REPORT OF THE
AUDITOR OF PUBLIC ACCOUNTS

A Review of Debt at State Supported Institutions of Higher Education

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

HOUSE DOCUMENT NO. 80

COMMONWEALTH OF VIRGINIA
RICHMOND
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AUDIT SUMMARY

Virginia's institutions of higher education have developed unique and independent financial operating models. These institutions also have a widely varying level of fiscal sophistication and financial management. As we have reviewed the debt capacity of various institutions, it is clear that one model, even general in nature, would not provide an effective tool for either the Commonwealth or the individual institutions.

We believe that all institutions should develop and have a debt capacity model to guide their issuance of debt. These models should equally consider both the debt service cost associated with the debt, but more importantly, the effect that debt service can have on mandatory fees and other costs to the students. Historically, Virginia's approach to reviewing debt issuance in many cases only focuses on the project's ability to generate sufficient revenue to pay debt service on the bonds or whether debt service costs will remain below a certain percentage of expenses. These approaches both fail to consider the cost to the student if the project becomes part of the comprehensive cost of attendance or tuition and fees.

The Commonwealth needs to evaluate these various debt capacity models to determine the extent institutions are affecting the Commonwealth's debt capacity and bond rating. Although, the institutions have received exemptions from certain state regulations or laws, their actions continue to have a direct effect on the Commonwealth. The financial market analysts do not separate the actions of the institutions of higher education from the Commonwealth's overall financial status and bond rating. The use of joint ventures with other organizations also will have an impact on the Commonwealth in the financial markets, if they believe that the Commonwealth will assume a guarantor role in these arrangements.

Recommendations

1. Each institution should develop and use a debt capacity model approved by the institution's Board of Visitors and compliant with the guidelines of the Secretary of Finance and the State Council of Higher Education.

2. The debt capacity model should include a component, which considers the effect of debt service on the cost of attendance.

3. The General Assembly may wish to have the Debt Capacity Advisory Committee review the institutions' debt capacity models and periodically report on how the institutions are using them and their results.

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Introduction

The financial operations of Virginia's institutions of higher education have always been a shared operation between the Commonwealth and the Board Visitors of each institution of higher education. The extent of the Commonwealth's participation has varied over the years and taken different forms of support. Historically, the Commonwealth's two primary means of support have been direct appropriations and issuance of debt for capital projects and infrastructure. Additionally, the institutions have used the Commonwealth's financial status and bond rating to secure other direct financing.

The Board of Visitors, with the institution's management, have had the responsibility of determining the institution's level of service and deciding on how to fund the difference between the state support and the funds necessary to meet the Board's level of service. Institutions have historically funded this difference with tuition and mandatory fees.

Institutions have also sought to have alumni and others donate or contribute resources to the institutions and have developed sizable endowment funds. Other institutions have also sought research and other academic grants to fund the institution. For the majority of Virginia's institutions, tuition and mandatory fees and the Commonwealth's direct and indirect contribution to operations continues as the primary source of the institution's revenues.

The Commonwealth has allowed its institutions to develop and adapt to their perceived market as separate entities. This degree of independence has resulted in 14 institutions of higher education with varying financial resources and expertise, market share, programs, and abilities to grow and adapt. All of these factors affect the long-term financial health and capacity of the institution to grow and address its needs.

All of these factors affect an institution's ability to use the financial market to meet capital and infrastructure needs. These fiscal constraints also affect the institution's ability to operate and maintain these assets.

Financing Higher Education in Virginia

As discussed in the introduction, financing higher education in Virginia has always been a joint activity of the Commonwealth through appropriation and individual institution's Board of Visitors in deciding how to meet the financing needs. The Board of Visitors and institutional management have needed to balance Commonwealth mandates such as salary increases for staff and instructors or limits of tuition increases with the operating needs of the institution.

In balancing their operating needs with Commonwealth mandates and the diverse operating nature of the individual institutions, there has developed a significant variation in the revenue and expense structure of the institutions. The variation in the revenue structure makes comparison of the various institutions' operating environments difficult. Much of the variation comes from how individual institutions have responded to restrictions on the tuition and fee increases over time. Certain tuition increase restrictions led to the switch of some operations to a self-supporting fee structure. Then when the Commonwealth instituted restrictions on mandatory fees a further shift of activities occurred to other non-mandatory fees.

Tuition, mandatory fees, and auxiliary enterprise charges continue to constitute the single largest source of income to most institutions. Auxiliary enterprises are typical business activities the institution has to provide goods or services to students and faculty. Examples of auxiliary enterprise activities include dormitories, dining facilities, and student athletics. However, Board of Visitors and institutional management have used all of these revenue sources to deal with the restriction on increasing tuition and fees while at the same time, having to meet the mandate of funding salary increases. These revenue sources are also highly sensitive to external factors, primarily a student's willingness to incur these costs.

Several institutions have significant revenues from research grants and contracts, gifts, and investment income. Research grants and contracts serve primarily as a means of developing the institution's prestige and standing but have a limited resource contribution in most of the Commonwealth's institutions. While gifts and investment income are vital resources, these revenues only constitute a significant funding resource in approximately six of the institutions.

Some institutions use foundations to conduct certain activities and to hold endowment funds and other resources. Foundations play a vital role in institutional operations, but foundation activities are normally outside of the institution's public activities, we will only discuss the foundations in terms of their activities, which may affect the institution and the Commonwealth debt financing.

Students and the Commonwealth remain an institution's primary income source, unless, an institution has access to significant gifts and investment income. Student's ability to pay tuition, mandatory fees and auxiliary enterprise charges is a major operating concern of the Board of Visitors. Therefore, any events, which directly affect a student's ability to pay and attend an institution, need to become an integral part of an institution's strategic and operational planning.

Capital Financing Consideration

Institutions have significant capital needs for buildings, infrastructure, and equipment. Historically, the major contributor for additional capital needs has been the growth of Virginia's general population, which eventually created the need for the institutions to expand their facilities. Another a contributing factor is the Commonwealth and the institution's current process for funding and maintaining facilities.

For most of the past two decades, the institutions and the Commonwealth have funded capital costs with the use of debt financing. There are a number of debt financing options available to the Commonwealth and institutions, and we will discuss various debt issuance methods later.

Fundamentally, the Commonwealth and institutions have only two options, the Commonwealth uses its debt capacity and issues the debt and pays the debt service, or the institution issues the debt and pays the cost. The Commonwealth has issued debt for buildings, infrastructure, and equipment through various means and used general tax supported resources to pay the debt service.

Commonwealth debt supported by general tax resources does not represent a direct cost to the institution or student. Under this option, the Commonwealth sets aside, in the Appropriation Act, the amounts for the debt proceeds to pay for individual projects and the annual debt service in total, which the Treasury Board, acting as the Commonwealth's agent, pays.

Institutions often do not include this debt service payment as a form of Commonwealth support to the institution. We will discuss the need to reconsider the inclusion of this support when developing a capital financing plan.

The second option for capital financing involves the institution directly incurring the debt and having to support the related debt service cost. Historically, the institutions have used a direct debt issuance for a specific project with a dedicated revenue source. The classic example of this type of the capital financing is a revenue bond to build a dormitory and dining hall with the future dormitory and meal plan fees dedicated for the payment of debt service.

Another capital financing structure has been some form of capital lease. Under this arrangement the institution enters into an agreement with a third party to lease a facility, equipment, or some other capital asset for a period in which the institution uses up most of the economic value of the asset. This type of capital financing has a number of forms, arrangements, or payment terms, but ultimately the institution has control of the asset and therefore is liable.

Both of the institutional capital financing structures have an effect on student tuition and fees. As in the example of the dormitory and dining hall, a portion of a student's dorm and dining hall bill pays for debt service. Similarly, when the institution enters into a capital lease for all of the copiers on campus a portion of the tuition bill makes the lease payments for the copiers.

Institutions have entered into several arrangements within the past several years, which have blurred the line between tuition and fees and auxiliary enterprise revenues sources. As an example in order to fund an expansion of the student health facilities, which had been part of tuition, the institution has set a student health fee that supports the facility and debt service and is now an auxiliary enterprise.

Finally, institutions are also entering into agreements that have no direct financial relationship between the institution and a third party; however, the institution has agreed to certain actions. The most common agreement currently is an institution's commitment to direct students to housing owned by a third party. In some cases, the institution bills and collects the housing fees as part of the collection of tuition and fees and transmits the money to the third party. Although the rental agreement is clearly in the name of the third party and student, this arrangement makes it appear that the institution has more than a passing relationship.

Planning and Managing Capital Debt

Planning and managing capital debt is a component of planning and managing the institution. Since institutions historically have had intense capital needs, the financing of the projects should be part of the institution's strategic planning. All the institutions have master plans for both capital expansion as well as renovation. The plans address both the institution's current needs and use student population projections, mission development projects and, in some cases, activities within and around the institution's community to support economic growth.

The sophistication and level of detail of the various institutional strategic and master plans varies among the institutions. Most institutions do tend to follow these plans.

The plans also have a long-term horizon because of the Commonwealth capital outlay approval process. Because of the uncertainty of capital funding, most plans do not specifically address the mechanism for funding any of the projects, unless they are not using state support. Institutions have adopted this approach in response to the problems they perceive with the Commonwealth's capital outlay process and funding mechanism. The institutions have too often submitted a project for funding under one method and, before the completion of the budget had the project approved under another method.

As of November 2006, seven of the institutions have Board of Visitor approved debt policies and only the University of Virginia has as part of their capital planning process a debt capacity provisions in its comprehensive debt policy. The comprehensive debt policy determines the amount of debt it should incur and we will discuss this model in greater detail later. Most institutions use the current guidelines developed by the State Council of Higher Education, which suggest that debt service should not exceed seven percent of expenditures. Capital planning at most institutions does not include a formal process for considering the project's effect on the institution's ability to absorb debt or alternatives to funding the project with other means.

Determining Debt Capacity

Debt capacity is the method by which an organization determines the amount of debt it can take on while maintaining the flexibility to respond to changing business environments. In government, debt capacity is typically the amount of debt service a government can pay before it over commits revenues or restricts its ability to redirect funding. Most debt capacity models exist as a function of both expenses and revenues.

As an example, the Commonwealth debt capacity model examines its ability to issue more debt in relation to the ability to generate and collect revenue. The Commonwealth has limited itself to issuing tax-supported debt, which spends no more than five percent of its general taxes on debt service. The model defines tax-supported revenue, what types of debt this revenue stream supports, and then calculates the amount of debt the Commonwealth may prudently issue including certain stress tests projecting possible interest rates on the debt and its effect on the limit.

Only the University of Virginia has as part of their capital planning process a debt capacity provisions in its comprehensive debt policy to determine the amount of debt it should incur. As previously mentioned, most institutions use the current guidelines developed by the State Council of Higher Education, which suggest that debt service should not exceed seven percent of expenditures. Following is a discussion of how most institutions review debt capacity and some inherent problems with the current approach.

Current Debt Capacity Practices

Most institutions' current debt capacity practices do not include several components of what are considered key elements of understanding and planning capital financing whether it is in the commercial or government service environments such as colleges and universities. The key elements include the following:

1. Consideration of the consumer
2. Revenue generation
3. Capital commitment beyond debt service
4. Planning capital financing both short and long-term
5. Evaluation criteria for alternate financing

The University of Virginia has a debt capacity model approved by its Board of Visitors; six other institutions have Board approved debt capacity models. Based on a review of several published debt capacity models at other institution of higher education in other states, we have found that all of the other models include the elements noted above.

The University of Virginia's model addresses all but one of these elements, consideration of the consumer. Each institution's model should address these elements in varying levels of detail, however, at a fundamental level there are goals and objectives that a capital project and its financing must meet. Details must reflect the individual institution's mission and targeted market.

