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:

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 [illegible] bonds." An advance refunding is a type of refunding where the 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 § 23.2-2416, "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 incorpo-6.7 (rp)2.3 (o)-al prittcinlane1Tc 0 Tw2.2 iv, sa. (s)]TJTJ 0.002 tehns. (s)]TJTJ 0.tc

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 C(i)26 esO (t)-(l)2. Tdeche13b at(.9 (u)-0V 0 1F0 1(e)7.A4 -1.3 (s)3b at/F0 (e)7.Oneeo (p)-2.043 shall be valued at that time and separated from other existing assets and invested in such a mannerfupe Td [(I)4 (f) 0 -1 e o Pe Td ( )Tj /T asdhall be (t)-2.f d at ting as (e)-3 (r)1(f)2[6 (t)-3 (h

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. <u>Terms and Structure Considerations</u>

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. <u>Amortization and term</u>: 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. <u>Capitalized interest</u>: The use of capitalized interest should be minimized whenever possible.

3. <u>Call features</u>: 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. <u>Liquidity</u>: Liquidity requirements should be evaluated on an asset and portfolio basis with consideration of investment objectives.

5. <u>Debt service reserve funds</u>: Debt service reserve funds or surety bonds should be considered to enhance the security of the debt issue.

6. <u>Debt structure</u>: Debt should be structured in a manner that allows the coordination of borrowings and minimizes the effect of negative arbitrage on the borrowings.

7. <u>Maturity</u>: 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 VP/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, § 23-2106, "Assessments of the performance of public institutions of higher education."

Code of Virginia, § 23-11002, "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 Vt Vi-3.2 (l)-3.3 (l)-(r)3.2 Cw 0.217 07.814 .5 ( )exanagmTc 0.Tc xanagmT9.21

For general information concerning University policies, contact the Office of Policy and Tax Compliance – (540) 831-5794