

WILLIAM & MARY 2022 DEBT MANAGEMENT REPORT

William & Mary's Debt Management Policy was established to address all forms of short-term and 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.
- To assist the university in achieving and/or maintaining credit ratings necessary to be eligible for authority under the Restructured Higher Education Financial and Administrative Operations Act.

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

Background

W&M has debt issued on its behalf by the Commonwealth of Virginia and is responsible for principal and interest associated with this debt. On August 25, 2020 the Board of Visitors authorized the issuance of tax exempt and taxable debt. In October 2020, the university issued Series 2020A and 2020B tax exempt and taxable debt, respectively. Proceeds from these series were used for the university's general purposes, including (i) the financing and refinancing of the costs of certain capital projects, (ii) the refunding of a portion of the outstanding principal amount of selected outstanding debt, (iii) operational needs as identified by the university, and (iv) establishment of a quasi-endowment.

W&M has used long-term debt primarily to support the construction or renovation of major auxiliary facilities including residence halls, student 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. University debt vehicle is a fixed rate and ranges in maturity from 12-31 years.

November 17-18, 2022

Standard & 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 June 2022, 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 continued solid enrollment and demand flexibility with high student quality and robust retention and graduation rates, abundant brand recognition, manageable debt burden, solid history of fund raising and endowment levels, experienced senior 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, 2022, outstanding long-term debt totaled \$342.4 million consisting of \$58.7 million in 9(c) bonds and \$153.6 million in university issued general revenue pledge bonds, \$111.4 million in 9(d) bonds, and \$18.7 million in other Richard Bland College (RBC) notes payable 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. W&M bonds are university issued 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. RBC has entered into a thirty-year note payable with Richard Bland College Foundation (RBCF) for the provision of a student housing complex with two dormitories on the RBC campus. The outstanding balance of this note payable as of June 30, 2022 is \$18,744,988.

In FY2022 GASB Statement 87 (GASBS 87) went into effect, leading to a significant increase in capital lease reporting for the university and college. All right-to-use leased assets, within the scope of GASBS 87, with a lease term greater than 12-months and a calculated lease asset value of \$50,000 or more were capitalized as long-term lease liability. The liability consists of long-term building leases ranging from two to ten-year terms and a long-term equipment lease with a term of three years. The present value of payments expected to be made during the lease term is calculated using the discount rate implicit in the lease agreement or, if unavailable, the university will use the prime interest rate at the beginning of the lease term, published by the Federal Reserve. The outstanding balance of right-to-use lease liability as of June 30, 2022 is \$26,255,145.

Installment Purchases/Long Term Liability, contained in Appendix C, 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 five to fifteen years, and the interest rate charges are from 1.27 to 3.99 percent. The outstanding balance of installment purchases as of June 30, 2022 is \$1,528,179. 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 \$4,017,073.

FY 2022 Debt Issues – \$6.8 million in 9d debt for Sadler West Addition.

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

Annual Debt Service Cost as Percentage of Total Operating Expenses—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. The ratios are calculated on a consolidated basis for all three entities: W&M, VIMS, and RBC. Information regarding this ratio follows:

**Consolidated Debt Ratio
William & Mary, VIMS, and Richard Bland College**

	<u>Debt Service</u>	<u>Operating Expense</u>	<u>Ratio</u>
FY 2019	\$ 26,157,290	\$ 431,232,597	6.1%
FY 2020	\$ 27,656,896	\$ 440,640,851	6.3%
FY 2021	\$ 22,336,694	\$ 428,748,745	5.2%
FY 2022 (a)	\$ 29,643,388	\$ 463,117,970	6.4%
FY 2023 (a)	\$ 32,823,002	\$ 472,380,329	7.0%
FY 2024 (a)	\$ 32,067,495	\$ 481,827,936	6.7%

(a) The FY 2022 operating expenses and debt service amounts are based on unaudited numbers. The FY 2023 and 2024 principal and interest amounts are based on estimates from long-term debt schedules and the operating expense amounts are projected at a 2% increase from the prior year. Appendix C provides details on the composition of the debt ratio for W&M/VIMS and RBC.

