to enter into contracts ancillary to its actual debt instruments. These contracts may include interest rate swaps, floors, caps, swaptions, and/or other derivative-type products. These contracts are not to be used for speculative purposes, but may be used:
 - a. To achieve lower overall costs of funds
 - b. To hedge interest rate risk
 - c. To increase financial flexibility
 - d. For other purposes as deemed appropriate
2. All contracts should be based on and contain the terms and conditions set forth in the International Swap and Derivative Association, Inc. (ISDA) Master Agreement.
3. Contracts with counterparties must be rated at least in the “A” category by national rating agencies as long as the transaction is appropriately collateralized. Counterparties with credit ratings in the “AA” category are exempt from the collateral requirement.

E. Capital Projects

The University finances capital projects through debt secured by the Commonwealth of Virginia. As noted in the statewide review completed by the Auditor of Public Accounts, “*The Commonwealth issues all bonds pursuant to Section 9 of Article X of the Constitution of Virginia.*” The University will consider the following criteria for debt related to capital projects:

1. Only capital projects that directly benefit the University should be financed by the University.

2. Capital projects funded with revenues of the University (tuition and fees, unrestricted gifts, investment income, as well as existing assets) should be funded with long-term obligations.
3. Capital projects funded with restricted gifts and/or pledges should be considered for funding with comparable term obligations.
4. Capital projects delivered through alternative financing guidelines such as the Public/Private Educational Facilities and Infrastructure Act Program should satisfy conditions in the *Debt Management Policy* as if the University is issuing long-term debt or executing a long-term capital financing lease.
5. All debt issuances should be coordinated with the University's capital planning process.
6. If the security for any capital-financing program is a general revenue pledge of the University, the total resources of the University shall be made available to pay this debt service.

F. Terms and Structure Considerations

The University will evaluate the terms and structure of the debt ensuring that it is in compliance with the *Debt Management Policy* and is not exposing the institution to unnecessary risk:

1. **Amortization and term:** The debt should be amortized over the useful life of the assets financed. However, in no case shall the final maturity of the debt be in excess of 30 years without the expressed approval of the Board of Visitors.
2. **Capitalized interest:** The use of capitalized interest should be minimized whenever possible.
3. **Call features:** The University should strive to keep track of its existing indebtedness (direct, indirect, or synthetic) in an effort to reduce the annual debt service costs. For refunding's executed to provide annual debt service savings due to interest rate reductions, the following net present value savings thresholds shall generally apply:
 - a. Five percent if call date is more than five years from the date of refunding
 - b. Three percent if call date is within five years from the date of the refunding
 - c. Specifically approved by the Board of Visitors
4. **Liquidity:** Liquidity requirements should be evaluated on an asset and portfolio basis with consideration of investment objectives.
5. **Debt service reserve funds:** Debt service reserve funds or surety bonds should be considered to enhance the security of the debt issue.
6. **Debt structure:** Debt should be structured in a manner that allows the coordination of borrowings and minimizes the effect of negative arbitrage on the borrowings.
7. **Maturity:** The final maturity on any refunding bonds should not generally exceed the final maturity on the refunded bonds.

G. Debt Affordability

Debt affordability will be utilized to assist the University in determining the level of debt to be used as a financial resource for its capital program. The Debt Burden Ratio will be calculated annually and in the event that new debt is proposed. Debt affordability focuses on the University's ability to service its debt through identified revenue sources in its operating budget.

Affordability Measure: Debt Burden Ratio = (Annual Debt Service/Total Operating Expenses)

This ratio measures the University's debt service burden as a percentage of total operating expenses and identifies the maximum amount of debt that the University may have outstanding at any given time.

The calculation is based on operating expenses as opposed to operating revenues because expenses are typically more stable (e.g., revenues may be subject to one-time operating gifts, investment earnings fluctuations, variability of the Commonwealth funding, etc.) and better reflects the operating base of the University.

The University debt burden ratio should not exceed seven (7) percent with the exception of instances where the debt obligations of revenue-producing capital projects are secured by income associated with the project. The target for this ratio is intended to maintain the University's long-term flexibility to finance existing requirements and new initiatives.

