Debt Service and Debt Portfolio

When considering the next decade of capital and related planning for the University, it is important to understand the institution's financial goals, recent history of investment in capital projects and overall financial health. These key areas help provide an appropriate lens through which WVU will evaluate and execute capital-related projects over the next decade and beyond.

The University continually works to develop sustainable operating budgets that result in annual positive cash flow development, strengthen the cash position of the University and improve its overall balance sheet. Simultaneously, WVU is determined to invest to improve key infrastructure, address key capital and deferred maintenance needs and compensate employees at market levels. Finally, the WVU Board of Governors has determined that the institution is to strive to maintain at least an "A" credit rating.

Since 2012, the University has issued or refunded over $800 million in debt that supports a wide variety of capital projects that have made significant improvements across many areas of the institution and resulted in significant interest expense savings over previously issued debt. WVU also garnered energy savings of $35.3 million since implementing an energy performance plan with Siemens in 2007. The energy performance plan was financed in part using $21.7 million in debt.

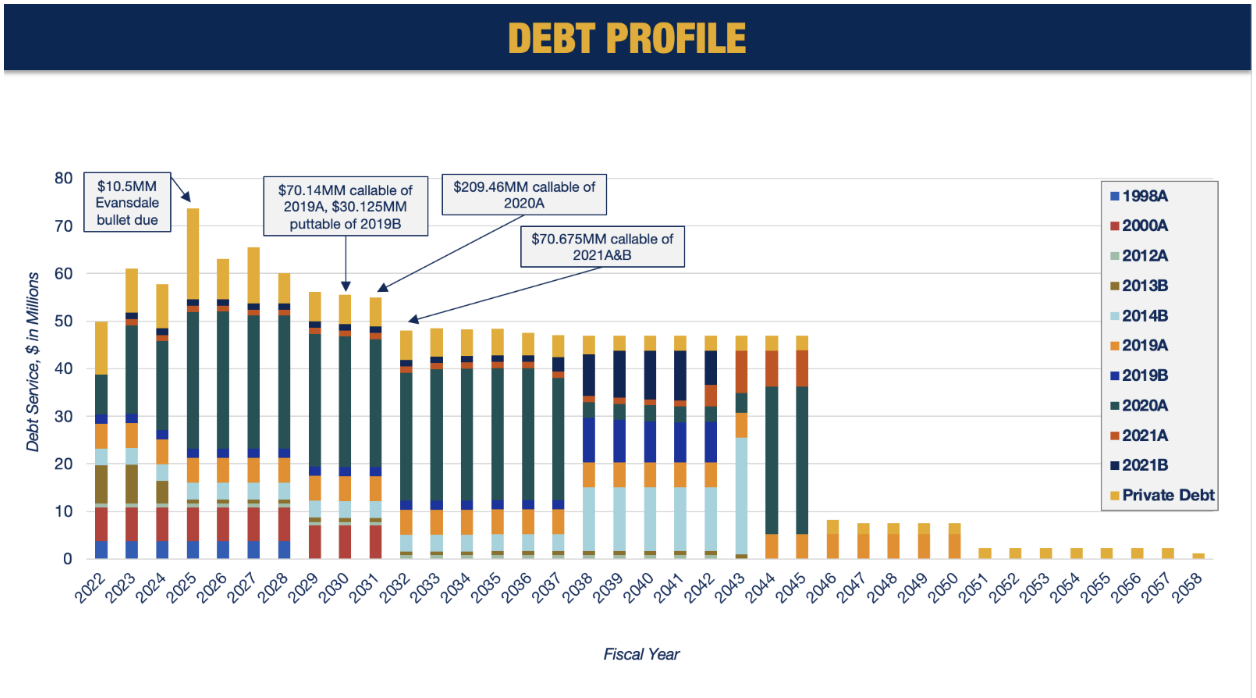
Over the past decade, the University has leveraged a very positive interest rate environment to undertake these capital projects, which can be seen from the below:

DEBT PROFILE

WVU will pay off 23% of its debt by FY27 (including bullet), 46% by FY31 and 96% by FY46.