As of June 30, 2022, the Virginia Institute of Marine Science has long term debt through installment purchases only. VIMS does not have any new debt supported projects authorized by the Board of Visitors or the Commonwealth of Virginia.

The debt service ratio has remained relatively stable over the past few years. For FY 2021 the drop-in debt service is attributable to the restructuring of debt and customizing the amortization for debt service relief.

Appendix C provides a breakdown of the debt ratios for the university, including VIMS, and Richard Bland College separately. Under William & Mary’s management agreement with the Commonwealth, the university has the authority to issue its own debt. That authority does not extend to Richard Bland College.

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 2022). The amounts for the projects below are not included in the debt ratio calculations reported above.

<u>Project</u>	<u>Debt Authorization Remaining</u>
Auxiliary Facility Improvements	\$ 9,322,000
Dormitory Renovations	\$22,850,000
Renovate Kaplan Arena/Construct Sports Performance Center	\$55,000,000
Construct Parking Facilities	\$11,300,000
Construct Utility Improvements	\$ 7,850,000

Related debt service will be included in future annual reports when the debt is issued.

Appendix A Outstanding Bond Debt

Section 9(c) & WM General Revenue Pledge Bonds Payable:

Description	Interest Rates (%)	Fiscal year Maturity	Balance as of June 30, 2022
Section 9(c) Bonds:			
Construct New Dormitory, Series 2010A2	3.450-4.400	2030	\$ 945,000
Construct New Dormitory, Series 2013A	2.000-5.000	2033	5,620,000
Construct New Dormitory, Series 2020B	0.550-1.410	2031	9,495,000
Construct New Dormitory			16,060,000
Dormitory Phase IV, Series 2012A	5.000	2024	779,720
Dormitory Phase IV, Series 2013B	4.000	2026	844,462
Dormitory Phase VIII, Series 2013A	2.000-5.000	2033	2,980,000
Dormitory Phase VIII, Series 2014A	3.000-5.000	2034	6,305,000
Dormitory Renovations Phase IX, Series 2015A	3.000-5.000	2034	3,350,000
Dormitory Renovations Phase IX, Series 2018A	3.000-5.000	2038	11,670,000
Dormitory Renovations Phase IX, Series 2019A	2.000-5.000	2039	2,360,000
Dormitory Phase X, Series 2019A	2.000-5.000	2039	2,015,000
Renovation of Dormitories			30,304,182
Graduate Housing, Series 2013B	4.000	2026	1,200,361
Graduate Housing 6&7, Series 2015B	5.000	2028	979,970
Graduate Housing			2,180,331
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			2,678,987
Renovate Residence Halls, Series 2010A2	3.450-4.400	2030	2,070,000
RBC Student Housing Conversion 2016A	3.000-5.000	2036	2,005,000
W&M General Revenue Pledge Bonds:			
Barksdale Dormitory, Series 2020B	0.613-3.023	2036	7,400,000
Construct New Dormitory, Series 2020B	0.613-2.312	2032	527,455

