



41.212: Debt Management Policy

- Responsible Executive:** Vice President for Finance and Business
- Responsible Office:** Office of the Controller/Financial Services
- Related Policy:**
- Approved-On Date:** President’s Executive Cabinet on March 26, 2007
NSU Board of Visitors on April 12, 2007
- Effective Date:** April 12, 2007
- Revision Date:**

Policy Statement

This policy provides guidance to Norfolk State University’s Administration and Board of Visitors in the use of long-term debt and other debt obligations in support of the University’s mission in the development of the approved Master and Capital Plans. 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 risk.

Purpose

This debt management policy covers all forms of debt including long-term and short-term and financing including both on-balance sheet and off-balance sheet structures.

Procedures

A. Develop debt affordability and capacity standards

1. *Debt Burden Percentage* - The target for this ratio is $\leq 7\%$. The ratio is intended to maintain the University’s long-term operating flexibility to finance existing requirements and new initiatives.

$$\frac{\text{Annual Debt Service}}{\text{Total Operating Expenses}} \leq 7.0\%$$

2. *Debt Service Coverage Ratio* - The target for this ratio is > 2 times revenues. The ratio is intended to ensure that operating revenues are sufficient to meet debt service requirements and that debt service does not consume too large a portion of income.

$$\frac{\text{Operating Gain/Loss} + \text{Non Operating Revenue} + \text{Depreciation}}{\text{Annual Debt Service}} > 2$$

B. Review financing sources

1. *9-C Revenue Bonds* - These are bonds financed with the State Treasury under the General Obligation Revenue Bond Financing Program.
2. *Virginia College Building Authority (VCBA)* - This is a State sponsored loan pool program to support financing of capital projects at colleges and universities (*9-D Revenue Bonds*).
3. *Refinancing Outstanding Debt* - This source is employed when the University has determined that its outstanding debt in part or whole will yield sufficient saving and or to meet a legal requirement.

C. Project financial feasibility study

The University will prepare a Commonwealth of Virginia Department of the Treasury financial feasibility study for all projects covered by this policy.

Capital Projects

The capital projects financed under this policy must directly benefit the University and the projects must be included in the University's Master Plan and Six-Year Capital Outlay Plan.

Reporting Requirements

The Vice President and Chief Financial Officer (VP&CFO) is responsible for implementing this policy and all debt financing activities of the University. The VP&CFO monitors and reports regularly to the President (CEO) and the Board of Visitors (BOV) on the University's debt positions as measured under the *debt affordability and capacity standards ratios*.

Approvals

- A. Debt obligations undertaken by the university will first be reviewed and recommended by the VP&CFO.
- B. University debt obligations must be supported by the President and Executive Cabinet and then authorized by the Board of Visitors or its designee.
- C. Additional debt obligations approvals shall be obtained as required by State law, regulations or policy.

Appendix Definitions

Debt Burden Percentage – This ratio measures the University’s debt service burden as a percentage of total university expenses.

Debt Service Coverage Ratio – This ratio measures the University’s ability to cover debt service requirements with revenues available for operations.

9-C Revenue Bonds – Bonds authorized for issuance under the provisions of Article X, Section 9 (c) of the *Constitution of Virginia*; these bonds are issued by the Treasury Board.

9-D Revenue Bonds – Bonds authorized for issuance under the provisions of Article X, Section 9(d) of the *Constitution of Virginia*. Project authorization must be provided in the Appropriation Act or other Acts of the General Assembly. A financial feasibility study should be completed for any project expected to be supported in whole or in part from project revenues or general revenues of the agency or institution. This includes projects to be financed under the Virginia College Building Authority (VCBA) Pooled Bond Program. The project may or may not be revenue producing. Capital leases and other obligations are included in this category.

Refinancing Outstanding Debt – A procedure whereby an issuer refinances outstanding bonds by issuing new bonds. Bonds are usually refunded to either 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.”