West Virginia University

Board of Governors Rule

Finance and Administration
Debt
Responsible Unit: Strategic Initiatives/Finance
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BOG FINANCE AND ADMINISTRATION RULE 5.11
DEBT

SECTION 1: PURPOSE & SCOPE.

1.1 The University seeks to define its view of Debt and form guidelines to utilize as debt is contemplated, approved and monitored.

1.2 This Rule outlines the University's strategy toward Debt issuance and provides guidelines for debt issuance and monitoring pursuant to the Board's authority to issue Debt under BOG Rule 5.1 Approvals and Delegations of Authority for Financial and Administrative Matters.

1.3 This Rule applies to West Virginia University, including West Virginia University Institute of Technology and West Virginia University Potomac State College (collectively the "University").

SECTION 2: CONSIDERATIONS RELATED TO DEBT ISSUANCE.

2.1 The Board understands that the University must continue to invest in capital projects to support all aspects of the University. Such projects may be funded from a variety of funding sources, including but not limited to state appropriations, gifts, tuition and fees, and proceeds from bonds and capital leases.

2.2 Debt shall be used to achieve the long-term strategy of the University.

2.3 Risk shall be considered in the context of the Debt Portfolio rather than on the basis of a single transaction or a series of transactions.

2.3.1 Management shall present to the Board an analysis of the benefits, costs, and risks of fixed rate debt compared to variable rate debt when debt is contemplated.

2.3.2 The Board shall also be apprised of the availability of derivatives to manage risk and the associated advantages and disadvantages of products being considered. If derivatives are used, the University will utilize a registered swap advisor.

2.3.3 The desire for the lowest cost of capital shall be balanced with exposure to market risks. Risk may be managed through products legally available for purchase by the University.

2.4 Affordability of Debt is of paramount importance and includes recognition of the future Debt service payments and any incremental costs associated with maintaining new facilities.

2.4.1 The University shall evaluate debt affordability by calculating its Debt Ratio.

2.4.2 The University shall provide comparisons of its Debt Ratio to those of similar institutions.

2.5 Decisions to issue Debt shall consider the impact of such issuance on current and future Debt issuance and the overall financial health of the University.

2.5.1 Debt capacity is an important consideration for the University and a critical factor for rating agencies.

2.5.2 The University shall utilize the national rating agency scorecards to assess the impacts of additional Debt, with an understanding that there are many qualitative factors that are also evaluated by the rating agencies when determining public market ratings.

2.5.2.1 The scorecards and the median ratios of the various credit ratings categories shall be used as a baseline assessment of the impact of additional debt on the University's credit rating.

2.5.2.2 The University's credit factors shall be compared to those of peer institutions.

2.5.2.3 The University shall strive to maintain an "A rating" or higher according to Moody's and Standard and Poor's.

2.5.3 Debt issuance shall be coordinated to the extent possible to reduce the overall cost of borrowing.

2.5.4 The University shall consider either a negotiated or competitive transaction based upon use of proceeds, size and complexity.

SECTION 3: DEBT MANAGEMENT AND POST ISSUANCE COMPLIANCE.

3.1 The University shall provide to the Board an annual update on the Moody's and Standard and Poor's scorecards, the expected Debt Ratio for the upcoming year, and peer analysis.

3.1.1 These materials will also be provided to the Board when it considers issuing Debt.

3.2 The University understands the importance of compliance regarding federal and institutional requirements for the issuance and management of tax-exempt debt proceeds**.**

3.2.1 The University understands that it is subject to such requirements for any tax-exempt bond proceeds that it receives regardless of whether the University is the issuer of that tax-exempt debt.

3.3 The University understands that counterparty diversification is an important risk management tactic. The University will work to maintain relationships with multiple counterparty institutions as it relates to financial partners for private placements, liquidity services, investment banking and derivatives.

SECTION 4: DEFINITIONS.

4.1 "Debt" means long-term, short-term, fixed-rate, and variable-rate debt as well as any instruments issued by the University to fund capital projects that have the effect of committing WVU to future payments. This includes capital leases, all on and off-balance sheet financing, and derivative instruments that the University may legally issue.

4.2 "Debt Portfolio" means the combination of all current outstanding financing obligations and any additional debt that is contemplated.

4.3 "Debt Ratio" means the annual debt service as a percentage of current and anticipated total operating expenses of the University.

4.4 "President" means the President of West Virginia University or his or her designee."

SECTION 5: DELEGATION.

5.1 The Board of Governors delegates to the President the authority to adopt additional internal policies and procedures to effectuate the implementation of this Board of Governors Rule. Any actions taken pursuant to this delegation must be consistent with the guidelines provided by this Rule.

SECTION 6: AUTHORITY.

6.1 W.Va. Code §§ 18B-10-1 et seq. and 18B-19-1.

SECTION 7: SUPERSEDING PROVISIONS.

7.1 This Rule repeals and supersedes Higher Education Policy Commission Series 12 - Capital Project Management; and any other Rule of the Higher Education Policy Commission which relates to the subject matter contained within this Rule. This Rule also repeals and supersedes WVU BOG Policy 52 – Rule on Debt which was adopted on September 12, 2008; and any other internal University policy or procedure which relates to the subject matter contained within this Rule.