H. Reporting Requirements

1. **Debt Issuance:** Prior to the issuance of debt, the VPFA/CFO shall prepare a Recommended Plan of Finance for review by the Board of Visitors including the following items:
 - a. Purpose of the financing
 - b. Structural components of proposed issuance
 - c. Expected annual debt service costs
 - d. Security and/or funding source of future debt service principal and interest payments
 - e. Description of the proposed sale (fixed, variable, synthetic, etc.)
 - f. Impact on Debt Burden Ratio
 - g. Proposed amortization
 - h. Call provisions
2. **Synthetic Products:** If the recommended Plan of Finance includes the use execution of a synthetic product, then a Recommended Plan of Finance for Synthetic Products shall also be prepared which includes the following:
 - a. Objective of the use of the synthetic product
 - b. Type of synthetic product to be used
 - c. Identification of potential risks of the synthetic product
 - d. Firm (counterparty) to be used to provide the synthetic product
 - e. Structural provisions of the synthetic product

- f. Termination provisions of the synthetic product and collateralization requirements
 - g. Required annual/quarterly reporting guidelines
 - h. Bond counsel and financial advisor role in procuring the synthetic product
- 3. Annual Report:** On an annual basis, the VPFA/CFO shall prepare a report for review by the Board of Visitors which shall include the following:
- a. Compliance with debt affordability measure
 - b. Direct debt obligations of the University
 - c. Existence and market value of any synthetic transactions
 - d. Status of fund raising and pledges used to support previous debt issuance
 - e. Projected annual debt service cost and projected funding of direct, indirect, and synthetic based debt issues for the next three-year period
 - f. Compliance with all significant financial and operating covenants of existing indebtedness
 - g. Status of any arbitrage rebate calculations on existing debt issues
 - h. Estimated annual debt service savings available from refunding existing direct, indirect, or synthetic debt of the University

6. EXCLUSIONS

None

7. APPENDICES

None

8. REFERENCES

[Code of Virginia, § 2.2-1509](#), “Budget bill.”

[Code of Virginia, § 2.2-2416](#), “Powers and duties of Treasury Board.”

[Code of Virginia, § 23.1-206](#), “Assessments of the performance of public institutions of higher education.”

[Code of Virginia, § 23.1-1002](#), “Eligibility for restructured financial and administrative operational authority and financial benefits.”

[Constitution of Virginia, Article X, Section 9](#), “State debt”

9. INTERPRETATION

The authority to interpret this policy rests with the President of the University and is generally delegated to the Vice President for Finance and Administration & Chief Financial Officer.

10. APPROVAL AND REVISIONS

The President of the University and the President's Cabinet have approval authority over this policy and all subsequent revisions.

The Board of Visitors originally approved the Radford University *Debt Management Policy* on March 30, 2007. The policy was then reviewed and revised by the Business Affairs and Marketing Committee of the Board of Visitors. The Board approved the revised policy on August 23, 2007.

The *Debt Management Policy* was reviewed and refined in November 2010. The revised policy was reviewed by the Business Affairs and Marketing Committee and approved by the Board on November 12, 2010.

In January 2012, the *Debt Management Policy* and the accompanying procedure were reformatted into the new University-wide standard policy and procedure templates, and the debt ratio analysis was revised to bring it in line with other Virginia institutions of higher education. The policy was reviewed and approved by the President's Cabinet on January 19, 2012. It was signed by the President on February 1, 2012. The Business Affairs and Marketing Committee reviewed the revised policy on February 7, 2012, and submitted it to the Board where it was approved on February 8, 2012.

In October 2013, the *Debt Management Policy* and related procedure were reviewed by the oversight department. No substantive revisions were deemed necessary. Minor editorial changes were made that did not affect the substance or intent of the documents.

In April 2015, the *Debt Management Policy* and related procedure were reviewed by the oversight department. No substantive revisions were deemed necessary. Minor editorial changes were made that did not affect the substance or intent of the documents.

In November 2015, the *Debt Management Policy* and related procedure were reviewed by the oversight department. No substantive revisions were deemed necessary. Minor editorial changes were made that did not affect the substance or intent of the documents.

In January 2017, the *Debt Management Policy* and related procedure were reviewed by the oversight department. No substantive revisions were deemed necessary. The policy and procedure, however, were placed into the recently revised University policy template with only minor revisions.

In February 2018, the *Debt Management Policy* was reviewed by the oversight department and no revisions were deemed necessary.

In January 2019, the *Debt Management Policy* was reviewed by the oversight department and no substantive revisions were deemed necessary. Minor editorial changes were made that did not affect the substance or intent of the policy.

In January 2020, the *Debt Management Policy* was reviewed by the oversight department and no revisions were deemed necessary.

In February 2021, the *Debt Management Policy* was reviewed by the oversight department and no revisions were deemed necessary.

In February 2022, the *Debt Management Policy* was reviewed by the oversight department and no revisions were deemed necessary.

For general information concerning University policies, contact the [Office of Policy and Tax Compliance](#) – (540) 831-5794. For questions or guidance on a specific policy, contact the Oversight Department referenced in the policy.