

# **Policy on Institutional Debt**

**Effective Date of Policy:** July 1, 2007

## **Overview**

Recognizing that current financial resources are not always sufficient to fund all endeavors of the University, the University must use debt to support its mission and to meet its strategic goals. This policy establishes guidelines for the management of debt for purposes including but not exclusive to the maintenance of existing buildings and infrastructure and investment in new facilities while monitoring the University's financial condition.

## **Purpose**

This policy is designed to:

- Establish acceptable debt vehicles for the use of the University.
- Establish acceptable uses of debt by the University
- Establish financial limits on the amount of debt used by the University.

## **Policy Detail**

The President, acting through the Executive Vice President and CFO, shall be authorized to create and implement any and all debt management policies as part of the management of University financial resources. The University shall have the authority to issue bonds, notes or other obligations consistent with debt capacity limits as established in this policy. The University's Board of Visitors must approve all new long-term debt issuances.

## **Acceptable Debt Vehicles**

The University recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, risks and costs. All potential funding sources shall be reviewed by the President, acting through the Executive Vice President and CFO, to ensure that any financial product or structure is consistent with the University's objectives.

Debt financing for the University may come from:

- Section 9(c) bonds – general obligation bonds issued by the Commonwealth of Virginia on behalf of the University, which are secured by the net revenues of a completed project and guaranteed by the full faith, credit, and taxing power of the Commonwealth.
- Section 9(d) bonds – revenue bonds issued by the Virginia College Building Authority who then loans the proceeds to the University, which are not secured by specific revenues but are repaid using the pledged revenues from the General Fund appropriations, tuition and fees, auxiliary enterprise revenues, and any other revenue not required by law to be used for another purpose.
- Public Private Education Partnership agreements

- Any other alternative financing mechanism as allowed by legislation including but not limited to Section 9(d) bonds issued directly by the University, capital lease arrangements, installment purchases, and short-term operating loans.

In addition, the University may enter into written agreements with the University of Mary Washington Foundation. Such alternative financing arrangements may be utilized for the development of student housing projects or other real estate requirements of the University.

The University may not invest in variable-rate debt instruments or any contracts ancillary to its actual debt instruments such as interest rate swaps, floors, caps, swap options, and/or other derivative types of products. Such issuances bring additional risk to the University. This policy will be amended and re-approved by the Board of Visitors if the President, acting thru the Executive Vice President and CFO deems that such investments would be beneficial to the University and worth the risks involved.

#### Acceptable Debt Uses

In most cases, debt shall be used for the maintenance or acquisition of the fixed assets of the University. However, the use of temporary or short-term operating loans is authorized to be used when necessary to ensure the smooth operations of the University at the beginning of each fiscal year while awaiting the current year's general fund appropriations and allocations.

When debt is to be used as the primary funding source for non-equipment related projects, those projects will be:

- Specifically included in a bill passed by the General Assembly authorizing such projects or authorized under the Restructured Higher Education Financial and Administrative Operations Act of 2005; and
- Approved by the University's Board of Visitors as a project to be undertaken by the Institution as evidenced by the adoption of a formal resolution.

Equipment may be financed through the Department of Treasury's Master Equipment Lease Program, through other Treasury financing options, or from private sources (with Treasury's approval) when doing so better meets the needs of the institution or achieves an overall lower cost of funding.

#### Financial Limits

Debt capacity is the maximum amount of debt that the University may have outstanding at any given time. The debt burden ratio is the primary tool for expressing the maximum amount of debt permissible and represents the University's flexibility in meeting its debt service obligations. The debt burden ratio reflects the annual debt service as a percentage of the University's total expenses. The University will maintain a debt burden ration of 10% or less.

The University may exceed the debt burden ratio of 10% if:

- The new instance of debt involves revenue producing capital projects when such obligations are secured by income associated with the project
- The timing of new debt issuance causes a short-term (less than three year) increase in the ratio.

Short-term operational debt will not be considered in the calculation of the debt burden ratio of the University.

In addition, the University will not issue any debt that causes the total amount of debt to exceed \$100,000,000 or to cause the ratio of total debt to total assets of the University to exceed 50%.

Total debt and debt ratios will be monitored and reported to the Board of Visitors on an annual basis. The Office of Business and Finance will maintain all documentation associated with the debt financing of the University. This policy can be amended when necessary with the approval of the Board of Visitors.

### **Approvals**

This policy is issued by the Office of the Executive Vice President and CFO, and approved by the Board of Visitors on April 20, 2007.

### **Revision**

1. Change in title for Executive Vice President and CFO and UMW Foundation, Assistant Vice President for Finance and Controller; November 7, 2008