



THE UNIVERSITY
of NORTH CAROLINA
at CHAPEL HILL

Debt Capacity Update
Audit & Finance Committee
Buildings & Grounds Committee
University Affairs Committee

March 24, 2010

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Background

- ❖ The University issues debt to finance capital projects only, as authorized by the General Assembly.
- ❖ Since 2001, the University has issued debt secured by a general revenue pledge that includes all University revenue sources except for State appropriations, tuition payments, and restricted gifts and grants.
- ❖ The University's long-term bond ratings on its general revenue pledge are highlighted in the below scale of investment-grade ratings:

Moody's	Standard & Poor	Fitch Ratings
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-

- ❖ All three bond rating agencies have assigned a stable outlook to the University's long-term bond ratings.
- ❖ The University is one of only six public universities (not including University of Texas System, Texas A&M System, and the University of California System) that is rated Aa1 or better by Moody's. Other schools include: Michigan, Virginia, Indiana, Purdue, and Washington.



Debt Portfolio: University Debt Over Time

	FYE 2000		FYE 2009		<i>Proforma</i> FYE 2014	
Utilities	\$112,244,142	42.1%	\$354,367,663	32.0%	\$453,727,504	31.0%
Academic/Research ¹	19,165,000	7.2%	236,578,942	21.4%	280,234,490	19.2%
Housing	16,815,000	6.3%	241,289,595	21.8%	241,910,608	16.6%
Academic/Research ²	3,900,000	1.5%	97,260,972	8.8%	106,977,948	7.3%
Athletics	27,795,000	10.4%	29,247,027	2.6%	114,703,300	7.8%
Parking	28,720,000	10.8%	64,455,134	5.8%	82,486,469	5.6%
ERP	0	0.0%	0	0.0%	48,075,881	3.3%
Granville Towers/University Square	0	0.0%	0	0.0%	45,750,000	3.1%
Student Life	16,050,000	6.0%	28,310,504	2.6%	37,525,603	2.6%
Dining	13,205,000	5.0%	31,288,478	2.8%	31,307,338	2.1%
Misc	28,575,000	10.7%	23,693,169	2.1%	18,965,668	1.3%
	<u>\$266,469,142</u>		<u>\$1,106,491,484</u>		<u>\$1,461,664,809</u>	

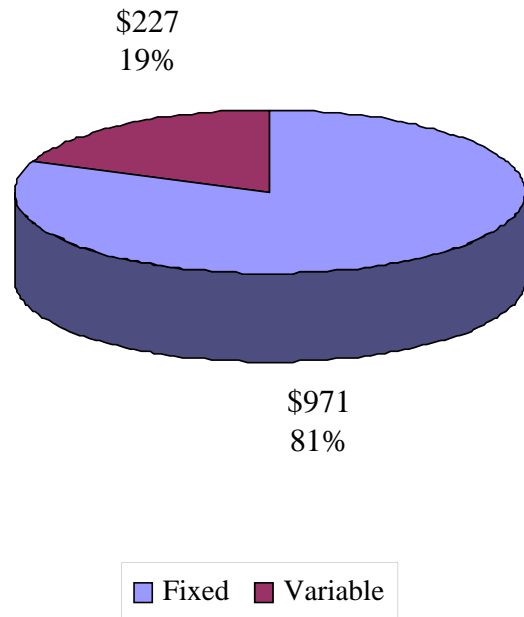
[1] Supported by central overhead receipts

[2] Supported by departmental funds

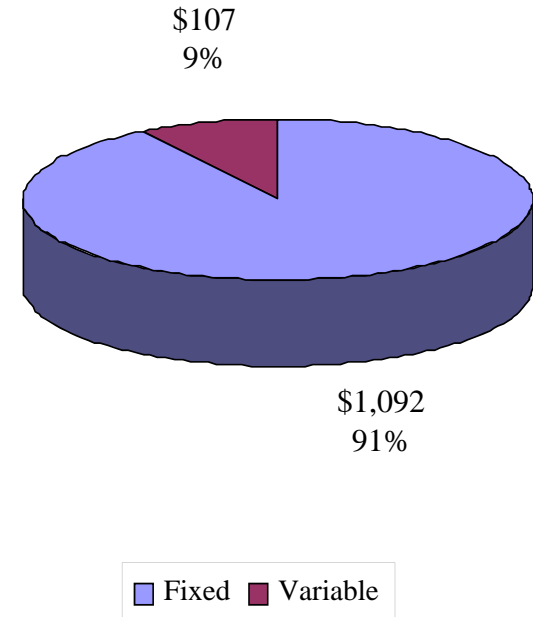


Debt Portfolio: Fixed Vs. Variable (As of June 30, 2009)