Consideration of the Consumer

As discussed above, institutions have managed their debt on a project-by-project basis. If the institution could show the Commonwealth that the project would provide sufficient revenues to pay the debt service and the institution had a need for the project, the Commonwealth normally approved the project and then issued the debt. This project-by-project approach ignored the effect of debt service cost on the student. These projects were typically optional activities, such as housing, dining halls, or auxiliary enterprise activities, which are products or services the student can elect to buy.

However, for most of the past two decades funding capital projects has shifted to include activities traditionally funded through tuition. These activities may include student centers, health clinics, multi-use buildings, and other items, which were part of tuition costs to the student.

In order to use the project-by-project model, the institution began setting these projects up to appear to be auxiliary enterprise activities. However, unlike typical auxiliary enterprises, the student does not have the option to purchase or not use the activity. The institutions assess a fee to all students and allocate this fee to the various activities to cover costs and debt service. This approach now makes these fees part of the students cost of attending the institution just like tuition.

Many factors affect a student and their parent's decision in selecting an institution. The factors may include the institution's academic and social reputation, location, and other items, but cost of attendance is also a significant factor.

As consumers, students and their parents consider both the long-term and short-term cost of attending an institution. They are also concerned over which costs they can control and those that are fixed attendance costs. Students and parents have some control over items, such as books by buying new versus used or housing costs by living on campus or looking for off campus housing. Fixed attendance costs are only controlled by the institution, and not the consumer, the student and parents.

In commercial entities, a key factor in decision-making includes considering the impact on the consumer. Virginia institutions should include in their mechanism for making capital decisions, debt capacity measures that consider the impact of capital decisions and their long-term cost. They should also consider whether those costs are mandatory or optional costs to the consumer.

Revenue Generation

In addition to considering the effects of debt service on the cost of attendance, the institution needs to anticipate what the effects are of the cost of optional services, if the student can elect to spend funds elsewhere. The classic example of this consideration is student housing.

Student demands in housing have significantly changed over the past 25 years. Dormitories have gone from simply sleeping and studying spaces with communal baths to apartment style units with multiple baths and sufficient wiring to handle all the current electronic needs. Student housing options depend on the institution's location and may find the institution competing with available private housing especially designed for students.

The dormitory project above is a clear example of the issue of revenue generation, which the institution would need to consider when looking at its capital needs and financing. This example also points out one of the shortfalls of the Commonwealth's current project-by-project revenue approach to financing.

Revenue generation is also a function of not only making debt service, but also the ability of the project to pay all of other costs associated with the project over time. Using the dormitory example again, projecting out maintenance costs, fuel, and other typical rental property costs is an essential component of revenue generation factors, which will drive future costs.

While it is unlikely that anyone can predict the student housing trend over the life of the bonds, it is a clear example that looking at the market and the availability of alternatives should be a factor of the ability of an institution to fund debt service long-term. Capital planning would indicate a need to at least consider market trends, determine if facilities have alternate uses that generate revenue, and finally, the size and financing the project debt in terms of the risk of not generating long-term revenues.

As these factors change over time, depending on outside market forces, the institution may find itself in competition to attract a student's money. If apartment living is available, but the institution only offers the older style dormitory, students will elect not to live in the dormitories, therefore resulting in revenue losses.

Capital Commitment beyond Debt Service

Capital investments require more that just debt service and have their own life cycle that will require significant commitments of resources for major maintenance. Periodic major maintenance costs occur with any facility, such as the replacement of roofs, air conditioning, and other mechanical systems. Debt capacity models need to consider how the institution intends to address these issues over time, since some of the maintenance will occur before the debt is retired.

If the institution's intent is to set the funding aside as part of its revenue generation, then there is no impact on debt capacity. However, if the institution's intent is to finance these maintenance items with debt, there is an impact on debt capacity. Part of any debt capacity model is to include anticipated debt issuances and factor them against the institution's capacity.

Planning Capital Financing both Short and Long-Term

Debt capacity models do not only review an entity's ability to absorb debt, but are planning tools to decide when an entity should incur debt and attempt to determine what affect this issuance will have on the institution. These debt capacity models coupled with the institution's strategic and capital plans should help guide the institution in achieving those goals.

The debt capacity model coupled with a debt management program should also allow the institution to manage its overall debt position. The ability to take advantage of favorable interest rates for refunding or accelerating a project and knowing its effect are part of the planning process.

Evaluation Criteria for Alternate Financing

The final part of a debt capacity model is the development of criteria to evaluate alternate financing proposals and their effect on the institution. Alternate financing can create differing forms of obligations, which can either directly or indirectly affect the institution's debt capacity. A debt capacity model provides a systematic approach to evaluating these proposals and their affect.

The University of Virginia Debt Capacity Model

As stated earlier, only the University of Virginia has a formally adopted debt capacity model. The debt capacity policy states its role in fulfilling the University's mission and its strategic and capital outlay plans. The policy defines the oversight and approval processes, defines key measures and ratios for decision analysis, and discusses the acceptable use of potential types of debt including the use of derivatives.

Below we summarize the content of the University's debt policy and believe, with one exception, that the policy addresses all of the major components of the Debt Capacity Model we discuss in this section of the report.

Purpose

The debt policy discusses its use by management and the Board in their efforts to fulfill their strategic and capital outlay plans. This discussion includes defining the institution's controls for analyzing, approving, and managing debt options for short and long term funding needs. The University has established the policy to consider its objectives when accessing the financial market, ensure creditworthiness, define allowable allocations of specific types of debt, and define budget flexibility and liquidity to meet future needs. However, it does not directly define how to coordinate debt policy decisions with the impact on student tuition and fees and other funding sources.

Oversight

The debt policy clearly states the responsibilities of management and the Board of Visitors for implementation, including authorization to incur debt. In addition, this policy states the Board of Visitors' expectations related to compliance monitoring of policy measures and defines limitations for specific types of exposure.

Debt Affordability and Capacity Measures

The debt policy includes measures that allow management and the Board to ensure debt affordability, capacity, and liquidity, but not the impact on student tuition and fees. The collective evaluation of multiple measures provides a comprehensive view of all risk considerations as defined by the Board. The University uses these measures to clearly communicate its debt management philosophy and ongoing assessment of debt capacity and affordability.

The policy uses annual debt service as a percentage of total operating expenses because they assert that operational expenses are more stable than operational revenue that may include one-time operating gifts, investment earnings fluctuations, and variability of Commonwealth funding. The policy also measures debt service coverage by calculating their operating gain or loss plus non-operating revenue and depreciation as a percentage or annual debt service. This measure allows the University to monitor its ability to cover debt service with operating revenues. Additional measures include a viability ratio and debt capitalization percentage. The viability ratio measures the liquidity of assets related to debt by calculating their unrestricted net assets plus restricted expendable net assets as a percentage of aggregate debt. Their capitalization percentage allows the University to monitor the percentage of capital that comes from debt to prevent becoming overly leveraged. The policy calculates this measure by dividing aggregate debt by total net assets plus aggregate debt.

Financing Sources/Type of Debt

The policy ensures all financing structures receive a full review for each transaction including quantifying potential risks and benefits and analyzing the impact on the University creditworthiness and debt affordability and capacity. This review includes weighing the benefits of university-issued versus state-issued debt related to cost effectiveness, flexibility in market timing, and bond ratings. In addition, the Policy also discusses how they will consider the use of bridge funding tax-exempt versus taxable debt and the use of derivative products.

Portfolio Management of Debt

In the University's effort to manage debt on a portfolio basis as opposed to on a project-by-project basis, they have included in their debt policy considerations for exposure to variable interest rates and other types of financings and exposures to third parties. The University will allow exposure to variable rate debt to take advantage of repayment flexibility, to benefit from historically lower than average interest costs to provide a match between debt service requirements and the project cash flows from the University assets, and to diversify their pool of potential investors. The policy requires management to monitor exposure and sets requirements for adjustments to the portfolio allocation of 40 percent of the University's outstanding debt. The University of Virginia recognizes that the use of variable rate debt and forms of short-term financings requires liquidity. They have included discussion on how they can obtain or avoid the need for outside liquidity.

We believe that the University's debt policy is a framework that other Virginia institutions could use to develop a debt capacity policy. We believe the Debt Affordability and Capacity Measures should be expanded to include more of the effect that debt has on the student's cost of attendance payments and the optional purchase type activities discussed earlier.

While we understand the University's position on measuring debt in terms of expenses, we believe that they should provide equal weight to their operating revenue. Further, we believe the operating revenue measure should compensate for any significant variations in income and should represent a measure over time.

Institutional Debt Capacity Model

The Commonwealth has allowed the institutions to develop separately and, as a result, each institution has its own unique accounting and financial condition. Therefore, one debt capacity model is probably not a practical solution in the Commonwealth. Further with the movement for decentralization and exemptions from certain guidelines, the need to monitor and review debt increases.

This report has discussed the elements of what constitutes a working debt capacity model. We believe with the exception of expanding considerations for the revenue and consumer portion of the model, the University of Virginia can serve as an example framework for other institutions in the Commonwealth.

The Secretary of Finance working with the Treasury Board and the State Council of Higher Education should assist the institutions in developing debt capacity models. Those models should address each element of the model discussed in this report. This model needs to serve not only as a guide for the institutions, but as a working document for the Commonwealth to assess the impact of debt on the Commonwealth's potential debt capacity.

Institutional Debt and the Commonwealth

Clearly institutional debt has an impact on the Commonwealth. Rating agencies view the institutions as component units of the Commonwealth, and while not legally liable for all of the debt, see the Commonwealth as the potential guarantor of the debt. Currently, the Commonwealth controls most of the debt institutions incur by requiring the approval of the Treasury Board to review the structure and terms of the debt before the institution issues debt or the Commonwealth issues the debt on behalf of the institution.

The approval process has historically reviewed the institution's request for issuing debt on a project-by-project basis. The Treasury Board has set guidelines for the debt it must review and timing of the review. This approach does not review the totality of an institution's debt structure. Additionally, this approach has encountered problems as institutions enter into new and different types of financing. Some of the institutions have not gotten the Treasury Board's approval for certain transactions; since the institutions did not believe the transaction involved an obligation.

The Treasury Board does not normally review agreements where the institution commits to an action with a third party, which may appear to create a guarantee on the part of the institution to a third party. An example is where a Foundation constructs apartments for student use and the institution agrees to assign students looking for housing to the Foundation's apartments.

Institutions may be entering into various agreements, which bind them and, in turn, the Commonwealth to meeting future commitments. Our review of the existing literature indicates that as this form of alternative financing expands, the bond rating agencies may consider this not only debt of the institution, but debt of the Commonwealth.

The Treasury Board is not equipped to monitor, review, and approve these diverse and complex agreements. An institutional debt capacity model, such as the University of Virginia's model, should allow institutions to evaluate and review these agreements as they move forward. The Treasury Board or Secretary of Finance could use this information to monitor the level of incurred debt, which the Commonwealth may appear to be guaranteeing.

Commonwealth Debt Capacity

The Commonwealth has an effective program to monitor debt capacity in terms of tax-supported debt through its debt capacity model and Debt Capacity Advisory Committee. Since most other debt has been directly revenue supported, the review and monitoring of the debt has been project-by-project. Since the Commonwealth's current practices limit the nature and type of obligations incurred, expanding the capacity model to the Commonwealth is probably not necessary.

However, the Debt Capacity Advisory Committee should review the debt capacity models that the institutions develop and have the institutions report periodically on how they use them. The Debt Capacity Advisory Committee should report the results to the General Assembly. This review would provide the Debt Capacity Advisory Committee the ability to explain the effect, if any, on the financing of institutions other than the traditional forms of debt.

Other Matters

The Commonwealth, in addition to direct appropriations, provides significant resources to the institutions in the form of direct payment of debt services as shown in Appendix C. Over 52 percent of the Commonwealth's outstanding tax supported debt relates to projects for institutions of higher education. Debt service payments for higher education for the fiscal year ended June 30, 2005 was approximately $82,679,155. Incurring these costs directly reduces the cost of attendance at each of the Commonwealth institutions. In the future, if the institutions begin issuing more of their debt independently, this could significantly affect the student's cost of attendance.

