

WILLIAM & MARY 2019 REVISED DEBT MANAGEMENT REPORT

William & Mary's Debt Management Policy was established to address all forms of long-term debt including fixed and variable rate options for capital construction projects and capital leases. Key objectives of the policy include:

- Providing guidance to the university in undertaking long-term debt obligations benefiting the university;
- Establishing a structured framework for the issuance of long-term debt;
- Providing an on-going process for the university to evaluate the level of its annual debt service and consolidated debt burden; and
- Documenting the due diligence used in executing and managing the university debt portfolio and use of its financial resources.

The Debt Management Policy is applicable to William & Mary (W&M), the Virginia Institute of Marine Science (VIMS), and Richard Bland College (RBC).

Background

To date, W&M has not issued any of its own debt but rather has had debt issued on its behalf by the Commonwealth of Virginia. While W&M remains responsible for principal and interest associated with this debt, this approach allows the university to minimize issuance costs and take advantage of the Commonwealth's strong credit position.

Long-term debt is used primarily to support the construction or renovation of major auxiliary facilities including residence halls, university centers and dining facilities, parking improvements, and recreational and athletic facilities. University-supported debt service for academic facilities has been used to provide supplemental funding for projects receiving significant support from the Commonwealth or for projects where significant private support is available. The typical debt vehicle is a 20-year, fixed rate 9(c) or 9(d) bond issued by the Commonwealth of Virginia. Over the course of the bond period, the Treasurer of Virginia may refinance projects to take advantage of cost saving opportunities.

Standard and Poor's Bond Rating

W&M is required to be rated by one of the major credit rating firms as part of its application for Tier 3 status under the state's Higher Education Restructuring Act. The Act required that institutions have at least an "AA-" credit rating for consideration as a Tier 3 institution. In September 2019, Standard and Poor's reaffirmed the university's "AA" issuer credit rating for the university citing key criteria for the rating as: the university's solid enrollment and demand flexibility with high student quality and robust retention, conservative use of debt, history of significant fund raising and endowment levels, experienced management team that carefully balances program growth costs with new revenue resources, as well as prudent updates to existing facilities.

Current Debt Position—As of June 30, 2019, outstanding long-term debt totaled \$255.2 million consisting of \$75.0 million in 9(c) bonds and \$180.2 million in 9(d) bonds including unamortized premiums/discounts (see Appendix A). Section 9(c) bonds are general obligation bonds issued by the Commonwealth on behalf of the university pursuant to Section 9 of Article X of the Constitution of Virginia. As such, while the university is responsible for repayment, these bonds are backed by the full faith and credit of the Commonwealth. Section 9(d) bonds are issued through the Virginia College Building Authority's Pooled Bond Program and backed by the general revenue pledge of the university. As debt is issued, the university's fee structure is adjusted to generate the funds necessary to support any new debt issuance or, in certain cases, private funds to support the necessary debt service are identified consistent with the requirements of the Debt Management Policy. W&M has also entered into capital lease agreements for the purchase of printer and copiers. The outstanding balance of these agreements as of June 30, 2019 is \$280,551.

RBC has entered into a thirty year capital lease with Richard Bland College Foundation (RBCF) for the provision of a student housing complex with two dormitories on the RBC campus. RBC has accounted for the acquisition of the complex and its furniture and equipment as a capital lease, and therefore has recorded the facility and furnishings as depreciable capital assets and has also recorded a corresponding lease liability in long-term debt on the Statement of Net Position. The outstanding balance of this capital lease as of June 30, 2019 is \$20,078,728. RBC also recognized other long-term debt through the agreement with the RBCF for non-capitalized expenses. The outstanding balance of this other debt as of June 30, 2019 is \$620,698.