Traditional Fixed Vs. Variable (\$ in millions)

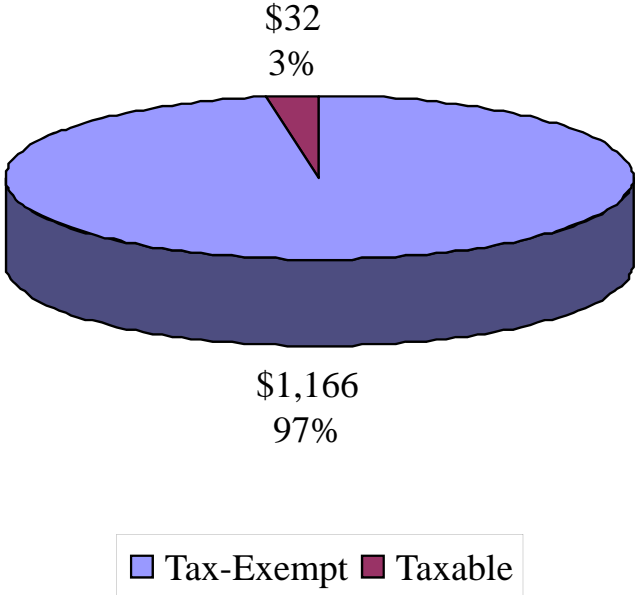


Synthetic Fixed Vs. Variable (\$ in millions)



Debt Portfolio: Tax-Exempt Vs. Taxable (As of June 30, 2009)

Tax-Exempt Vs. Taxable (\$ in millions)



Debt Capacity: Rating Agency Factors

- ❖ Management.
- ❖ Market demand for/market reputation of institution.
- ❖ State support.
- ❖ Balance sheet strength and cash flow.
- ❖ Revenue diversity.
- ❖ Operating trends.
- ❖ Capital program strategy.
- ❖ Peer capital programs.
- ❖ Peer debt issuance and financial profile.
- ❖ Rating agency risk tolerance.
- ❖ General economic conditions.



Policy Ratio Definitions

- ❖ **Expendable Resources to Debt:** This ratio is used by the rating agencies as a relative indicator of the financial health of an institution in terms of balance sheet strength. More specifically, it is viewed as a measure of cushion available to repay debt in the event of an interruption of the primary source of repayment – cash flow. Expendable resources include unrestricted net assets and restricted, but expendable, net assets, as referenced on the institution’s balance sheet. A higher ratio indicates a stronger position. The University’s debt policy sets the floor for this ratio at 1.50X.

- ❖ **Debt Service to Operations:** This ratio is a relative indicator of the University’s ability to repay annual debt service associated with all outstanding debt by measuring debt service as a percentage of annual operating budget. The University’s debt policy sets a ceiling for this ratio of 4%.

Historical and Projected Ratio Measures

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL DEBT RATIOS - HISTORICAL AND PROJECTED (As of March 2010)

(\$ in millions)