Description	Interest Rates (%)	Fiscal year Maturity	Balance as of June 30, 2022
Dormitory Phase IV, Series 2020B	0.613-2.312	2032	1,021,584
Dormitory Phase VIII, Series 2020B	0.613-2.312	2032	635,186
Dormitory Phase X, Series 2020B	0.613-2.312	2032	83,078
Dormitory Renovations Phase IX, Series 2020B	0.613-2.312	2032	590,924
Dormitory Renovations Phase IX, Series 2020B	0.613-2.592	2035	6,540,000
Renovation of Dormitories			<u>8,870,772</u>
Graduate Housing, Series 2020B	0.613-2.312	2032	264,660
Graduate Housing 6&7, Series 2020B	0.613-2.312	2032	137,623
Graduate Housing			<u>402,283</u>
Improve Athletics Facilities, Series 2020B	0.613-3.023	2036	990,000
Improve Athletics Facilities II, Series 2020B	1.561-2.542	2034	1,320,000
Improve Athletics Facilities			<u>2,310,000</u>
Improve Aux Facilities, Series 2020B	0.613-2.417	2033	5,425,000
Improve Aux Facilities, Series 2020B	1.561-2.542	2034	830,000
Improve Aux Facilities			<u>6,255,000</u>
Law Library, Series 2020B	0.613-3.023	2036	240,000
Law School Renovations, Series 2020B	1.561-2.542	2034	5,590,000
Law School Renovations			<u>5,830,000</u>
Magnet Facility, Series 2020B	0.613-3.023	2036	500,000
One Tribe Place, Series 2020B	1.561-2.542	2034	18,955,000
Parking Deck, Series 2020B	0.613-3.023	2036	3,395,000
Recreation Sports Center, Series 2020B	0.613-3.023	2036	3,220,000
Renovate Commons Dining Hall, Series 2020B	0.613-2.312	2032	550,493
Renovate Residence Halls, Series 2020B	0.613-2.312	2032	233,997
Taxable New Money-Capital Projects, Series 2020B	3.023	2040	3,935,000
Taxable New Money-General Purposes, Series 2020B	1.942-3.123	2051	75,110,000

Description	Interest Rates (%)	Fiscal year Maturity	Balance as of June 30, 2022
Tax-exempt Dormitory Renovations, Series 2020A	3.000-5.000	2038	13,665,000
Total bonds payable			206,458,500
Net unamortized premiums (discounts)			<u>5,799,208</u>
Net bonds payable			<u>\$ 212,257,708</u>

Description	Interest Rates (%)	Fiscal year Maturity	Balance as of June 30, 2022
Section 9(d) Bonds:			
Ash Lawn-Highland Barn, Series 2010A1&A2	4.350-5.500	2031	\$ 415,000
Barksdale Dormitory, Series 2014B	5.000	2024	235,000
Barksdale Dormitory, Series 2014B	4.000	2026	980,000
Barksdale Dormitory, Series 2016A	3.000	2027	<u>375,000</u>
Barksdale Dormitory			1,590,000
Busch Field AstroTurf Replacement, Series 2016A	3.000-5.000	2030	715,000
Cooling Plant & Utilities, Series 2010A1&A2	4.350-5.500	2031	5,975,000
Cooling Plant & Utilities, Series 2016A	3.000-5.000	2030	<u>6,130,000</u>
Cooling Plant & Utilities			12,105,000
Improve Athletics Facilities, Series 2014B	5.000	2024	90,000
Improve Athletics Facilities, Series 2014B	4.000	2026	260,000
Improve Athletics Facilities, Series 2016A	3.000	2027	150,000
Improve Athletics Facilities II, Series 2017A	2.125-5.000	2038	1,850,000
Improve Athletics Facilities, Series 2019A	5.000	2030	<u>3,510,000</u>
Improve Athletics Facilities			5,860,000
Improve Aux Facilities Project 2017A	2.125-5.000	2038	6,930,000
Integrated Science Center, Series 2014B	4.000-5.000	2026	3,050,000
Integrated Science Center, Series 2015B	3.000-5.000	2029	3,065,000
Integrated Science Center, Series 2016A	3.000-5.000	2028	<u>1,800,000</u>
Integrated Science Center			7,915,000
Integrative Wellness Center 2015A	3.000-5.000	2036	7,580,000