Installment Purchases/Long-Term Liability, contained in Appendix B, consist of long-term obligations resulting from various contracts used to finance energy performance contracts and acquisition of equipment at W&M, VIMS and RBC. The length of purchase agreements range from two to fifteen years, and the interest rate charges are from 1.27 to 4.70 percent. The outstanding balance of installment purchases as of June 30, 2019 is \$2,162,538. In addition, not reflected in the appendices, W&M has contractual agreements for software licenses which are recorded as a long-term liability in the amount of \$1,251,421.

FY 2019 Debt Issues – \$13.4 million in 9c debt for dormitory renovations and \$24.6 million for Sadler Center West addition.

Variable Rate Debt -The university currently has no outstanding variable rate debt.

Annual Debt Service Cost as Percentage of Total Operating Expense—The Debt Management Policy stipulates that maximum annual debt service cost as a percentage of total operating expense shall not exceed 10% and that debt issued in any given year shall be limited to an amount that allows the debt service to total operating expense ratio to remain at or below the 10% maximum. Operating expenses do not include depreciation expense. Information regarding this ratio follows:

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	<u>Debt Service</u>	<u>Operating Expense</u>	<u>Ratio</u>
FY 2016	\$29,189,506	\$ 407,567,658	7.2%
FY 2017	\$23,274,959	\$ 425,181,061	5.5%
FY 2018	\$23,716,901	\$ 428,618,420	5.5%
FY 2019 (e)	\$26,157,290	\$ 430,381,453	6.1%
FY 2020 (e)	\$27,656,896	\$ 438,989,082	6.3%
FY 2021 (e)	\$27,387,213	\$ 447,768,864	6.1%

- (e) The FY 2020 and 2021 ratios reflect an estimate for debt service and two percent annual growth in operating expense above FY 2019 levels. The FY 2019 operating expenses and debt service amounts are based on unaudited numbers.

The debt service ratio has remained relatively stable over the past few years as well as the projections for FY 2019 and 2020. This is attributable to new debt being issued at an overall lower interest rate, systematic refunding of existing debt by the Commonwealth for lower interest rates and a steady increase in operating expenditures.

Available Debt Authorization — Amounts related to debt-supported capital projects which have been authorized by the Commonwealth, but for which bonds have not yet been issued (as of November 2019):

<u>Project</u>	<u>Debt Authorization Remaining</u>
Auxiliary Facility Improvements	\$ 9,322,000
Construct Sadler West Addition	\$10,751,000
Dormitory Renovations	\$11,000,000

As of June 30, 2019, VIMS has no outstanding long-term debt nor have any new debt supported projects been authorized by the Board of Visitors or the Commonwealth of Virginia.

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Appendix A
Outstanding Bond Debt

Section 9(c) Bonds Payable:

<u>Description</u>	<u>Interest Rates (%)</u>	<u>Fiscal year Maturity</u>	<u>Balance as of June 30, 2019</u>
Section 9(c) bonds payable:			
Dormitory, Series 2009C	4.000	2021	\$ 370,921
Dormitory, Series 2009C	4.000	2022	1,045,462
Dormitory, Series 2009D	5.000	2022	1,040,000
Renovate Residence Halls, Series 2010A2	3.050 - 4.400	2030	2,745,000
Dormitory, Series 2012A	5.000	2024	779,720
Dormitory, Series 2013A	2.000 - 5.000	2033	3,625,000
Dormitory, Series 2013B	4.000	2026	844,462
Dormitory, Series 2014A	3.000 - 5.000	2034	7,455,000
Dormitory, Series 2014B	5.000	2020	321,176
Dormitory, Series 2015A	3.000 - 5.000	2035	9,530,000
Dormitory, Series 2018A	3.000 - 5.000	2038	13,065,000
Renovation of Dormitories			40,821,741
Graduate Housing, Series 2009D	5.000	2022	800,000
Graduate Housing, Series 2013B	4.000	2026	1,200,361
Graduate Housing, Series 2015B	4.000 - 5.000	2028	1,365,021
Graduate Housing			3,365,382
Construct New Dormitory, Series 2010A2	3.050 - 4.400	2030	1,250,000
Construct New Dormitory, Series 2011A	3.250 - 5.000	2031	10,240,000
Construct New Dormitory, Series 2013A	2.000 - 5.000	2033	6,820,000
Construct New Dormitory			18,310,000
Renovate Commons Dining Hall, Series 2009D	5.000	2022	1,715,000
Renovate Commons Dining Hall, Series 2012A	5.000	2024	1,289,537
Renovate Commons Dining Hall, Series 2013B	4.000	2026	1,389,450
Commons Dining Hall			4,393,987
RBC Student Housing Conversion 2016A	3.000 - 5.000	2036	2,290,000
Total bonds payable			69,181,110
Net unamortized premiums (discounts)			5,785,307
Net bonds payable			<u>\$ 74,966,417</u>