Conclusion

Virginia's institutions of higher education have developed unique and independent financial operating models. These institutions also have a widely varying level of fiscal sophistication and financial management. As we have reviewed the debt capacity of various institutions, it is clear that one model, even general in nature, would not provide an effective tool for either the Commonwealth or the individual institutions.

We do believe that each institution should develop and have a debt capacity model to guide their issuance of debt. These models should equally consider both the debt service cost associated with the debt, but more importantly, the effect that debt service can have on mandatory fees and other cost to the students. Historically, Virginia's approach to reviewing debt issuance in many cases only focuses on the project's ability to generate sufficient revenue to pay debt service on the bonds or whether debt service cost will remain below a certain percentage of expenses. These approaches both fail to consider the costs to the student if the project becomes part of the comprehensive cost of attendance or tuition and fees.

Issuing debt is also a mechanism of providing infrastructure for the institution. Infrastructure acquisition in the institutions has also become more complex and riskier as institutions began to establish new joint ventures with private companies, foundations, and limited partnerships. Additionally, the arrangements can create both legal and moral obligations for the institutions. In some cases, these joint ventures expand the institution's presence into the community or neighborhood. Institutions also need to understand and evaluate their relationship in the joint venture and the effect that the parties of the joint venture can have on the institution.

In addition to the change of focus from the project generating sufficient revenue to considering the impact on the student cost, we also believe that the debt capacity model should have some underlying principles and considerations. These principles and considerations should include long term strategic planning, clear investment and debt management policies, governing board's role, fundraising capability, level of management oversight, and budgeting practices.

Finally, the Commonwealth needs to evaluate these various debt capacity models to determine the extent institutions are affecting the Commonwealth's debt capacity and bond rating. Although, the institutions have received exemptions from certain state regulations or laws, their actions continue to have a direct effect on the Commonwealth. The financial market analysts do not separate the actions of the institutions of higher education from the Commonwealth's overall financial status and bond rating. The use of joint ventures with other organizations also could have an impact on the Commonwealth in the financial markets, if they believe that the Commonwealth will assume a guarantor role in these arrangements.

Recommendations

1. Each institution should develop and use a debt capacity model approved by the institution's Board of Visitors and compliant with the guidelines of the Secretary of Finance and the State Council of Higher Education.

2. The debt capacity model should include a component, which considers the effect of debt service on the cost of attendance.

3. The General Assembly may wish to have the Debt Capacity Advisory Committee review the institutions' debt capacity models and periodically report on how the institutions are using them and their results.

Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
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Walter J. Kucharski, Auditor

November 21, 2006

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have completed our review of debt at state supported Institutions of Higher Education in accordance with Item 1-2 E. of Chapter 3 of the 2006 Acts of the Assembly and submit our report entitled, **"A Review of Debt at State Supported Institutions of Higher Education."** We conducted our review in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

Objectives

We had two objectives for our review of debt at state supported Institutions of Higher Education. These objectives were:

1. To determine the method to evaluate a process defining the amount of debt for each institution of higher education and its impact; and

2. To determine alternatives to the current process for issuing and monitoring debt and the affect the debt has on the Commonwealth's debt capacity.

3. To determine whether the Commonwealth should develop debt capacity guidelines for Virginia's institutions of higher education.

Scope

Our study included a review of all institutions of higher education and the Commonwealth Debt Capacity model.

Methodology

Our review procedures included a comparison of the institutions' process for incurring debt and existing debt governance processes within the institutions. We looked at the Commonwealth's and other entities' debt capacity models and any specifically designed for institutions of higher education.

Conclusions

Virginia's institutions of higher education have developed unique and independent financial operating models. These institutions also have a widely varying level of fiscal sophistication and financial management. As we have reviewed the debt capacity of various institutions, it is clear that one model, even general in nature, would not provide an effective tool for either the Commonwealth or the individual institutions.

We therefore make the following recommendations.

1. Each institution should develop and use a debt capacity model approved by the institution's Board of Visitors and compliant with the guidelines of the Secretary of Finance and the State Council of Higher Education.

2. The debt capacity model should include a component, which considers the effect of debt service on the cost of attendance.

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AUDITOR OF PUBLIC ACCOUNTS

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AGENCY RESPONSE

We have exposed the draft report to the following agencies:

Department of Treasury
State Council of Higher Education for Virginia
The University of Virginia

We received comments from them and made the appropriate changes to the report. However, they have decided not to provide us responses.

Appendix A

DEBT SERVICE PER STUDENT

FISCAL YEAR 2005

	Total Debt Service by Institution	Full Time Equivalent	Debt Service per Full Time Equivalent
Christopher Newport University	$ 7,838,360	4,322	$ 1,814
College of William and Mary	7,365,582	7,625	966
George Mason University	14,467,647	22,569	641
James Madison University	9,499,028	16,697	569
Longwood University	2,195,421	4,099	536
University of Mary Washington	2,778,699	5,024	553
Norfolk State University	2,673,199	16,308	164
Old Dominion University	8,363,629	9,122	917
Radford University	141,349	4,351	32
University of Virginia	23,913,297	24,463	978
Virginia Commonwealth University	17,855,664	24,418	731
Virginia Military Institute	677,361	1,531	442
VPI & State University	20,026,000	28,215	710
Virginia State University	1,807,388	4,897	369

Note:

This schedule shows the total debt service for bonded debt by institution divided by the Full Time Equivalent Student to give the per student cost of debt service regardless of funding source.

Appendix B

TYPES OF DEBT

Bonds

The Commonwealth issues all bonds pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(b) bonds are General Obligation bonds secured with general tax revenues as approved by voter referendum. 9(c) and 9(d) bonds are bonds secured by a dedicated revenue stream. Section 9(b) and 9(c) bonds are tax-supported general obligation bonds with the full faith, credit, and taxing power of the Commonwealth.

Section 9(d) bonds do not have the full faith, credit, and taxing power of the Commonwealth. These bonds are not general obligation bonds and are not a legal liability of the Commonwealth. The Commonwealth may support this debt by State appropriations in whole or in part, as in the case of certain debt of the Virginia College Building Authority.

Some institutions and agencies issue 9(d) revenue bonds and pay the debt service from general revenues of the component units, or from revenues of specific revenue-producing capital projects such as teaching hospitals, dormitories, student centers, and dining halls at the various colleges and universities. To improve the credit worthiness of some of these bonds such as those issued by the Virginia College Building Authority, the Commonwealth has an intercept provision, which allows the Commonwealth to use state funds intended for the institution to make debt service payments.

Capital Leases

Institutions can lease buildings and equipment under various agreements, which allows the institution to enter into a long term agreement for the exclusive use of the asset. Generally, the institution acquires essentially all of the economic benefits and risks associated with the leased property. For a lease agreement to meet the capital lease requirements, there must be a binding agreement that meets one of the following requirements.

1. A bargain purchase option.
2. The lease transfers ownership at the end of the lease term.
3. The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
4. The present value of the minimum lease payments is equal to 90 percent or more of the excess of the fair value of the asset.

Historically, these agreements primarily occur when an institutional foundation issues bonds to finance the construction of a building. The foundation and the institution enter into a capital lease agreement that cause the lease payments to equal at least debt service requirements. This method of financing is also gaining usage in arrangements with outside third parties for limited use construction, such as apartments.

Notes Payable

Institutions enter into notes payable for a variety of reasons, including short term financing for equipment, building restoration, and technology hardware and software. In addition, when institutions enter into the Virginia College Building Authority pooled bond-financing program they enter into a notes payable for their portion of the bond issue.

Other Liabilities

Institutions also incur other operating liabilities such as compensated absences for vacation and other leave, pension cost and other benefit programs. While these represent significant liabilities, we did not include them in our discussion of debt capacity. However, several organizations do include these liabilities for informational purposes.

Appendix C

STATE SUPPORT INCLUDING DEBT

FOR FISCAL YEAR 2005

In addition to direct General Fund support to individual institutions, the Commonwealth pays the debt service on certain bonds, which directly benefit institutions of higher education. The table below shows the amount of the debt service cost that the Commonwealth pays.

	General Fund Appropriations	Debt Service Support	Total Support Available
Christopher Newport University	$ 25,008,016	$ 5,387,474	$ 30,395,490
College of William and Mary	63,155,599	3,672,555	66,828,154
George Mason University	112,012,290	9,068,037	121,080,327
James Madison University	63,532,170	7,164,839	70,697,009
Longwood University	21,366,581	3,367,312	24,733,893
University of Mary Washington	16,540,523	1,683,022	18,223,545
Norfolk State University	44,818,849	3,263,865	48,082,714
Old Dominion University	89,002,497	6,535,777	95,538,274
Radford University	41,587,358	3,326,907	44,914265
University of Virginia	143,605,000	11,390,678	154,995,678
Virginia Commonwealth University	162,694,758	6,867,739	169,562,497
Virginia Military Institute	9,695,313	2,110,700	11,806,013
VPI & State University	170,374,000	15,248,474	185,622,474
Virginia State University	30,631,630	3,591,774	34,223,404
Totals	$ 994,024,584	$ 82,679,153	$ 1,076,703,737

Appendix D

Target Debt Capacity as % of Revenues (B)		5%							
		A		(A*B)		C	C/A		(A*B)-C
Fiscal Year		Blended Revenues (1)		Base Capacity to Pay Debt Service		Annual Payments for Debt Service Paid by Institution (2)	Institution Debt Service as a % of Institution Revenues		Net Capacity to Pay Additional Institutional Debt Service
JMU									
Actual 2002	$	134,754,679	$	6,737,734	$	10,823,362	**8.03%**	$	(4,085,628)
Actual 2003		146,950,158		7,347,508		10,671,497	**7.26%**		(3,323,989)
Actual 2004		163,387,735		8,169,387		9,557,209	**5.85%**		(1,387,822)
Actual 2005		174,422,146		8,721,107		9,499,028	**5.45%**		(777,921)
2006		190,113,860		9,505,693		8,773,161	**4.61%**		732,532
2007		207,217,263		10,360,863		8,761,057	**4.23%**		1,599,806
2008		225,859,357		11,292,968		8,751,294	**3.87%**		2,541,674
2009		246,178,568		12,308,928		8,245,304	**3.35%**		4,063,624
2010		268,325,777		13,416,289		7,830,858	**2.92%**		5,585,431

Blended revenues does not include appropriations in the amount of $62,729,074, $57,128,219, $53,418,499, $58,795,221 for fiscal years 2002, 2003, 2004, and 2005 respectively.

Fiscal Year		Blended Revenues (1)		Base Capacity to Pay Debt Service		Annual Payments for Debt Service Paid by Institution (2)	Institution Debt Service as a % of Institution Revenues		Net Capacity to Pay Additional Institutional Debt Service
CNU									
Actual 2002	$	27,676,104	$	1,383,805	$	3,165,028	**11.44%**	$	(1,781,223)
Actual 2003		37,437,796		1,871,890		5,994,817	**16.01%**		(4,122,927)
Actual 2004		40,600,249		2,030,012		5,295,506	**13.04%**		(3,265,494)
Actual 2005		47,648,995		2,382,450		7,838,360	**16.45%**		(5,455,910)
2006		57,350,330		2,867,517		10,124,216	**17.65%**		(7,256,699)
2007		69,026,858		3,451,343		10,833,772	**15.70%**		(7,382,429)
2008		83,080,726		4,154,036		10,826,212	**13.03%**		(6,672,176)
2009		99,995,962		4,999,798		10,839,100	**10.84%**		(5,839,302)
2010		120,355,139		6,017,757		10,441,069	**8.68%**		(4,423,312)

Blended revenues does not include appropriations in the amount of $21,946,252, $20,269,091, $19,545,129, $22,201,518 for fiscal years 2002, 2003, 2004, and 2005 respectively.