Description	Interest Rates (%)	Fiscal year Maturity	Balance as of June 30, 2022
J. Laycock Football Facility, Series 2014B	5.000	2024	670,000
J. Laycock Football Facility, Series 2016A	3.000	2027	1,100,000
J. Laycock Football Facility			<u>1,770,000</u>
Law School Library, Series 2014B	4.000-5.000	2026	900,000
Law School Library, Series 2016A	3.000-5.000	2028	525,000
Law School Library			<u>1,425,000</u>
Parking Deck, Series 2014B	4.000	2026	485,000
Power Plant Renovations, Series 2014B	4.000-5.000	2026	1,200,000
Power Plant Renovations, Series 2016A	3.000-5.000	2028	700,000
Power Plant Renovations			<u>1,900,000</u>
Recreation Sports Center, Series 2014B	4.000	2026	190,000
Residence Hall Fire Safety Systems, Series 2014B	5.000	2024	235,000
Residence Hall Fire Safety Systems, Series 2016A	3.000	2027	375,000
Residence Hall Fire Safety Systems			<u>610,000</u>
Sadler Center West, Series 2018A&B	4.000-5.000	2039	22,250,000
Sadler Center West, Series 2022A	3.000-5.000	2042	6,800,000
			<u>29,050,000</u>
School of Business, Series 2014B	4.000-5.000	2026	5,815,000
School of Business, Series 2016A	3.000-5.000	2028	3,425,000
School of Business			<u>9,240,000</u>
West Utilities Plant 2017A	2.125-5.000	2038	11,945,000
Williamsburg Hospital/School of Education 2014B	5.000	2024	295,000
Williamsburg Hospital/School of Education, 2016A	3.000	2027	470,000
Williamsburg Hospital/School of Education			<u>765,000</u>
RBC Student Housing Conversion 2017A	5.000	2038	1,375,000
RBC Dormitory 2006	2.400	2039	18,744,988
Total notes payable			120,609,988
Net unamortized premiums (discounts)			9,538,593
Net notes payable			<u>\$ 130,148,581</u>

Appendix B Installment Purchases

	<u>Outstanding Balance as of June 30, 2022</u>
<u>Virginia Institute of Marine Science</u>	
Energy efficient equipment	709,506
Equipment purchase	42,828
Water quality monitoring equipment	231,383
Zevo G2-XS System	257,472
 <u>Richard Bland College</u>	
Energy efficient equipment	<u>286,991</u>
Totals	<u><u>\$ 1,528,179</u></u>

Appendix C

Annual Debt Service Cost as Percentage of Total Operating Expenses for W&M including VIMS

W&M/VIMS

	<u>Debt Service</u>	<u>Operating Expense</u>	<u>Ratio</u>
FY 2019	\$24,495,518	\$ 414,519,098	5.9%
FY 2020	\$25,971,274	\$ 422,479,537	6.2%
FY 2021	\$21,150,826	\$ 409,612,411	5.2%
FY 2022 (a)	\$27,907,270	\$ 437,038,633	6.4%
FY 2023 (a)	\$31,058,083	\$ 445,779,406	7.0%
FY 2024 (a)	\$29,777,858	\$ 454,694,994	6.6%

(a) The FY 2021 reflects the debt service as a result of the savings from restructuring the university's debt with the issuance of the Series 2020 A and B bonds and two percent annual growth in operating expense above FY 2022 levels. The FY 2022 operating expenses and debt service amounts are based on unaudited numbers.

Richard Bland College

	<u>Debt Service</u>	<u>Operating Expense</u>	<u>Ratio</u>
FY 2019	\$1,661,772	\$ 16,713,499	9.9%
FY 2020	\$1,685,622	\$ 18,161,314	9.3%
FY 2021	\$1,185,868	\$ 19,136,334	6.2%
FY 2022 (a)	\$1,736,118	\$ 26,079,337	6.7%
FY 2023 (a)	\$1,764,919	\$ 26,600,924	6.6%
FY 2024 (a)	\$2,289,637	\$27,132,942	8.4%

(a) The FY 2023 and 2024 ratios reflect two percent annual growth in operating expense above FY 2022 levels. The FY 2022 operating expenses and debt service amounts are based on unaudited numbers.