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Page 5 of 8**Section 9(d) Notes Payable:**

<u>Description</u>	<u>Interest Rates (%)</u>	<u>Fiscal year Maturity</u>	<u>Outstanding Balance as of June 30, 2019</u>
Section 9(d) Bonds:			
Barksdale Dormitory, Series 2010B	5.000	2021	\$ 235,000
Barksdale Dormitory, Series 2012A	5.000	2024	365,000
Barksdale Dormitory, Series 2012A	3.000 - 5.000	2025	4,265,000
Barksdale Dormitory, Series 2012A	3.000 - 5.000	2025	4,965,000
Barksdale Dormitory, Series 2014B	4.000	2026	980,000
Barksdale Dormitory, Series 2014B	5.000	2024	545,000
Barksdale Dormitory, Series 2016A	3.000	2027	<u>375,000</u>
Barksdale Dormitory			11,730,000
Parking Deck, Series 2010B	5.000	2021	500,000
Parking Deck, Series 2012A	5.000	2024	770,000
Parking Deck, Series 2012A	3.000 - 5.000	2025	915,000
Parking Deck, Series 2012A	3.000 - 5.000	2025	2,460,000
Parking Deck, Series 2014B	4.000	2026	<u>485,000</u>
Parking Deck			5,130,000
Recreation Sports Center, Series 2010B	5.000	2021	115,000
Recreation Sports Center, Series 2012A	5.000	2024	180,000
Recreation Sports Center, Series 2012A	3.000 - 5.000	2025	3,020,000
Recreation Sports Center, Series 2012A	3.000 - 5.000	2025	960,000
Recreation Sports Center, Series 2014B	4.000	2026	<u>190,000</u>
Recreation Sports Center			4,465,000
Improve Athletics Facilities, Series 2012A	3.000 - 5.000	2025	1,295,000
Improve Athletics Facilities, Series 2014B	4.000	2026	260,000
Improve Athletics Facilities, Series 2014B	5.000	2024	210,000
Improve Athletics Facilities, Series 2016A	3.000	2027	150,000
Improve Athletics Facilities II, Series 2013A&B	2.000 - 5.000	2034	1,315,000
Improve Athletics Facilities II, Series 2017A	2.125 - 5.000	2038	<u>2,075,000</u>
Improve Athletics Facilities			5,305,000
Marshall-Wythe Library, Series 2014B	5.000	2020	125,000
Law School Library, Series 2010B	5.000	2021	135,000
Law School Library, Series 2012A	5.000	2024	220,000
Law School Library, Series 2014B	4.000 - 5.000	2026	1,470,000
Law School Renovations, Series 2013A&B	2.000 - 5.000	2034	5,575,000
Law School Library, Series 2016A	3.000 - 5.000	2028	<u>525,000</u>
Law School Library			8,050,000
Magnet Facility, Series 2010B	5.000	2021	300,000
Magnet Facility, Series 2012A	5.000	2024	<u>455,000</u>
Magnet Facility			755,000