Fiscal Year		Blended Revenues (1)		Base Capacity to Pay Debt Service		Annual Payments for Debt Service Paid by Institution (2)	Institution Debt Service as a % of Institution Revenues		Net Capacity to Pay Additional Institutional Debt Service
VCU									
Actual 2002	$	167,844,395	$	8,392,220	$	18,124,231	**10.80%**	$	(9,732,011)
Actual 2003		176,738,265		8,836,913		15,940,198	**9.02%**		(7,103,285)
Actual 2004		199,400,861		9,970,043		16,727,010	**8.39%**		(6,756,967)
Actual 2005		227,990,683		11,399,534		17,855,664	**7.83%**		(6,456,130)
2006		252,659,275		12,632,964		19,642,391	**7.77%**		(7,009,427)
2007		279,997,008		13,999,850		20,328,351	**7.26%**		(6,328,501)
2008		310,292,685		15,514,634		20,257,055	**6.53%**		(4,742,421)
2009		343,866,353		17,193,318		20,287,825	**5.90%**		(3,094,507)
2010		381,072,693		19,053,635		20,253,698	**5.31%**		(1,200,063)

Blended revenues does not include appropriations in the amount of $178,235,785, $164,330,658, $143,267,343, $158,072,660, for fiscal years 2002, 2003, 2004, and 2005 respectively.

(1) Blended revenues consist of tuition and fees, auxiliary enterprise revenue, other income, and investment income. Figures for 2002-2005 ar derived from each higher educational institutions financial statements. Figures for 2006 - 20010 are an average of the revenue growth between fiscal year 2002-2005.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

(3) Represents debt service payments (principal and interest) for VCBA 21st Century Program (Equipment Program), VCBA 21st Century Program (Capital Projects Program), and 9b bond referenda debt. This debt is not recorded on each institution's financial statements and they are not required to pay debt service payments. Commonwealth pays debt service payments from General Fund dollars.

(4) Represents the total University and Commonwealth debt service payments

D	D/A	C+D	(C+D)/A	{(A*B)-(C+D)}/K
Annual Payments for Debt Service Paid by Commonwealth (3)	Commonwealth Debt Service as a % of Institution Revenues	Total Debt Payments (4)	All Debt Service as a % of Institution Revenues	Net Capacity to Pay Additional Institutional & Commonwealth Debt Service
$ 2,727,062	**2.02%**	$ 13,550,424	**10.06%**	$ (6,812,690)
3,203,922	**2.18%**	13,875,419	**9.44%**	(6,527,911)
4,876,933	**2.98%**	14,434,142	**8.83%**	(6,264,755)
7,164,839	**4.11%**	16,663,867	**9.55%**	(7,942,760)
6,464,204	**3.40%**	15,237,365	**8.01%**	(5,731,672)
6,427,391	**3.10%**	15,188,448	**7.33%**	(4,827,585)
6,068,342	**2.69%**	14,819,636	**6.56%**	(3,526,668)
5,418,662	**2.20%**	13,663,966	**5.55%**	(1,355,038)
4,620,684	**1.72%**	12,451,542	**4.64%**	964,747
$ 1,753,619	**6.34%**	$ 4,918,647	**17.77%**	$ (3,534,842)
2,578,970	**6.89%**	8,573,787	**22.90%**	(6,701,897)
4,058,358	**10.00%**	9,353,864	**23.04%**	(7,323,852)
5,387,474	**11.31%**	13,225,834	**27.76%**	(10,843,384)
4,304,197	**7.51%**	14,428,413	**25.16%**	(11,560,896)
4,269,446	**6.19%**	15,103,218	**21.88%**	(11,651,875)
3,678,207	**4.43%**	14,504,419	**17.46%**	(10,350,383)
3,105,060	**3.11%**	13,944,160	**13.94%**	(8,944,362)
2,900,187	**2.41%**	13,341,256	**11.08%**	(7,323,499)
$ 3,502,667	**2.09%**	$ 21,626,898	**12.89%**	$ (13,234,678)
4,637,863	**2.62%**	20,578,061	**11.64%**	(11,741,148)
6,167,512	**3.09%**	22,894,522	**11.48%**	(12,924,479)
6,867,739	**3.01%**	24,723,403	**10.84%**	(13,323,869)
7,183,249	**2.84%**	26825639.97	**10.62%**	(14,192,676)
7,145,721	**2.55%**	27474072.1	**9.81%**	(13,474,222)
6,342,404	**2.04%**	26599459.49	**8.57%**	(11,084,825)
5,898,940	**1.72%**	26186765.04	**7.62%**	(8,993,447)
5,488,526	**1.44%**	25742224.37	**6.76%**	(6,688,590)

Target Debt Capacity as % of Revenues (B) **5%**

Fiscal Year	A Blended Revenues (1)	(A*B) Base Capacity to Pay Debt Service	C Annual Payments for Debt Service Paid by Institution (2)	C/A Institution Debt Service as a % of Institution Revenues	(A*B)-C Net Capacity to Pay Additional Institutional Debt Service
GMU					
Actual 2002	$ 145,562,587	$ 7,278,129	$ 12,183,602	**8.37%**	$ (4,905,473)
Actual 2003	157,710,210	7,885,511	13,410,305	**8.50%**	(5,524,795)
Actual 2004	182,172,526	9,108,626	14,847,279	**8.15%**	(5,738,653)
Actual 2005	200,031,915	10,001,596	14,467,647	**7.23%**	(4,466,051)
2006	222,475,496	11,123,775	14,238,284	**6.40%**	(3,114,509)
2007	247,437,246	12,371,862	15,050,176	**6.08%**	(2,678,314)
2008	275,199,706	13,759,985	15,145,720	**5.50%**	(1,385,735)
2009	306,077,113	15,303,856	14,732,739	**4.81%**	571,117
2010	340,418,965	17,020,948	12,875,744	**3.78%**	4,145,204

Blended revenues does not include appropriations in the amount of $112,855,516, $97,639,963, $90,593,048, $100,043,208 for fiscal years 2002, 2003, 2004, and 2005 respectively.

Fiscal Year	A Blended Revenues (1)	(A*B) Base Capacity to Pay Debt Service	C Annual Payments for Debt Service Paid by Institution (2)	C/A Institution Debt Service as a % of Institution Revenues	(A*B)-C Net Capacity to Pay Additional Institutional Debt Service
LU					
Actual 2002	$ 32,251,578	$ 1,612,579	$ 2,543,463	**7.89%**	$ (930,884)
Actual 2003	33,854,050	1,692,703	2,527,744	**7.47%**	(835,042)
Actual 2004	38,102,972	1,905,149	2,918,165	**7.66%**	(1,013,016)
Actual 2005	41,413,158	2,070,658	2,195,421	**5.30%**	(124,763)
2006	45,032,668	2,251,633	3,876,720	**8.61%**	(1,625,087)
2007	48,968,523	2,448,426	3,335,431	**6.81%**	(887,005)
2008	53,248,372	2,662,419	3,303,808	**6.20%**	(641,389)
2009	57,902,280	2,895,114	3,285,616	**5.67%**	(390,502)
2010	62,962,939	3,148,147	3,242,489	**5.15%**	(94,342)

Blended revenues does not include appropriations in the amount of $19,360,370, $17,526,666, $16,654,174, $19,021,471 for fiscal years 2002, 2003, 2004, and 2005 respectively.

Fiscal Year	A Blended Revenues (1)	(A*B) Base Capacity to Pay Debt Service	C Annual Payments for Debt Service Paid by Institution (2)	C/A Institution Debt Service as a % of Institution Revenues	(A*B)-C Net Capacity to Pay Additional Institutional Debt Service
ODU					
Actual 2002	$ 88,420,781	$ 4,421,039	$ 8,142,830	**9.21%**	$ (3,721,791)
Actual 2003	89,738,029	4,486,901	9,134,663	**10.18%**	(4,647,762)
Actual 2004	100,609,274	5,030,464	9,131,898	**9.08%**	(4,101,434)
Actual 2005	106,324,715	5,316,236	8,363,629	**7.87%**	(3,047,393)
2006	113,161,394	5,658,070	8,337,553	**7.37%**	(2,679,483)
2007	120,437,672	6,021,884	8,270,361	**6.87%**	(2,248,477)
2008	128,181,814	6,409,091	8,183,259	**6.38%**	(1,774,168)
2009	136,423,905	6,821,195	8,122,088	**5.95%**	(1,300,893)
2010	145,195,962	7,259,798	8,097,380	**5.58%**	(837,582)

Blended revenues does not include appropriations in the amount of $82,872,836, $73,744,448, $69,702,665, $79,403,718 for fiscal years 2002, 2003, 2004, and 2005 respectively.

(1) Blended revenues consist of tuition and fees, auxiliary enterprise revenue, other income, and investment income. Figures for 2002-2005 are derived from each higher educational institutions financial statements. Figures for 2006 - 20010 are an average of the revenue growth between fiscal year 2002-2005.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

(3) Represents debt service payments (principal and interest) for VCBA 21st Century Program (Equipment Program), VCBA 21st Century Program (Capital Projects Program), and 9b bond referenda debt. This debt is not recorded on each institution's financial statements and they are not required to pay debt service payments. Commonwealth pays debt service payments from General Fund dollars.

(4) Represents the total University and Commonwealth debt service payments.

D	D/A	C+D	(C+D)/A	{(A*B)-(C+D)}/K
Annual Payments for Debt Service Paid by Commonwealth (3)	Commonwealth Debt Service as a % of Institution Revenues	Total Debt Payments (4)	All Debt Service as a % of Institution Revenues	Net Capacity to Pay Additional Institutional & Commonwealth Debt Service
$ 3,019,604	**2.07%**	$ 15,203,206	**10.44%**	$ (7,925,077)
5,092,928	**3.23%**	18,503,233	**11.73%**	(10,617,723)
7,236,281	**3.97%**	22,083,560	**12.12%**	(12,974,934)
9,068,037	**4.53%**	23,535,684	**11.77%**	(13,534,088)
8,447,341	**3.80%**	22,685,625	**10.20%**	(11,561,851)
8,414,182	**3.40%**	23,464,358	**9.48%**	(11,092,496)
6,984,191	**2.54%**	22,129,911	**8.04%**	(8,369,926)
5,855,032	**1.91%**	20,587,771	**6.73%**	(5,283,915)
5,284,420	**1.55%**	18,160,164	**5.33%**	(1,139,216)
$ 597,033	**1.85%**	$ 3,140,496	**9.74%**	$ (1,527,917)
666,352	**1.97%**	3,194,096	**9.43%**	(1,501,394)
715,442	**1.88%**	3,633,607	**9.54%**	(1,728,458)
3,367,312	**8.13%**	5,562,733	**13.43%**	(3,492,075)
3,625,638	**8.05%**	7502357.789	**16.66%**	(5,250,724)
3,626,627	**7.41%**	6962057.497	**14.22%**	(4,513,631)
3,579,511	**6.72%**	6883318.833	**12.93%**	(4,220,900)
3,471,343	**6.00%**	6756959.187	**11.67%**	(3,861,845)
2,274,959	**3.61%**	5517447.436	**8.76%**	(2,369,300)
$ 2,817,990	**3.19%**	$ 10,960,820	**12.40%**	$ (6,539,780)
3,210,575	**3.58%**	12,345,238	**13.76%**	(7,858,337)
4,122,341	**4.10%**	13,254,239	**13.17%**	(8,223,775)
6,535,777	**6.15%**	14,899,406	**14.01%**	(9,583,170)
6,113,189	**5.40%**	14,450,742	**12.77%**	(8,792,673)
6,086,272	**5.05%**	14,356,633	**11.92%**	(8,334,750)
5,794,079	**4.52%**	13,977,338	**10.90%**	(7,568,247)
5,320,836	**3.90%**	13,442,924	**9.85%**	(6,621,729)
4,437,896	**3.06%**	12,535,276	**8.63%**	(5,275,478)

Target Debt Capacity as % of Revenues (B) **5%**

	A	(A*B)	C	C/A	(A*B)-C
Fiscal Year	**Blended Revenues (1)**	**Base Capacity to Pay Debt Service**	**Annual Payments for Debt Service Paid by Institution (2)**	**Institution Debt Service as a % of Institution Revenues**	**Net Capacity to Pay Additional Institutional Debt Service**
VT					
Actual 2002	$ 245,121,000	$ 12,256,050	$ 24,476,000	**9.99%**	$ (12,219,950)
Actual 2003	273,277,000	13,663,850	19,876,000	**7.27%**	(6,212,150)
Actual 2004	304,649,000	15,232,450	21,840,000	**7.17%**	(6,607,550)
Actual 2005	332,264,000	16,613,200	20,026,000	**6.03%**	(3,412,800)
2006	367,749,795	18,387,490	24,736,000	**6.73%**	(6,348,510)
2007	407,025,473	20,351,274	27,969,000	**6.87%**	(7,617,726)
2008	450,495,794	22,524,790	26,358,000	**5.85%**	(3,833,210)
2009	498,608,745	24,930,437	24,677,000	**4.95%**	253,437
2010	551,860,159	27,593,008	21,035,000	**3.81%**	6,558,008

Blended revenues does not include appropriations in the amount of $239,832,000, $201,696,000, $191,418,000, $212,999,000 for fiscal years 2002, 2003, 2004, and 2005 respectively.

