

# Christopher Newport University

## Policy: Debt Management Policy

### Policy Number: 3020

Executive Oversight:	Board of Visitors, Vice President for Finance and Planning/CFO
Contact Office:	Vice President for Finance and Planning/CFO
Frequency of Review:	Biennially
Date of Last Review:	December 2022

#### A. PURPOSE

This policy establishes acceptable debt vehicles, acceptable uses of debt, and financial limits on the amount of debt for the University.

#### B. POLICY STATEMENT

The President, acting through the Vice President for Finance and Planning/CFO, is authorized to create and implement debt management policies as part of the management of University financial resources. The University through the Commonwealth of Virginia has 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 (BoV) must approve all new long-term bonded debt issuances.

#### C. PROCEDURES

##### 1. Debt Vehicles

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 Vice President for Finance and Planning/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 that 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, which then loans the proceeds to the University, that are not secured by specific revenues but may be repaid using the pledged revenues from General Fund appropriations, tuition and fees, auxiliary enterprise revenues, or 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, notes payable, and short-term operating loans.

In addition, the University may enter into long-term lease agreements with its affiliated Foundations. 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 that create additional risk for the University.

## **2. Acceptable Debt Uses**

In most cases, debt shall be used for the maintenance or acquisition of the capital assets of the University. When debt is to be used as the primary funding source for non-equipment related projects, those projects shall 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 when doing so better meets the needs of the institution or achieves an overall lower cost of funding.

## **3. Financial Limits**

Debt capacity is the maximum amount of debt that the University may have outstanding at any given time.

- Maximum Annual Debt Service Costs as a percentage of total Operating Revenues shall not exceed 10% for non-revenue producing capital projects.
- The debt burden ratio may exceed 10% for revenue producing capital projects when such obligations are secured by income generated by the project.
- The University shall prepare a report for the University's BoV on an annual basis which provides an update of the University's current debt structure and status.

## **4. Responsible Parties**

The President, acting through the Vice President for Finance and Planning/CFO, has overall responsibility for development, implementation, and execution of this policy and any debt financing activities of the University.

The University's Board of Visitors must approve this policy, and any subsequent material changes made to it. The Board of Visitors is also required to approve each debt issuance for previously authorized capital projects.

#### **D. DEFINITIONS**

**Institutional debt**: A funding source based upon future revenues. The funding is used to support the University's mission and meet strategic goals.

#### **E. AUTHORITY**

*Code of Virginia, Title 23.1, Chapters 10, 11, 12, and 14*  
*Constitution of Virginia, Article X, Section 9(c) and 9(d)*  
*Virginia Department of the Treasury, Master Equipment Leasing Program*

#### **F. APPROVAL AND REVISIONS**

**Approved By:** Board of Visitors, April 30, 2007

**Revision 1:** Board of Visitors, April 27, 2018

**Revision 2:** Policy Committee, November 5, 2020

**Revision 3:** Policy Committee, December 6, 2022

#### **G. NEXT REVIEW DATE:** Fall 2024