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<u>Description</u>	<u>Interest Rates (%)</u>	<u>Fiscal year Maturity</u>	<u>Outstanding Balance as of June 30, 2019</u>
School of Business, Series 2014B	4.000 - 5.000	2026	9,475,000
School of Business, Series 2016A	3.000 - 5.000	2028	<u>3,425,000</u>
School of Business			12,900,000
Integrated Science Center, Series 2009A	3.250 - 5.000	2021	345,000
Integrated Science Center, Series 2014B	4.000 - 5.000	2026	4,970,000
Integrated Science Center, Series 2015B	3.000 - 5.000	2029	3,755,000
Integrated Science Center, Series 2016A	3.000 - 5.000	2028	<u>1,800,000</u>
Integrated Science Center			10,870,000
Cooling Plant & Utilities, Series 2009B	5.000	2020	550,000
Cooling Plant & Utilities, Series 2010A1&A2	3.750 - 5.500	2031	7,625,000
Cooling Plant & Utilities, Series 2016A	3.000 - 5.000	2030	<u>7,360,000</u>
Cooling Plant & Utilities			15,535,000
Power Plant Renovations, Series 2014B	4.000 - 5.000	2026	1,950,000
Power Plant Renovations, Series 2016A	3.000 - 5.000	2028	<u>700,000</u>
Power Plant Renovations			2,650,000
Busch Field Astro turf Replacement, Series 2009B	5.000	2020	65,000
Busch Field Astro turf Replacement, Series 2016A	3.000 - 5.000	2030	<u>860,000</u>
Busch Field Astro turf			925,000
Improve Aux Facilities Project 2017A	2.125 - 5.000	2038	7,775,000
West Utilities Plant 2017A	2.125 - 5.000	2038	13,400,000
Williamsburg Hospital/School of Education 2014B	5.000	2024	685,000
Williamsburg Hospital/School of Education, 2016A	3.000	2027	<u>470,000</u>
Williamsburg Hospital/School of Education			1,155,000
J. Laycock Football Facility, Series 2014B	5.000	2024	1,570,000
J. Laycock Football Facility, Series 2016A	3.000	2027	<u>1,100,000</u>
J. Laycock Football Facility			2,670,000
Residence Hall Fire Safety Systems, Series 2014B	5.000	2024	550,000
Residence Hall Fire Safety Systems, Series 2016A	3.000	2027	<u>375,000</u>
Residence Hall Fire Safety Systems			925,000
Ash Lawn-Highland Barn, Series 2010A1&A2	3.750 - 5.500	2031	530,000

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<u>Description</u>	<u>Interest Rates (%)</u>	<u>Fiscal year Maturity</u>	<u>Outstanding Balance as of June 30, 2019</u>
Expand Sadler Center, Series 2012B	3.000 - 5.000	2033	5,665,000
Expand Sadler Center, Series 2013A&B	2.000 - 5.000	2034	825,000
Sadler Center West, Series 2018A&B	4.000 - 5.000	2039	24,580,000
Sadler Center			<u>31,070,000</u>
One Tribe Place, Series 2013A&B	2.000 - 5.000	2034	18,885,000
Integrative Wellness Center 2015A	3.000 - 5.000	2036	8,675,000
RBC Student Housing Conversion 2017A	2.125 - 5.000	2038	1,545,000
Total 9(d) bonds			164,945,000
Net unamortized premiums (discounts)			<u>15,227,680</u>
Net notes payable			<u><u>\$ 180,172,680</u></u>

Appendix B
Installment Purchases

	<u>Outstanding Balance as of June 30, 2019</u>
<u>William & Mary</u>	
Abacus Engineered System Service, W&M Hall	\$ 214,624
<u>Virginia Institute of Marine Science</u>	
Energy efficient equipment	1,174,137
Equipment purchase	69,695
<u>Richard Bland College</u>	
Energy efficient equipment	<u>704,082</u>
Totals	<u><u>\$ 2,162,538</u></u>