CWM					
Actual 2002	$ 94,493,724	$ 4,724,686	$ 8,884,626	**9.40%**	$ (4,159,940)
Actual 2003	105,938,399	5,296,920	6,657,587	**6.28%**	(1,360,667)
Actual 2004	125,874,906	6,293,745	6,349,850	**5.04%**	(56,105)
Actual 2005	124,861,611	6,243,081	7,365,582	**5.90%**	(1,122,501)
2006	137,397,717	6,869,886	8,630,924	**6.28%**	(1,761,038)
2007	151,192,448	7,559,622	8,680,245	**5.74%**	(1,120,623)
2008	166,372,169	8,318,608	8,512,917	**5.12%**	(194,309)
2009	183,075,935	9,153,797	7,158,253	**3.91%**	1,995,544
2010	201,456,759	10,072,838	6,970,086	**3.46%**	3,102,752

Blended revenues does not include appropriations in the amount of $70,027,785, $60,139,547, $56,253,309, $61,505,869 for fiscal years 2002, 2003, 2004, and 2005 respectively.

UVA (Includes UVA Wise & Medical Center)					
Actual 2002	$ 937,774,000	$ 46,888,700	$ 31,723,000	**3.38%**	$ 15,165,700
Actual 2003	1,146,440,000	57,322,000	29,731,011	**2.59%**	27,590,989
Actual 2004	1,313,377,000	65,668,850	37,978,000	**2.89%**	27,690,850
Actual 2005	1,495,099,000	74,754,950	31,959,000	**2.14%**	42,795,950
2006	1,747,471,711	87,373,586	34,033,000	**1.95%**	53,340,586
2007	2,042,444,936	102,122,247	33,560,000	**1.64%**	68,562,247
2008	2,387,209,641	119,360,482	33,081,000	**1.39%**	86,279,482
2009	2,790,170,629	139,508,531	28,363,000	**1.02%**	111,145,531
2010	3,261,151,431	163,057,572	28,723,000	**0.88%**	134,334,572

Blended revenues does not include appropriations in the amount of $176,177,000, $137,858,000, $118,125,000, $136,006,000 for fiscal years 2002, 2003, 2004, and 2005 respectively.

(1) Blended revenues consist of tuition and fees, auxiliary enterprise revenue, other income, and investment income. Figures for 2002-2005 are derived from each higher educational institutions financial statements. Figures for 2006 - 20010 are an average of the revenue growth between fiscal year 2002-2005.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

(3) Represents debt service payments (principal and interest) for VCBA 21st Century Program (Equipment Program), VCBA 21st Century Program (Capital Projects Program), and 9b bond referenda debt. This debt is not recorded on each institution's financial statements and they are not required to pay debt service payments. Commonwealth pays debt service payments from General Fund dollars.

(4) Represents the total University and Commonwealth debt service payments.

D	D/A	C+D	(C+D)/A	{(A*B)-(C+D)}/K
Annual Payments for Debt Service Paid by Commonwealth (3)	**Commonwealth Debt Service as a % of Institution Revenues**	**Total Debt Payments (4)**	**All Debt Service as a % of Institution Revenues**	**Net Capacity to Pay Additional Institutional & Commonwealth Debt Service**
$ 5,118,520	**2.09%**	$ 29,594,520	**12.07%**	$ (17,338,470)
8,447,214	**3.09%**	28,323,214	**10.36%**	(14,659,364)
11,967,894	**3.93%**	33,807,894	**11.10%**	(18,575,444)
15,248,474	**4.59%**	35,274,474	**10.62%**	(18,661,274)
13,853,277	**3.77%**	38,589,277	**10.49%**	(20,201,787)
13,794,051	**3.39%**	41,763,051	**10.26%**	(21,411,777)
11,492,445	**2.55%**	37,850,445	**8.40%**	(15,325,655)
10,367,957	**2.08%**	35,044,957	**7.03%**	(10,114,520)
9,044,159	**1.64%**	30,079,159	**5.45%**	(2,486,151)
$ 1,228,502	**1.30%**	$ 10,113,128	**10.70%**	$ (5,388,442)
2,052,355	**1.94%**	8,709,942	**8.22%**	(3,413,022)
2,718,593	**2.16%**	9,068,443	**7.20%**	(2,774,697)
3,672,555	**2.94%**	11,038,137	**8.84%**	(4,795,057)
3,747,961	**2.73%**	12,378,885	**9.01%**	(5,508,999)
3,731,643	**2.47%**	12,411,888	**8.21%**	(4,852,266)
3,159,930	**1.90%**	11,672,847	**7.02%**	(3,354,238)
2,894,885	**1.58%**	10,053,138	**5.49%**	(899,341)
2,538,326	**1.26%**	9,508,412	**4.72%**	564,426
$ 6,251,173	**0.67%**	$ 37,974,173	**4.05%**	$ 8,914,527
8,432,125	**0.74%**	38,163,136	**3.33%**	19,158,864
9,791,844	**0.75%**	47,769,844	**3.64%**	17,899,006
11,390,678	**0.76%**	43,349,678	**2.90%**	31,405,272
11,965,562	**0.68%**	45998561.91	**2.63%**	41,375,024
11,908,604	**0.58%**	45468603.94	**2.23%**	56,653,643
10,380,344	**0.43%**	43461343.9	**1.82%**	75,899,138
9,776,848	**0.35%**	38139848.19	**1.37%**	101,368,683
9,261,541	**0.28%**	37984540.56	**1.16%**	125,073,031

Target Debt Capacity as % of Revenues (B)	5%				
	A	(A*B)	C	C/A	(A*B)-C
Fiscal Year	Blended Revenues (1)	Base Capacity to Pay Debt Service	Annual Payments for Debt Service Paid by Institution (2)	Institution Debt Service as a % of Institution Revenues	Net Capacity to Pay Additional Institutional Debt Service
UMW					
Actual 2002	$ 35,312,395	$ 1,765,620	$ 3,052,573	**8.64%**	$ (1,286,953)
Actual 2003	43,363,056	2,168,153	2,650,144	**6.11%**	(481,991)
Actual 2004	45,023,574	2,251,179	2,640,530	**5.86%**	(389,351)
Actual 2005	48,214,847	2,410,742	2,778,699	**5.76%**	(367,957)
2006	53,634,196	2,681,710	3,122,665	**5.82%**	(440,955)
2007	59,662,679	2,983,134	3,163,945	**5.30%**	(180,811)
2008	66,368,765	3,318,438	3,170,975	**4.78%**	147,463
2009	73,828,614	3,691,431	3,161,343	**4.28%**	530,088
2010	82,126,950	4,106,347	3,163,704	**3.85%**	942,643

Blended revenues does not include appropriations in the amount of $17,872,900, $14,740,000, $13,756,007, $14,995,242, for fiscal years 2002, 2003, 2004, and 2005 respectively.

NSU					
Actual 2002	$ 34,393,984	$ 1,719,699	$ 3,422,765	**9.95%**	$ (1,703,066)
Actual 2003	34,150,358	1,707,518	2,896,097	**8.48%**	(1,188,579)
Actual 2004	39,956,066	1,997,803	2,724,431	**6.82%**	(726,628)
Actual 2005	43,804,941	2,190,247	2,673,199	**6.10%**	(482,952)
2006	47,589,688	2,379,484	4,082,483	**8.58%**	(1,702,999)
2007	51,701,437	2,585,072	5,401,025	**10.45%**	(2,815,953)
2008	56,168,441	2,808,422	5,390,316	**9.60%**	(2,581,894)
2009	61,021,394	3,051,070	5,353,902	**8.77%**	(2,302,832)
2010	66,293,643	3,314,682	5,217,283	**7.87%**	(1,902,601)

Blended revenues does not include appropriations in the amount of $37,738,292, $38,790,479, $38,692,552, $40,460,381, for fiscal years 2002, 2003, 2004, and 2005 respectively.

RU					
Actual 2002	$ 53,921,371	$ 2,696,069	$ 1,012,903	**1.88%**	$ 1,683,166
Actual 2003	55,905,216	2,795,261	398,257	**0.71%**	2,397,004
Actual 2004	60,945,935	3,047,297	139,624	**0.23%**	2,907,673
Actual 2005	67,203,046	3,360,152	141,349	**0.21%**	3,218,803
2006	72,344,079	3,617,204	138,121	**0.19%**	3,479,083
2007	77,878,401	3,893,920	-	**0.00%**	3,893,920
2008	83,836,099	4,191,805	-	**0.00%**	4,191,805
2009	90,249,560	4,512,478	-	**0.00%**	4,512,478
2010	97,153,652	4,857,683	-	**0.00%**	4,857,683

Blended revenues does not include appropriations in the amount of $37,753,726, $34,455,274, $33,131,321, $36,879,957 for fiscal years 2002, 2003, 2004, and 2005 respectively.

(1) Blended revenues consist of tuition and fees, auxiliary enterprise revenue, other income, and investment income. Figures for 2002-2005 are derived from each higher educational institutions financial statements. Figures for 2006 - 20010 are an average of the revenue growth between fiscal year 2002-2005.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

(3) Represents debt service payments (principal and interest) for VCBA 21st Century Program (Equipment Program), VCBA 21st Century Program (Capital Projects Program), and 9b bond referenda debt. This debt is not recorded on each institution's financial statements and they are not required to pay debt service payments. Commonwealth pays debt service payments from General Fund dollars.

(4) Represents the total University and Commonwealth debt service payments.

