

Fairmont State University Board of Governors  
Policy #59  
Effective date: December 11, 2014

TITLE: DEBT POLICY

SECTION 1. OVERVIEW

- 1.1 Scope: In support of its mission, Fairmont State University is developing long-term Auxiliary Facility Master Plans. The University has developed an operational and renovation plan to support priorities and objectives for each Auxiliary Enterprise.
- 1.2 The University's use of debt plays a critical role in ensuring adequate funding for the capital plan as well as providing a cost-effective source of funding for facility renewal and replacement purposes, and operational costs for each Auxiliary Enterprise.
- 1.3 The Debt Policy is intended to be a "living" document that will evolve over time to meet the changing needs of the University, but at this time is limited to Auxiliary Funds that are responsible to be self-sustaining and not dependent on Education and General Fee Revenues.

SECTION 2. SCOPE AND OBJECTIVES

- 2.1 Purpose:
  - 1) Define what activities are subject to the policy
  - 2) Define the objectives for the Debt Policy
  - 3) Establish debt management goals
- 2.2 The Debt Policy covers several forms of debt including long-term bonds and short-term fixed-rate bonds. It also covers other forms of financing such as lease purchase arrangements for certain projects.

The objectives of this policy are to:

  - (i) Outline the University's philosophy on debt
  - (ii) Establish a control framework for approving and managing debt
  - (iii) Define reporting guidelines
  - (iv) Establish debt management guidelines
- 2.3 The policy establishes a control framework to ensure that appropriate discipline is in place regarding capital rationing, reporting requirements, debt portfolio composition, debt servicing, and debt authorization. It establishes guidelines to ensure that existing and proposed debt issues are consistent with financial resources to maintain an optimal amount of leverage, a strong financial profile, and a strategically optimal credit rating.

Under this policy, debt is being managed to achieve the following goals:

  - (i) Maintaining access to financial markets: capital, money, and bank markets.
  - (ii) Managing the University's credit rating to meet its strategic objectives while maintaining the highest acceptable creditworthiness and most favorable relative cost of capital and borrowing terms;
  - (iii) Optimizing the University's debt mix (i.e. short-term, long-term, and fixed-rate) for the University's debt portfolio;
  - (iv) Managing the structure and maturity profile of debt to meet liquidity objectives and make funds available to support future capital projects and strategic initiatives;
  - (v) Coordinating debt management decisions with asset management decisions to optimize overall funding and portfolio management strategies.

- 2.4 The University may use debt to accomplish critical priorities by more prudently using debt financing to accelerate the initiation or completion of certain projects, where appropriate. As part of its review of each project, the University evaluates all funding sources to determine the optimal funding structure to achieve the lowest cost of capital.

### SECTION 3. OVERSIGHT

- 3.1 Purpose:
- 1) Provide mechanism for Board of Governors oversight and review on periodic basis.
  - 2) Provide management flexibility to make ongoing financing decisions within the framework of the Policy.
- 3.2 The Vice President for Administrative & Fiscal Affairs and Chief Financial Officer (“VP & CFO”) is responsible for implementing this policy and for all debt financing activities of the University. The policy and any subsequent, material changes to the policy are approved by the University’s Board of Governors. The approved policy provides the framework under which debt management decisions are made.
- 3.3 The exposure limits listed in the policy are monitored on a regular basis by the Office of the VP & CFO. The office of the VP & CFO reports regularly to the President and the BOG on the University’s debt position and plans.

### SECTION 4. DEBT AFFORDABILITY

- 4.1 In assessing its current debt levels, and when planning for additional debt, the University takes into account its debt affordability. Debt affordability focuses on the University’s ability to service its debt through its operating budget and identified revenue streams and is driven by strength in income and cash flows.
- 4.2 All events to issue tax exempt bonds require substantial financial planning that demonstrates fiscal capability to support with specific revenue streams to pay for the bonds and as well pay for annual operating costs of the facility being bonded and finally maintain the facility with repairs and renovations over the life of the bonds.
- 4.3 All issuances of tax exempt bonds require the support of bond counsel and underwriters that help document the purpose for bonding and help document the financial feasibility to sell bonds. Ultimately it is up to the institution’s leadership to provide committed revenue streams and to adjust these revenue streams to assure bond debt, operating costs, and repair and renovation costs are taken care of for the life of the bonds.

### SECTION 5. FINANCING SOURCES

- 5.1 The University recognizes that due-diligence review must be performed for each transaction, including (i) quantification of potential risks and benefits, and (ii) analysis of the impact on University creditworthiness and debt affordability.
- 5.2 The University recognizes that tax-exempt bond debt is a significant component of the University’s capitalization due in part to its substantial cost benefits; therefore, tax-exempt debt is managed as a portfolio of obligations designed to meet long-term financial objectives of our Auxiliary Enterprise operating and capital renewal and replacement needs.

### SECTION 6. APPROVAL PROCESS

- 6.1 All debt issued by the University Board of Governors is required to be approved by the Higher Education Policy Commission and the Governor of the State of West Virginia.