



BOV Policy # 11 (2014) Debt Management

Policy Title:	Debt Management
Policy Type:	Board of Visitors
Policy No:	BOV Policy # 11 (2014)
Approval Date:	May 9, 2014
Responsible Office:	University Controller
Responsible Executive:	Vice President for Finance and Administration
Applies to:	University Community

POLICY STATEMENT

The Norfolk State University Board of Visitors is authorized under subsection 23.1-1301 of the *Code of Virginia* to control and expend the funds of the University and any appropriation provided, and makes all necessary rules and regulations concerning the institution. This policy establishes the framework from which the University makes decisions on debt management and the use of such debt to provide funding for projects in support of the University's mission. The policy advises and creates the link between the use of long-term debt and other debt obligations, and supporting and developing the University's [Six-Year Capital Plan](#), [Strategic Plan](#), and [Campus Master Plan](#).

This policy shall be reviewed periodically and modified as necessary by the Board of Visitors. The President, through the Vice President for Finance and Administration, shall be the primary person responsible for the development, implementation, and execution of the Debt Management policy. The Vice President for Finance and Administration shall be responsible to the President for the implementation of the Debt Management policy and procedures. The President, acting through the Vice President for Finance and Administration, will ensure that this policy meets the debt guidelines promulgated by the Commonwealth of Virginia Treasury Board. The University will seek the lowest cost source of financing available while ensuring that its overall debt structure does not expose the University to unnecessary risk.

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DEFINITIONS

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.

Debt Burden Percentage: the ratio which measures the University's debt service burden as a percentage of total university expenses.

Debt Service Coverage Ratio: the ratio which measures the University's ability to cover debt service requirements with revenues available for operations.

Refinancing Outstanding Debt: a procedure whereby an issuer refinances outstanding bonds by issuing new bonds.

CONTACTS

The University Controller officially interprets this policy. The Vice President for Finance and Administration is responsible for obtaining approval for any revisions as required by BOV Policy # 01 (2014) *Creating and Maintaining Policies* through the appropriate governance structures. Questions regarding this policy should be directed to the Controller's Office.

FRAMEWORK FOR DEBT MANAGEMENT

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

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.

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



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Financing Sources

The University shall review financing sources to include the following:

9-C Revenue Bonds. These are bonds financed with the State Treasury under the General Obligation Revenue Bond Financing Program.

Virginia College Building Authority. This is a State sponsored loan pool program to support financing of capital projects at colleges and universities (*9-D Revenue Bonds*).

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.

Financial Feasibility Studies Required

The University shall prepare a financial feasibility study for all projects covered by this policy in accordance with the requirements of the Commonwealth of Virginia Department of the Treasury.

Capital Projects

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

Reporting Requirements

The Vice President of Finance and Administration is responsible for implementing this policy and all debt financing activities of the University. The Vice President for Finance and Administration shall regularly monitor compliance with this policy and periodically report to the President and Chief Executive Officer and the Board of Visitors on the University's debt position and plans as measured under the debt affordability and capacity standards ratios.

Any long-term debt must be specifically authorized by Board of Visitors resolution. As part of the resolution, the Board will also establish financing parameters to be followed by the University when issuing long-term debt. Additionally, prior to issuing tax-exempt debt of which at least a portion will be used to reimburse the University for prior expenditures. Federal tax law requires the Board to pass a resolution declaring its intent to issue tax-exempt debt or to have delegated the authority to do so to a designated authority.

PUBLICATION

This policy shall be widely published or distributed to the University community. To ensure timely publication and distribution thereof, the Responsible Executive will make every effort to:

- Communicate the policy in writing, electronically or otherwise, to the University community within 14 days of Board approval;



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- Submit the policy for inclusion in the online Policy Library within 14 days of Board approval;
- Post the policy on the Board's website and the Division of Finance and Administration offices webpages; and
- Educate and train all stakeholders and appropriate audiences on the policy's content, as necessary.

Failure to satisfy procedural requirements does not invalidate this policy.

REVIEW SCHEDULE

- Next Scheduled Review: September 2020
- Approved date: March 17, 2016; September 15, 2017
- Revision History: May 9, 2014; April 12, 2007
- Supersedes: NSU Policy No. 41.212 (2007)

RELATED DOCUMENTS

- [Department of Planning and Budget Agency Instructions](#)
- [Campus Master Plan](#)
- [Six-Year Capital Plan](#)

FORMS

- Deficit Provision Acknowledgement Form <http://www.dpb.virginia.gov/forms/forms.cfm>