D	D/A	C+D	(C+D)/A	{(A*B)-(C+D)}/K
Annual Payments for Debt Service Paid by Commonwealth (3)	Commonwealth Debt Service as a % of Institution Revenues	Total Debt Payments (4)	All Debt Service as a % of Institution Revenues	Net Capacity to Pay Additional Institutional & Commonwealth Debt Service
$ 1,327,601	**3.76%**	$ 4,380,174	**12.40%**	$ (2,614,554)
1,617,689	**3.73%**	4,267,833	**9.84%**	(2,099,681)
1,729,661	**3.84%**	4,370,191	**9.71%**	(2,119,012)
1,683,022	**3.49%**	4,461,721	**9.25%**	(2,050,979)
2,081,089	**3.88%**	5,203,754	**9.70%**	(2,522,044)
2,079,821	**3.49%**	5,243,766	**8.79%**	(2,260,632)
1,883,519	**2.84%**	5,054,494	**7.62%**	(1,736,056)
1,909,897	**2.59%**	5,071,240	**6.87%**	(1,379,809)
1,837,907	**2.24%**	5,001,611	**6.09%**	(895,264)
$ 854,243	**2.48%**	$ 4,277,008	**12.44%**	$ (2,557,309)
1,442,060	**4.22%**	4,338,157	**12.70%**	(2,630,639)
1,948,281	**4.88%**	4,672,712	**11.69%**	(2,674,909)
3,263,865	**7.45%**	5,937,064	**13.55%**	(3,746,817)
3,632,720	**7.63%**	7,715,203	**16.21%**	(5,335,718)
3,621,961	**7.01%**	9,022,986	**17.45%**	(6,437,914)
3,214,550	**5.72%**	8,604,866	**15.32%**	(5,796,443)
3,029,371	**4.96%**	8,383,273	**13.74%**	(5,332,203)
2,465,092	**3.72%**	7,682,375	**11.59%**	(4,367,693)
$ 1,651,559	**3.06%**	$ 2,664,462	**4.94%**	$ 31,606
2,608,014	**4.67%**	3,006,271	**5.38%**	(211,010)
3,294,661	**5.41%**	3,434,285	**5.63%**	(386,989)
3,326,907	**4.95%**	3,468,256	**5.16%**	(108,104)
2,819,100	**3.90%**	2,957,221	**4.09%**	659,983
2,809,045	**3.61%**	2,809,045	**3.61%**	1,084,875
2,155,253	**2.57%**	2,155,253	**2.57%**	2,036,552
1,929,963	**2.14%**	1,929,963	**2.14%**	2,582,515
1,800,818	**1.85%**	1,800,818	**1.85%**	3,056,865

Target Debt Capacity as % of Revenues (B)	5%				
	A	(A*B)	C	C/A	(A*B)-C
Fiscal Year	Blended Revenues (1)	Base Capacity to Pay Debt Service	Annual Payments for Debt Service Paid by Institution (2)	Institution Debt Service as a % of Institution Revenues	Net Capacity to Pay Additional Institutional Debt Service
VMI					
Actual 2002	$ 17,027,839	$ 851,392	$ 970,387	**5.70%**	$ (118,995)
Actual 2003	18,586,923	929,346	517,144	**2.78%**	412,202
Actual 2004	24,226,644	1,211,332	527,491	**2.18%**	683,841
Actual 2005	22,444,399	1,122,220	677,361	**3.02%**	444,859
2006	24,848,194	1,242,410	1,562,311	**6.29%**	(319,901)
2007	27,509,436	1,375,472	1,553,779	**5.65%**	(178,307)
2008	30,455,696	1,522,785	1,551,986	**5.10%**	(29,201)
2009	33,717,501	1,685,875	1,553,143	**4.61%**	132,732
2010	37,328,646	1,866,432	1,251,228	**3.35%**	615,204

Blended revenues does not include appropriations in the amount of $8,790,676, $7,861,564, $7,030,758, $7,923,995 for fiscal years 2002, 2003, 2004, and 2005 respectively.

VSU					
Actual 2002	$ 26,035,698	$ 1,301,785	$ 1,296,286	**4.98%**	$ 5,499
Actual 2003	32,499,585	1,624,979	1,539,637	**4.74%**	85,342
Actual 2004	31,385,541	1,569,277	1,776,475	**5.66%**	(207,198)
Actual 2005	34,241,035	1,712,052	1,807,388	**5.28%**	(95,336)
2006	37,723,348	1,886,167	1,687,914	**4.47%**	198,253
2007	41,559,813	2,077,991	1,697,878	**4.09%**	380,113
2008	45,786,446	2,289,322	1,651,040	**3.61%**	638,282
2009	50,442,927	2,522,146	1,692,382	**3.36%**	829,764
2010	55,572,973	2,778,649	1,699,771	**3.06%**	1,078,878

Blended revenues does not include appropriations in the amount of $28,774,074, $29,113,924, $29,022,433, $27,664,016 for fiscal years 2002, 2003, 2004, and 2005 respectively.

(1) Blended revenues consist of tuition and fees, auxiliary enterprise revenue, other income, and investment income. Figures for 2002-2005 are derived from each higher educational institutions financial statements. Figures for 2006 - 20010 are an average of the revenue growth between fiscal year 2002-2005.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

(3) Represents debt service payments (principal and interest) for VCBA 21st Century Program (Equipment Program), VCBA 21st Century Program (Capital Projects Program), and 9b bond referenda debt. This debt is not recorded on each institution's financial statements and they are not required to pay debt service payments. Commonwealth pays debt service payments from General Fund dollars.

(4) Represents the total University and Commonwealth debt service payments.

D	D/A	C+D	(C+D)/A	{(A*B)-(C+D)}/K
Annual Payments for Debt Service Paid by Commonwealth (3)	**Commonwealth Debt Service as a % of Institution Revenues**	**Total Debt Payments (4)**	**All Debt Service as a % of Institution Revenues**	**Net Capacity to Pay Additional Institutional & Commonwealth Debt Service**
$ 233,555	**1.37%**	$ 1,203,942	**7.07%**	$ (352,550)
288,220	**1.55%**	805,364	**4.33%**	123,982
384,087	**1.59%**	911,578	**3.76%**	299,754
2,110,700	**9.40%**	2,788,061	**12.42%**	(1,665,841)
2,597,428	**10.45%**	4,159,739	**16.74%**	(2,917,330)
2,569,711	**9.34%**	4,123,490	**14.99%**	(2,748,018)
2,504,304	**8.22%**	4,056,290	**13.32%**	(2,533,505)
2,434,776	**7.22%**	3,987,919	**11.83%**	(2,302,044)
2,080,352	**5.57%**	3,331,580	**8.92%**	(1,465,148)
$ 619,150	**2.38%**	$ 1,915,436	**7.36%**	$ (613,651)
1,267,104	**3.90%**	2,806,741	**8.64%**	(1,181,761)
2,272,213	**7.24%**	4,048,688	**12.90%**	(2,479,411)
3,591,774	**10.49%**	5,399,162	**15.77%**	(3,687,111)
3,584,775	**9.50%**	5,272,689	**13.98%**	(3,386,522)
3,560,745	**8.57%**	5,258,623	**12.65%**	(3,180,632)
3,100,215	**6.77%**	4,751,255	**10.38%**	(2,461,933)
2,693,331	**5.34%**	4,385,713	**8.69%**	(1,863,566)
2,374,794	**4.27%**	4,074,565	**7.33%**	(1,295,916)

Appendix E

Target Debt Capacity as % of Expenses (B)	7%				
	A	**(A*B)**	**C**	**C/A**	**(A*B)-C**
Fiscal Year	**Total Expenses (1)**	**Base Capacity to Pay Debt Service**	**Annual Payments for Debt Service Paid by Institution (2)**	**Institution Debt Service as a % of Institution Expenses**	**Net Capacity to Pay Additional Institutional Debt Service**
JMU					
Actual 2002	$ 211,250,378	$ 14,787,526	$ 10,823,362	**5.12%**	$ 3,964,164
Actual 2003	219,063,204	15,334,424	10,671,497	**4.87%**	4,662,927
Actual 2004	232,981,371	16,308,696	9,557,209	**4.10%**	6,751,487
Actual 2005	253,773,635	17,764,154	9,499,028	**3.74%**	8,265,126
2006	269,837,506	18,888,625	8,773,161	**3.25%**	10,115,464
2007	286,918,220	20,084,275	8,761,057	**3.05%**	11,323,218
2008	305,080,144	21,355,610	8,751,294	**2.87%**	12,604,316
2009	324,391,717	22,707,420	8,245,304	**2.54%**	14,462,116
2010	344,925,712	24,144,800	7,830,858	**2.27%**	16,313,942
CNU					
Actual 2002	$ 54,313,188	$ 3,801,923	$ 3,165,028	**5.83%**	$ 636,895
Actual 2003	57,799,665	4,045,977	5,994,817	**10.37%**	(1,948,840)
Actual 2004	65,374,826	4,576,238	5,295,506	**8.10%**	(719,268)
Actual 2005	70,600,762	4,942,053	7,838,360	**11.10%**	(2,896,307)
2006	77,074,852	5,395,240	10,124,216	**13.14%**	(4,728,976)
2007	84,142,616	5,889,983	10,833,772	**12.88%**	(4,943,789)
2008	91,858,494	6,430,095	10,826,212	**11.79%**	(4,396,117)
2009	100,281,918	7,019,734	10,839,100	**10.81%**	(3,819,366)
2010	109,477,769	7,663,444	10,441,069	**9.54%**	(2,777,625)
VCU					
Actual 2002	$ 503,093,420	$ 35,216,539	$ 18,124,231	**3.60%**	$ 17,092,308
Actual 2003	491,736,201	34,421,534	15,940,198	**3.24%**	18,481,336
Actual 2004	509,237,911	35,646,654	16,727,010	**3.28%**	18,919,644
Actual 2005	571,702,185	40,019,153	17,855,664	**3.12%**	22,163,489
2006	597,543,124	41,828,019	19,642,391	**3.29%**	22,185,628
2007	624,552,073	43,718,645	20,328,351	**3.25%**	23,390,294
2008	652,781,827	45,694,728	20,257,055	**3.10%**	25,437,673
2009	682,287,565	47,760,130	20,287,825	**2.97%**	27,472,305
2010	713,126,963	49,918,887	20,253,698	**2.84%**	29,665,189

(1) Represents total operating expenses.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

(3) Represents debt service payments (principal and interest) for VCBA 21st Century Program (Equipment Program), VCBA 21st Century Program (Capital Projects Program), and 9b bond referenda debt. This debt is not recorded on each institution's financial statements and they are not required to pay debt service payments. Commonwealth pays debt service payments from General Fund dollars.

(4) Represents the total University and Commonwealth debt service payments

D Annual Payments for Debt Service Paid by Commonwealth (3)	D/A Commonwealth Debt Service as a % of Institution Expenses	C+D Total Debt Payments (4)	(C+D)/A All Debt Service as a % of Institution Expenses	{(A*B)-(C+D)}/K Net Capacity to Pay Additional Institutional & Commonwealth Debt Service
$ 2,727,062	**1.29%**	$ 13,550,424	**6.41%**	$ 1,237,103
3,203,922	**1.46%**	13,875,419	**6.33%**	1,459,005
4,876,933	**2.09%**	14,434,142	**6.20%**	1,874,554
7,164,839	**2.82%**	16,663,867	**6.57%**	1,100,287
6,464,204	**2.40%**	15,237,365	**5.65%**	3,651,261
6,427,391	**2.24%**	15,188,448	**5.29%**	4,895,827
6,068,342	**1.99%**	14,819,636	**4.86%**	6,535,974
5,418,662	**1.67%**	13,663,966	**4.21%**	9,043,454
4,620,684	**1.34%**	12,451,542	**3.61%**	11,693,258
$ 1,753,619	**3.23%**	$ 4,918,647	**9.06%**	$ (1,116,724)
2,578,970	**4.46%**	8,573,787	**14.83%**	(4,527,811)
4,058,358	**6.21%**	9,353,864	**14.31%**	(4,777,627)
5,387,474	**7.63%**	13,225,834	**18.73%**	(8,283,781)
4,304,197	**5.58%**	14,428,413	**18.72%**	(9,033,173)
4,269,446	**5.07%**	15,103,218	**17.95%**	(9,213,235)
3,678,207	**4.00%**	14,504,419	**15.79%**	(8,074,325)
3,105,060	**3.10%**	13,944,160	**13.90%**	(6,924,426)
2,900,187	**2.65%**	13,341,256	**12.19%**	(5,677,812)
$ 3,502,667	**0.70%**	$ 21,626,898	**4.30%**	$ 13,589,642
4,637,863	**0.94%**	20,578,061	**4.18%**	13,843,473
6,167,512	**1.21%**	22,894,522	**4.50%**	12,752,132
6,867,739	**1.20%**	24,723,403	**4.32%**	15,295,750
7,183,249	**1.20%**	26825639.97	**4.49%**	15,002,379
7,145,721	**1.14%**	27474072.1	**4.40%**	16,244,573
6,342,404	**0.97%**	26599459.49	**4.07%**	19,095,268
5,898,940	**0.86%**	26186765.04	**3.84%**	21,573,365
5,488,526	**0.77%**	25742224.37	**3.61%**	24,176,663

