

**Rating Action: Moody's assigns Aa3 to West Virginia Higher Education Policy Commission's 2017 bonds; outlook stable**

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Global Credit Research - 05 Dec 2017

New York, December 05, 2017 -- Issue: Refunding Revenue Bonds (Higher Education Facilities) Series 2017; Rating: Aa3; Rating Type: Underlying LT; Sale Amount: \$26,115,000; Expected Sale Date: 12/12/2017; Rating Description: Revenue: Public University Limited Pledge;

Summary Rating Rationale

Moody's Investors Service has assigned a Aa3 rating to the West Virginia Higher Education Policy Commission, (the system) proposed \$26 million of Higher Education Policy Commission Refunding Revenue Bonds (Higher Education Facilities) Series 2017. The outlook is stable. The bonds have an expected final maturity in 2027. Moody's maintains Aa3 ratings on approximately \$255 million of outstanding system parity bonds and an A1 on \$64 million of separately secured community and technical college capital improvement revenue bonds. The outlook is stable.

The Aa3 favorably incorporates the system's important role as the largest provider of higher education in the state of West Virginia (Aa2 stable). It benefits from sizeable overall wealth, providing for a sound cushion relative to debt and operations. Strong financial management provides for healthy operations, even as cumulative state funding declines are ongoing. While in-state demographic pressures and low college going rates suppress enrollment growth prospects, pledged revenues remain relatively stable, providing debt service coverage consistently above 2 times.

Rating Outlook

The stable outlook incorporates our expectations of relatively stable pledged revenues providing for above 2 times coverage of associated debt service. It also incorporates our expectations that the system will maintain sound operating performance and manageable financial leverage.

Factors that Could Lead to an Upgrade

Material increase in financial reserves relative to debt

Strengthening in student demand, leading to sustained revenue growth

Factors that Could Lead to a Downgrade

Erosion in pledged revenues and debt service coverage

Deterioration in unrestricted liquidity

Material weakening in operating performance or large increase in financial leverage

Decline in credit quality of the state

Legal Security

The series 2017 bonds are secured by a first lien on certain revenues and are on parity with outstanding bonds of the commission. Revenues consist of limited mandatory student fees and certain revenues of the State Lottery Commission (Excess Lottery Revenue Fund). Obligations are joint and several liabilities of the 19 distinct constituent institutions in the higher education system in West Virginia. The bonds are subject to a sum sufficient rate covenant and an additional bonds test. Along with student fees, \$15 million of annual revenues from the state's Excess Lottery Revenue Fund are included into the pledge backing the bonds. This provides direct relief for debt service expenses, adds revenue diversity and a stream of funds that is less correlated to enrollment trends. However, the lottery system is subject to substantial competition. The fund was created by state statute in 2001 and receives a portion of the state's share of the net profits from the Racetrack Video Lottery and Limited Video Lottery, certain fees related to Limited Video Lottery, certain revenues from

racetrack table games, and certain revenues generated by casino gaming at the Greenbriar Resort. The commission's \$15 million pledge is subordinate to \$19 million in annual pledges to the Economic Development Project Fund. In fiscal 2017, pledged revenues totaled \$64.9 million, consisting of \$49.7 million in student fees, \$15 million in excess lottery revenues, and \$208 thousand in investment earnings. This provided 2.23x coverage of \$29 million of debt service. Based on commission forecasts, fiscal 2018 coverage is forecasted to be 2.29x. The ability and commitment of the commission and state treasurer to make up a shortfall in the student fee revenues paid by any individual institution with funds from other institutions enhances the legal security.

#### Use of Proceeds

Proceeds from the proposed 2017 bonds will be used to 1) currently refund the series 2007A bonds, 2) advance refund certain maturities of the 2010A bonds, and 3) pay issuance costs.

#### Obligor Profile

The West Virginia Higher Education Policy Commission serves as the state agency responsible for developing, establishing, and overseeing the implementation of a public policy agenda for the state of West Virginia's colleges and universities. The commission also issues debt on behalf of the institutions for academic centered capital needs, which is secured by state/lottery revenues or tuition and fee revenue or both.

#### Methodology

The principal methodology used in this rating was Global Higher Education published in November 2015. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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