Fiscal Year Ending	2004	2005	2006	2007	2008	2009	PROJECTED				
							2010	2011	2012	2013	2014
Expendable Resources to Debt											
Expendable Resources	\$1,283	\$1,472	\$1,687	\$2,098	\$2,264	\$1,799	\$1,871	\$2,020	\$2,182	\$2,356	\$2,545
Debt	\$488	\$605	\$920	\$971	\$1,156	\$1,183	\$1,327	\$1,406	\$1,526	\$1,576	\$1,561
Measure	2.63	2.43	1.83	2.16	1.96	1.52	1.41	1.44	1.43	1.50	1.63
Policy Floor	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Debt Service to Operations											
Debt Service	\$33	\$38	\$57	\$60	\$73	\$74	\$86	\$97	\$102	\$112	\$111
Operating Expenses	\$1,603	\$1,682	\$1,802	\$1,948	\$2,089	\$2,224	\$2,313	\$2,406	\$2,502	\$2,667	\$2,843
Measure	2.08%	2.24%	3.18%	3.10%	3.51%	3.34%	3.70%	4.03%	4.08%	4.22%	3.90%
Policy Ceiling	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

Note: Projected ratios are based upon capital projects known at this point in time and assumptions on construction timing, and assumed changes in revenue/expense growth patterns



Peer Ratio Comparisons

(in descending order based upon FYE 2009)

<u>School</u>	<u>Moody's Long-Term Rating</u>	<u>Expendable Resources to Debt</u>				
		<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
UVA	Aaa	3.00	4.31	5.14	4.85	4.82
Michigan	Aaa	2.86	5.36	7.36	6.95	6.46
Purdue	Aa1	2.34	3.25	3.61	3.29	3.62
University of Washington	Aa1	1.85	2.47	2.38	2.37	2.37
Indiana	Aa1	1.77	2.21	2.11	1.77	1.73
UNC-Chapel Hill	Aa1	1.52	1.96	2.16	1.83	2.43
NCSU	Aa2	1.03	1.47	1.45	1.16	1.16

(in descending order based upon FYE 2009)

<u>School</u>	<u>Moody's Long-Term Rating</u>	<u>Debt Service to Operations</u>				
		<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Indiana	Aa1	3.77%	3.16%	3.09%	3.09%	2.96%
Purdue	Aa1	3.44%	3.25%	3.23%	3.19%	3.38%
UNC-Chapel Hill	Aa1	3.34%	3.51%	3.10%	3.18%	2.24%
University of Washington	Aa1	2.76%	3.09%	2.66%	2.43%	2.47%
UVA	Aaa	1.73%	1.63%	1.97%	1.74%	1.53%
NCSU	Aa2	1.54%	1.70%	1.79%	1.83%	1.33%
Michigan	Aaa	1.25%	1.43%	1.62%	1.13%	1.12%



Closing Points

- ❖ The University carries a leveraged profile relative to its rating peers.
- ❖ The University has substantial financing needs over the next five years, and leverage has been noted as a potential challenge for the University by the bond rating agencies.
- ❖ The University is one of only six public universities (not including several university systems) that are rated Aa1 or better by Moody's.
- ❖ The rating agencies currently assign a "Stable" outlook to the University's long-term bond ratings.
- ❖ Given the leverage profile of the University, qualitative factors play a significant factor in the University's bond ratings.
- ❖ Key factors in the University's credit rating include: lowest (best) student selectivity among rated public universities and strong student demand trends; low tuition; academic reputation; continued growth in research enterprise; history of strong State support; strong fundraising performance; long-term investment performance and portfolio management; and diversified revenue base .
- ❖ Leverage profile and ongoing capital plans do carry a bond rating risk.
- ❖ Debt financing should be reserved for strategic projects that are supported, directly or indirectly, by stable cash flows.

Appendix A: Future & Potential Projects

FUTURE PROJECTS (Included in ratio projections)	DEBT BUDGET	TOTAL
Kenan Stadium - Phase II	\$50,000,000	
Rizzo Conference Center	33,000,000	
Utilities	22,000,000	
Carolina Inn	7,500,000	
Frank Porter Graham Student Union Renovation	7,500,000	
Woollen Gym - Phase II	6,350,000	
Carolina North	5,000,000	
Lenoir Hall Renovation	5,000,000	
Total		\$136,350,000

Future Potential Projects (not included in ratio projections):

- *Additional debt financing by CHFREH or Developer on Granville Towers**
- *Research Building/Innovation Center*
- *Bingham Facility*
- *Mary Ellen Jones*
- *Science Complex Phase III*

**Note: Purchase financing in the amount of \$45,750,000 is included in the ratio projections*