Target Debt Capacity as % of Expenses (B) **7%**

Fiscal Year	Total Expenses (1)	Base Capacity to Pay Debt Service	Annual Payments for Debt Service Paid by Institution (2)	Institution Debt Service as a % of Institution Expenses	Net Capacity to Pay Additional Institutional Debt Service
	A	**(A*B)**	**C**	**C/A**	**(A*B)-C**
GMU					
Actual 2002	$ 318,056,423	$ 22,263,950	$ 12,183,602	**3.83%**	$ 10,080,348
Actual 2003	336,284,436	23,539,911	13,410,305	**3.99%**	10,129,606
Actual 2004	354,628,304	24,823,981	14,847,279	**4.19%**	9,976,702
Actual 2005	388,202,658	27,174,186	14,467,647	**3.73%**	12,706,539
2006	414,911,001	29,043,770	14,238,284	**3.43%**	14,805,486
2007	443,456,878	31,041,981	15,050,176	**3.39%**	15,991,805
2008	473,966,711	33,177,670	15,145,720	**3.20%**	18,031,950
2009	506,575,621	35,460,293	14,732,739	**2.91%**	20,727,554
2010	541,428,023	37,899,962	12,875,744	**2.38%**	25,024,218
LU					
Actual 2002	$ 53,902,726	$ 3,773,191	$ 2,543,463	**4.72%**	$ 1,229,728
Actual 2003	55,109,659	3,857,676	2,527,744	**4.59%**	1,329,932
Actual 2004	57,562,070	4,029,345	2,918,165	**5.07%**	1,111,180
Actual 2005	64,645,659	4,525,196	2,195,421	**3.40%**	2,329,775
2006	68,737,729	4,811,641	3,876,720	**5.64%**	934,921
2007	73,088,827	5,116,218	3,335,431	**4.56%**	1,780,787
2008	77,715,350	5,440,075	3,303,808	**4.25%**	2,136,266
2009	82,634,732	5,784,431	3,285,616	**3.98%**	2,498,815
2010	87,865,510	6,150,586	3,242,489	**3.69%**	2,908,097
ODU					
Actual 2002	$ 191,617,627	$ 13,413,234	$ 8,142,830	**4.25%**	$ 5,270,404
Actual 2003	192,391,274	13,467,389	9,134,663	**4.75%**	4,332,726
Actual 2004	200,151,116	14,010,578	9,131,898	**4.56%**	4,878,680
Actual 2005	215,883,684	15,111,858	8,363,629	**3.87%**	6,748,229
2006	224,734,915	15,731,444	8,337,553	**3.71%**	7,393,891
2007	233,949,047	16,376,433	8,270,361	**3.54%**	8,106,072
2008	243,540,957	17,047,867	8,183,259	**3.36%**	8,864,608
2009	253,526,137	17,746,830	8,122,088	**3.20%**	9,624,742
2010	263,920,708	18,474,450	8,097,380	**3.07%**	10,377,070

(1) Represents total operating expenses.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

(3) Represents debt service payments (principal and interest) for VCBA 21st Century Program (Equipment Program), VCBA 21st Century Program (Capital Projects Program), and 9b bond referenda debt. This debt is not recorded on each institution's financial statements and they are not required to pay debt service payments. Commonwealth pays debt service payments from General Fund dollars.

(4) Represents the total University and Commonwealth debt service payments

D Annual Payments for Debt Service Paid by Commonwealth (3)	D/A Commonwealth Debt Service as a % of Institution Expenses	C+D Total Debt Payments (4)	(C+D)/A All Debt Service as a % of Institution Expenses	{(A*B)-(C+D)}/K Net Capacity to Pay Additional Institutional & Commonwealth Debt Service
$ 3,019,604	**0.95%**	$ 15,203,206	**4.78%**	$ 7,060,744
5,092,928	**1.51%**	18,503,233	**5.50%**	5,036,677
7,236,281	**2.04%**	22,083,560	**6.23%**	2,740,421
9,068,037	**2.34%**	23,535,684	**6.06%**	3,638,502
8,447,341	**2.04%**	22,685,625	**5.47%**	6,358,145
8,414,182	**1.90%**	23,464,358	**5.29%**	7,577,623
6,984,191	**1.47%**	22,129,911	**4.67%**	11,047,758
5,855,032	**1.16%**	20,587,771	**4.06%**	14,872,522
5,284,420	**0.98%**	18,160,164	**3.35%**	19,739,797
$ 597,033	**1.11%**	$ 3,140,496	**5.83%**	$ 632,695
666,352	**1.21%**	3,194,096	**5.80%**	663,580
715,442	**1.24%**	3,633,607	**6.31%**	395,738
3,367,312	**5.21%**	5,562,733	**8.60%**	(1,037,537)
3,625,638	**5.27%**	7,502,358	**10.91%**	(2,690,717)
3,626,627	**4.96%**	6,962,057	**9.53%**	(1,845,840)
3,579,511	**4.61%**	6,883,319	**8.86%**	(1,443,244)
3,471,343	**4.20%**	6,756,959	**8.18%**	(972,528)
2,274,959	**2.59%**	5,517,447	**6.28%**	633,138
$ 2,817,990	**1.47%**	$ 10,960,820	**5.72%**	$ 2,452,414
3,210,575	**1.67%**	12,345,238	**6.42%**	1,122,151
4,122,341	**2.06%**	13,254,239	**6.62%**	756,339
6,535,777	**3.03%**	14,899,406	**6.90%**	212,452
6,113,189	**2.72%**	14,450,742	**6.43%**	1,280,702
6,086,272	**2.60%**	14,356,633	**6.14%**	2,019,800
5,794,079	**2.38%**	13,977,338	**5.74%**	3,070,529
5,320,836	**2.10%**	13,442,924	**5.30%**	4,303,906
4,437,896	**1.68%**	12,535,276	**4.75%**	5,939,173

Target Debt Capacity as % of Expenses (B)	7%				
	A	(A*B)	C	C/A	(A*B)-C
Fiscal Year	Total Expenses (1)	Base Capacity to Pay Debt Service	Annual Payments for Debt Service Paid by Institution (2)	Institution Debt Service as a % of Institution Expenses	Net Capacity to Pay Additional Institutional Debt Service
VT					
Actual 2002	$ 696,524,000	$ 48,756,680	$ 24,476,000	**3.51%**	$ 24,280,680
Actual 2003	694,570,000	48,619,900	19,876,000	**2.86%**	28,743,900
Actual 2004	697,463,000	48,822,410	21,840,000	**3.13%**	26,982,410
Actual 2005	741,921,000	51,934,470	20,026,000	**2.70%**	31,908,470
2006	758,020,686	53,061,448	24,736,000	**3.26%**	28,325,448
2007	774,469,735	54,212,881	27,969,000	**3.61%**	26,243,881
2008	791,275,728	55,389,301	26,358,000	**3.33%**	29,031,301
2009	808,446,411	56,591,249	24,677,000	**3.05%**	31,914,249
2010	825,989,698	57,819,279	21,035,000	**2.55%**	36,784,279
CWM					
Actual 2002	$ 215,017,156	$ 15,051,201	$ 8,884,626	**4.13%**	$ 6,166,575
Actual 2003	224,538,963	15,717,727	6,657,587	**2.97%**	9,060,140
Actual 2004	233,518,364	16,346,285	6,349,850	**2.72%**	9,996,435
Actual 2005	250,714,080	17,549,986	7,365,582	**2.94%**	10,184,404
2006	263,901,641	18,473,115	8,630,924	**3.27%**	9,842,191
2007	277,782,867	19,444,801	8,680,245	**3.12%**	10,764,556
2008	292,394,246	20,467,597	8,512,917	**2.91%**	11,954,680
2009	307,774,183	21,544,193	7,158,253	**2.33%**	14,385,940
2010	323,963,105	22,677,417	6,970,086	**2.15%**	15,707,331
UVA (Includes UVA Wise & Medical Center)					
Actual 2002	$1,434,993,000	$ 100,449,510	$ 31,723,000	**2.21%**	$ 68,726,510
Actual 2003	1,492,784,000	104,494,880	29,731,011	**1.99%**	74,763,869
Actual 2004	1,604,674,000	112,327,180	37,978,000	**2.37%**	74,349,180
Actual 2005	1,761,085,000	123,275,950	31,959,000	**1.81%**	91,316,950
2006	1,885,945,927	132,016,215	34,033,000	**1.80%**	97,983,215
2007	2,019,659,493	141,376,164	33,560,000	**1.66%**	107,816,164
2008	2,162,853,351	151,399,735	33,081,000	**1.53%**	118,318,735
2009	2,316,199,653	162,133,976	28,363,000	**1.22%**	133,770,976
2010	2,480,418,209	173,629,275	28,723,000	**1.16%**	144,906,275

(1) Represents total operating expenses.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

(3) Represents debt service payments (principal and interest) for VCBA 21st Century Program (Equipment Program), VCBA 21st Century Program (Capital Projects Program), and 9b bond referenda debt. This debt is not recorded on each institution's financial statements and they are not required to pay debt service payments. Commonwealth pays debt service payments from General Fund dollars.

(4) Represents the total University and Commonwealth debt service payments

D Annual Payments for Debt Service Paid by Commonwealth (3)	D/A Commonwealth Debt Service as a % of Institution Expenses	C+D Total Debt Payments (4)	(C+D)/A All Debt Service as a % of Institution Expenses	{(A*B)-(C+D)}/K Net Capacity to Pay Additional Institutional & Commonwealth Debt Service
$ 5,118,520	**0.73%**	$ 29,594,520	**4.25%**	$ 19,162,160
8,447,214	**1.22%**	28,323,214	**4.08%**	20,296,686
11,967,894	**1.72%**	33,807,894	**4.85%**	15,014,516
15,248,474	**2.06%**	35,274,474	**4.75%**	16,659,996
13,853,277	**1.83%**	38,589,277	**5.09%**	14,472,171
13,794,051	**1.78%**	41,763,051	**5.39%**	12,449,831
11,492,445	**1.45%**	37,850,445	**4.78%**	17,538,856
10,367,957	**1.28%**	35,044,957	**4.33%**	21,546,292
9,044,159	**1.09%**	30,079,159	**3.64%**	27,740,120
$ 1,228,502	**0.57%**	$ 10,113,128	**4.70%**	$ 4,938,073
2,052,355	**0.91%**	8,709,942	**3.88%**	7,007,785
2,718,593	**1.16%**	9,068,443	**3.88%**	7,277,843
3,672,555	**1.46%**	11,038,137	**4.40%**	6,511,848
3,747,961	**1.42%**	12,378,885	**4.69%**	6,094,230
3,731,643	**1.34%**	12,411,888	**4.47%**	7,032,913
3,159,930	**1.08%**	11,672,847	**3.99%**	8,794,750
2,894,885	**0.94%**	10,053,138	**3.27%**	11,491,055
2,538,326	**0.78%**	9,508,412	**2.94%**	13,169,006
$ 6,251,173	**0.44%**	$ 37,974,173	**2.65%**	$ 62,475,337
8,432,125	**0.56%**	38,163,136	**2.56%**	66,331,744
9,791,844	**0.61%**	47,769,844	**2.98%**	64,557,336
11,390,678	**0.65%**	43,349,678	**2.46%**	79,926,272
11,965,562	**0.63%**	45998561.91	**2.44%**	86,017,653
11,908,604	**0.59%**	45468603.94	**2.25%**	95,907,561
10,380,344	**0.48%**	43461343.9	**2.01%**	107,938,391
9,776,848	**0.42%**	38139848.19	**1.65%**	123,994,128
9,261,541	**0.37%**	37984540.56	**1.53%**	135,644,734