PUBLIC DEBT OUTSTANDING AS OF JUNE 30, 2021						
Series	**Par Outstanding**	**TIC**	**Tax Status**	**Coupon Type**	**Maturity Range**	**First Par Call Date**
1998-A	21,890,000	5.05%	Tax-Exempt	Fixed	2022-2028	-
2000-A	13,744,772	6.08%	Tax-Exempt	Fixed	2022-2031	-
2012-A	10,992,927	4.67%	Taxable	Fixed	2022-2042	MWC + 50bps
2013-B	30,260,000	2.94%	Taxable	Fixed	2022-2042	MWC + 25bps
2014-B	79,050,000	4.47%	Taxable	Fixed	2022-2042	MWC + 20bps
2019-A	85,840,000	3.08%	Tax-Exempt	Fixed	2022-2049	10/1/2029
2019-B	39,125,000	3.10%	Tax-Exempt	Fixed	2022-2041	7/1/2029
2020-A	377,785,000	2.43%	Taxable	Fixed	2022-2044	10/1/2030
2021-A	25,670,000	3.07%	Tax-Exempt	Fixed	2041-2044	10/1/2031
2021-B	45,005,000	3.03%	Taxable	Fixed	2036-2041	10/1/2031
Total	**729,362,699**					
PRIVATE DEBT OUTSTANDING AS OF JUNE 30, 2021						
Series	**Par Outstanding**	**TIC**	**Tax Status**	**Coupon Type**	**Maturity Range**	**First Par Call Date**
2011-A	7,697,837	3.90%	Tax-Exempt	Fixed	2022-2027	MWC
2012-B	3,063,687	2.51%	Taxable	Variable	2022-2032	2/1/2013
2016-A	16,948,972	1.75%	Tax-Exempt	Variable	2022-2045	1% premium
2020-B	11,904,721	2.21%	Tax-Exempt	Fixed	2022-2044	3% premium (descending)
2022	20,000,000	2.60%	Tax-Exempt	Fixed	2022-2036	-
Private Notes/Loans	79,076,715		Taxable/Tax-Exempt	Variable	2022-2058	
Total	**138,691,932**					
TOTAL	**868,054,631**					

The below chart shows the annual amount of debt service relating to WVU's debt:



Finally, the University maintains an AA- rating from Fitch, an Aa3 rating from Moody's and an A rating from Standard & Poor's. Given the amount and types of investments WVU has made over the past decade and is currently considering, as well as the debt issued to accomplish those investments, it is likely that any additional capital investment by the University over the next decade will be very targeted. These projects also must be supported by a significant need, significant fundraising or grant support – or a combination of these three factors – with a focus on a return on investment.

Moreover, given the needed investment associated with the WVU Modernization Program, the needed continued investment in WVU employees and the needed investment in academic and research programs with significant growth potential, it is likely that the next several years of the University's life will not focus on significant capital projects. Instead, investment over the next several years will focus on reducing the amount of deferred maintenance existing on the University's campuses.

With this history and perspective in mind, WVU uses a comprehensive approach to fund capital projects. In its approach to future capital plans, the following funding sources are considered:

- Private support for projects;
- Grants;
- Internal investment from current operational cash or operational reserves;
- And debt financing.

Moving forward, capital projects should not significantly depend on debt financing. If debt is needed for a capital project, the University must consider debt capacity, debt affordability and its cost of capital as reflected by its credit rating.

The University works with a financial advisor and models debt capacity by analyzing required future debt service payments, forecasted operating results and anticipated debt issuances. The institution uses a five-year planning model to determine debt affordability based on overall revenues and expenses. This model considers the current and future projected debt payments of the debt portfolio, projected enrollment, expected tuition increases and future salary and hiring plans. WVU also utilizes days of cash on hand in determining capital affordability. In determining the amount of annual spending on capital projects, including deferred maintenance, the University subtracts the principal on debt from depreciation to arrive at an annual spending limit which is also influenced by departmental fundraising.

WVU approaches the structure of the debt portfolio in a straightforward manner using primarily fixed-rate debt and structures resulting in overall level debt service payments. This approach provides predictability of payments and a portfolio that is simple to administer. The University does not use derivative instruments.

WVU’s core principles for the debt portfolio are analyzing intergenerational equity and not deferring principal into the future excessively, matching the term of debt to the useful life of the asset and developing an amortization schedule that is predictable and consistent. In reviewing refunding or refinancing opportunities, the University strives to avoid extension of maturities beyond originally issued debt terms and generating debt service savings that result in a net present value savings of at least 3%.

Aiming to keep its cost of capital to a minimum, the University proactively engages rating agencies to maintain the highest rating possible resulting in the lowest possible cost of capital. In addition to debt capacity, debt affordability and its cost of capital considerations, WVU looks for opportunities to refinance its debt portfolio to recoup savings when market rates warrant. WVU measures this opportunity by calculating the net present value (NPV) savings of any contemplated refinancing. Refinancing with NPV savings exceeding 3% is beneficial financially.

The University will continue to utilize the previously mentioned principles to guide its capital financing for the next decade, including debt affordability and debt capacity coupled with a conservative capital structure. WVU will pursue innovative partnerships when we can tap additional resources and will be thoughtful of intergenerational equity as we embark on the WVU Modernization Program and the implementation of a Student Housing Master plan, as well as other capital priorities.