Target Debt Capacity as % of Expenses (B) **7%**

	A	(A*B)	C	C/A	(A*B)-C
Fiscal Year	**Total Expenses (1)**	**Base Capacity to Pay Debt Service**	**Annual Payments for Debt Service Paid by Institution (2)**	**Institution Debt Service as a % of Institution Expenses**	**Net Capacity to Pay Additional Institutional Debt Service**
UMW					
Actual 2002	$ 56,163,500	$ 3,931,445	$ 3,052,573	**5.44%**	$ 878,872
Actual 2003	58,353,111	4,084,718	2,650,144	**4.54%**	1,434,574
Actual 2004	61,403,336	4,298,234	2,640,530	**4.30%**	1,657,704
Actual 2005	65,222,568	4,565,580	2,778,699	**4.26%**	1,786,881
2006	68,561,963	4,799,337	3,122,665	**4.55%**	1,676,672
2007	72,072,336	5,045,064	3,163,945	**4.39%**	1,881,119
2008	75,762,440	5,303,371	3,170,975	**4.19%**	2,132,396
2009	79,641,477	5,574,903	3,161,343	**3.97%**	2,413,560
2010	83,719,120	5,860,338	3,163,704	**3.78%**	2,696,634
NSU					
Actual 2002	$ 101,288,959	$ 7,090,227	$ 3,422,765	**3.38%**	$ 3,667,462
Actual 2003	103,344,158	7,234,091	2,896,097	**2.80%**	4,337,994
Actual 2004	109,597,308	7,671,812	2,724,431	**2.49%**	4,947,381
Actual 2005	119,223,764	8,345,663	2,673,199	**2.24%**	5,672,464
2006	125,924,140	8,814,690	4,082,483	**3.24%**	4,732,207
2007	133,001,076	9,310,075	5,401,025	**4.06%**	3,909,050
2008	140,475,737	9,833,302	5,390,316	**3.84%**	4,442,986
2009	148,370,473	10,385,933	5,353,902	**3.61%**	5,032,031
2010	156,708,894	10,969,623	5,217,283	**3.33%**	5,752,340
RU					
Actual 2002	$ 97,609,395	$ 6,832,658	$ 1,012,903	**1.04%**	$ 5,819,755
Actual 2003	100,631,208	7,044,185	398,257	**0.40%**	6,645,928
Actual 2004	103,286,128	7,230,029	139,624	**0.14%**	7,090,405
Actual 2005	113,533,661	7,947,356	141,349	**0.12%**	7,806,007
2006	119,460,118	8,362,208	138,121	**0.12%**	8,224,087
2007	125,695,936	8,798,716	-	**0.00%**	8,798,716
2008	132,257,264	9,258,008	-	**0.00%**	9,258,008
2009	139,161,093	9,741,277	-	**0.00%**	9,741,277
2010	146,425,302	10,249,771	-	**0.00%**	10,249,771

(1) Represents total operating expenses.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

(3) Represents debt service payments (principal and interest) for VCBA 21st Century Program (Equipment Program), VCBA 21st Century Program (Capital Projects Program), and 9b bond referenda debt. This debt is not recorded on each institution's financial statements and they are not required to pay debt service payments. Commonwealth pays debt service payments from General Fund dollars.

(4) Represents the total University and Commonwealth debt service payments.

D Annual Payments for Debt Service Paid by Commonwealth (3)	D/A Commonwealth Debt Service as a % of Institution Expenses	C+D Total Debt Payments (4)	(C+D)/A All Debt Service as a % of Institution Expenses	{(A*B)-(C+D)}/K Net Capacity to Pay Additional Institutional & Commonwealth Debt Service
$ 1,327,601	**2.36%**	$ 4,380,174	**7.80%**	$ (448,729)
1,617,689	**2.77%**	4,267,833	**7.31%**	(183,116)
1,729,661	**2.82%**	4,370,191	**7.12%**	(71,957)
1,683,022	**2.58%**	4,461,721	**6.84%**	103,859
2,081,089	**3.04%**	5,203,754	**7.59%**	(404,416)
2,079,821	**2.89%**	5,243,766	**7.28%**	(198,702)
1,883,519	**2.49%**	5,054,494	**6.67%**	248,877
1,909,897	**2.40%**	5,071,240	**6.37%**	503,663
1,837,907	**2.20%**	5,001,611	**5.97%**	858,727
$ 854,243	**0.84%**	$ 4,277,008	**4.22%**	$ 2,813,219
1,442,060	**1.40%**	4,338,157	**4.20%**	2,895,934
1,948,281	**1.78%**	4,672,712	**4.26%**	2,999,099
3,263,865	**2.74%**	5,937,064	**4.98%**	2,408,599
3,632,720	**2.88%**	7,715,203	**6.13%**	1,099,487
3,621,961	**2.72%**	9,022,986	**6.78%**	287,090
3,214,550	**2.29%**	8,604,866	**6.13%**	1,228,436
3,029,371	**2.04%**	8,383,273	**5.65%**	2,002,660
2,465,092	**1.57%**	7,682,375	**4.90%**	3,287,248
$ 1,651,559	**1.69%**	$ 2,664,462	**2.73%**	$ 4,168,195
2,608,014	**2.59%**	3,006,271	**2.99%**	4,037,914
3,294,661	**3.19%**	3,434,285	**3.33%**	3,795,744
3,326,907	**2.93%**	3,468,256	**3.05%**	4,479,100
2,819,100	**2.36%**	2,957,221	**2.48%**	5,404,988
2,809,045	**2.23%**	2,809,045	**2.23%**	5,989,671
2,155,253	**1.63%**	2,155,253	**1.63%**	7,102,755
1,929,963	**1.39%**	1,929,963	**1.39%**	7,811,313
1,800,818	**1.23%**	1,800,818	**1.23%**	8,448,953

Target Debt Capacity as % of Expenses (B)	**7%**				
	A	**(A*B)**	**C**	**C/A**	**(A*B)-C**
Fiscal Year	**Total Expenses (1)**	**Base Capacity to Pay Debt Service**	**Annual Payments for Debt Service Paid by Institution (2)**	**Institution Debt Service as a % of Institution Expenses**	**Net Capacity to Pay Additional Institutional Debt Service**
VMI					
Actual 2002	$ 43,363,773	$ 3,035,464	$ 970,387	**2.24%**	$ 2,065,077
Actual 2003	46,054,768	3,223,834	517,144	**1.12%**	2,706,690
Actual 2004	48,934,990	3,425,449	527,491	**1.08%**	2,897,958
Actual 2005	51,433,922	3,600,375	677,361	**1.32%**	2,923,014
2006	54,447,950	3,811,356	1,562,311	**2.87%**	2,249,045
2007	57,638,600	4,034,702	1,553,779	**2.70%**	2,480,923
2008	61,016,222	4,271,136	1,551,986	**2.54%**	2,719,149
2009	64,591,772	4,521,424	1,553,143	**2.40%**	2,968,281
2010	68,376,850	4,786,380	1,251,228	**1.83%**	3,535,151
VSU					
Actual 2002	$ 74,439,969	$ 5,210,798	$ 1,296,286	**1.74%**	$ 3,914,512
Actual 2003	78,277,196	5,479,404	1,539,637	**1.97%**	3,939,767
Actual 2004	79,597,739	5,571,842	1,776,475	**2.23%**	3,795,367
Actual 2005	88,095,098	6,166,657	1,807,388	**2.05%**	4,359,269
2006	93,239,852	6,526,790	1,687,914	**1.81%**	4,838,876
2007	98,685,059	6,907,954	1,697,878	**1.72%**	5,210,076
2008	104,448,267	7,311,379	1,651,040	**1.58%**	5,660,339
2009	110,548,045	7,738,363	1,692,382	**1.53%**	6,045,981
2010	117,004,051	8,190,284	1,699,771	**1.45%**	6,490,513

(1) Represents total operating expenses.

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(4) Represents the total University and Commonwealth debt service payments

D Annual Payments for Debt Service Paid by Commonwealth (3)	D/A Commonwealth Debt Service as a % of Institution Expenses	C+D Total Debt Payments (4)	(C+D)/A All Debt Service as a % of Institution Expenses	{(A*B)-(C+D)}/K Net Capacity to Pay Additional Institutional & Commonwealth Debt Service
$ 233,555	**0.54%**	$ 1,203,942	**2.78%**	$ 1,831,522
288,220	**0.63%**	805,364	**1.75%**	2,418,470
384,087	**0.78%**	911,578	**1.86%**	2,513,871
2,110,700	**4.10%**	2,788,061	**5.42%**	812,314
2,597,428	**4.77%**	4,159,739	**7.64%**	(348,383)
2,569,711	**4.46%**	4,123,490	**7.15%**	(88,788)
2,504,304	**4.10%**	4,056,290	**6.65%**	214,845
2,434,776	**3.77%**	3,987,919	**6.17%**	533,505
2,080,352	**3.04%**	3,331,580	**4.87%**	1,454,799
$ 619,150	**0.83%**	$ 1,915,436	**2.57%**	$ 3,295,362
1,267,104	**1.62%**	2,806,741	**3.59%**	2,672,663
2,272,213	**2.85%**	4,048,688	**5.09%**	1,523,153
3,591,774	**4.08%**	5,399,162	**6.13%**	767,495
3,584,775	**3.84%**	5,272,689	**5.65%**	1,254,100
3,560,745	**3.61%**	5,258,623	**5.33%**	1,649,331
3,100,215	**2.97%**	4,751,255	**4.55%**	2,560,124
2,693,331	**2.44%**	4,385,713	**3.97%**	3,352,650
2,374,794	**2.03%**	4,074,565	**3.48%**	4,115,719

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Appendix F

INSTITUTIONS OF HIGHER EDUCATION

DEBT MANAGEMENT POLICY STATUS

University	Board Approved Policy	Current Status
Virginia Military Institute	Yes	August 2005
Virginia State University	Yes	March 2006
Longwood University	Yes	March 2006
University of Virginia	Yes	April 2006
James Madison University	Yes	June 2006
Virginia Tech	Yes	August 2006
Virginia Commonwealth University	Yes	November 2006
College of William and Mary	No	draft
Radford University	No	draft
George Mason University	No	discussing
University Mary Washington	No	discussing
Christopher Newport University	No	discussing
Old Dominion University	No	discussing
Norfolk State University	No	discussing

Appendix G

SUMMARY OF INSTITUTIONAL DEBT POLICIES

	University of Virginia	Virginia Military Institute	James Madison University
Consideration of the consumer	No	No	No
Revenue generation	Yes	Yes	Yes
Capital commitment beyond debt service	Yes	No	No
Planning capital financing both short and long-term	Yes	No	No
Evaluation criteria for alternate financing	Yes	Yes	Yes
Affordability Measures	Annual Debt Service by Total Operating Expenses Operating Gain/Loss + Non Operating Revenue + Depreciation by Annual Debt Service	Maximum Annual Debt Service Costs as a percentage of Total Operating Expenses shall not exceed 10%	
Capacity Measures	Unrestricted Net Assets + Restricted Expendable Net Assets by Aggregate Debt Aggregate Debt by Total Net Assets + Aggregate Debt	Unrestricted Net Assets shall equal at least 25% of the Institute Direct Debt	Annual Debt Service Costs as a percentage of Total Operating Revenues shall not exceed 10% for Non Revenue producing projects. May exceed 10% for revenue producing projects.

Virginia State University	Longwood University	Virginia Commonwealth University	Virginia Tech
No	No	No	No
Yes	No	No	No
No	No	No	No
No	No	No	No
Yes	No	Yes	No
Maximum Annual Debt Service Costs as a percentage of total Operating Expenses shall not exceed 7% for non revenue producing projects. May exceed 7% for revenue producing projects.	Annual Debt Service Costs as a percentage of total University Operating Expenditures shall not exceed 7%.	Maximum Annual Debt Service as a percentage of Operating Expenses + Interest on Capital Related Debt + Principal Paid on Capital Asset Related Debt – Research Expenses shall not exceed 7%.	Debt Service to Operations Ratio of not greater than 7%.
Unrestricted Net Assets shall equal at least 25% of the University Direct Debt			