University Debt Portfolio Review

September 24, 2008

Debt Over Time

	FYE 2000		FYE 2007		FYE 2012 Pro Forma	
Utilities	112,244,142.40	42.1%	274,192,116.51	28.8%	549,497,228.84	33.3%
Academic/Research[1]	19,165,000.00	7.2%	178,986,390.95	18.8%	267,029,854.89	16.2%
Housing	16,815,000.00	6.3%	245,031,232.39	25.8%	238,578,875.20	14.4%
Parking	28,720,000.00	10.8%	72,763,206.00	7.6%	134,018,660.39	8.1%
ITS	-	0.0%	-	0.0%	48,000,000.00	2.9%
ERP Project	-	0.0%	-	0.0%	58,647,000.00	3.5%
Academic/Research[2]	3,900,000.00	1.5%	59,699,141.53	6.3%	99,070,255.27	6.0%
Miscellaneous	28,575,000.00	10.7%	42,870,290.80	4.5%	60,989,548.69	3.7%
Athletics	27,795,000.00	10.4%	23,768,700.00	2.5%	67,724,739.76	4.1%
Dining	13,205,000.00	5.0%	33,704,152.52	3.5%	40,649,859.49	2.5%
Student Life	16,050,000.00	6.0%	20,285,143.14	2.1%	36,948,635.87	2.2%
Affiliated Projects	-	0.0%	-	0.0%	51,000,000.00	3.1%
Total	**266,469,142.40**		**951,300,373.84**		**1,652,154,658.40**	

[1] Supported by central overhead receipts.
[2] Supported by departmental funds.

Estimated Project Detail

	07-08	08-09	09-10	10-11	11-12	Total
Beach (Dining Services)	3,000	-	-	-	-	3,000
Bell Tower Development (formerly Science Phase III)	-	7,536	70,964	-	-	78,500
Campus Health Services	-	-	-	-	1,800	1,800
Campus Rec Facility	-	-	-	-	4,500	4,500
Campus Recreation	-	1,000	1,000	-	-	2,000
Carolina Union	-	2,700	2,700	-	-	5,400
Campus Recreation (SRC)	-	-	250	250	-	500
Carmichael Auditorium Addition & Renovation	3,840	15,640	5,520	-	-	25,000
Carmichael Residence Halls HVAC Replacement	5,916	534	-	-	-	6,450
Carolina Inn	-	-	-	10,000	10,000	20,000
Circus Room Replacement (Dining)	-	-	650	1,300	650	2,600
Craig Deck	-	-	-	20,000	20,000	40,000
Daniels Student Store Renovation	11,239	-	-	-	-	11,239
Dental Sciences Teaching and Learning Facility	-	5,000	5,000	5,000	5,000	20,000
ERP Project	11,729	11,729	11,729	11,729	11,729	58,647
Facilities Svcs. Chilled Water Plant & Underground Distribution	1,790	-	-	-	-	1,790
Fetzer Gym	-	500	-	-	-	500
Genetic Medicine Building	7,500	7,500	-	-	-	15,000
Global Education	7,800	-	-	-	-	7,800
Hangar Replacement	1,750	1,750	-	-	-	3,500
ITS Network Infrastructure	-	12,000	12,000	12,000	12,000	48,000
Kenan Stadium - Phase I	-	22,000	-	-	-	22,000
Lenoir Hall 2nd Floor (Dining)	-	880	-	-	-	880
Morrison Residence Hall Renovation	24,000	-	-	-	-	24,000
North East Food Service	400	400	400	400	400	2,000
Old East and Old West Renovations	-	1,893	1,307	-	-	3,200
Parking Facilities (Park and Ride)	3,000	-	-	-	-	3,000
Residence College, Phase II	86,000	-	-	-	-	86,000
Rizzo Center	20,347	-	-	-	-	20,347
Science Complex Phase I	17,724	-	-	-	-	17,724
Science Complex Phase II-Sitterson Addition/Kenan Renovations	4,000	-	-	-	-	4,000
Science Complex Phase II - New Venable	-	34,911	35,030	3,259	-	73,200
Smith Center	1,500	1,500	-	-	-	3,000
South Road Pedestrian Bridge	800	800	800	800	800	4,000
Sports Medicine Facility	1,700	-	-	-	-	1,700
Student and Academic Services	678	-	-	-	-	678
Student Rec Center	-	2,167	2,167	2,167	-	6,500
Student Union	-	1,068	1,068	1,068	-	3,205
Student Union (Dining)	-	-	750	750	-	1,500
Utility Infrastructure	141,000	12,754	44,321	88,987	21,238	308,300
Total	355,713	189,262	201,657	157,710	88,117	992,460

Note: Total includes Affiliated Projects not shown.

Affiliated Projects

- Projects that are not directly on the University's balance sheet may still be included in the University's debt profile, if the project is strategic in nature to the institution, is located on University property, and/or if it is a direct or indirect obligation of a component unit of the University.
- The following projects have been included as a part of the University's debt profile in the "Debt Over Time" (first) slide and are included in the projected debt policy ratio measures in later slides:

UNC-Chapel Hill Endowment/Chapel Hill Foundation Real Estate Holdings, Inc.

- Carolina Commons (Faculty/Staff Housing Project)
  - $6,000,000.
  - Fiscal Year 2010.

The University of North Carolina at Chapel Hill Foundation, Inc.

- Granville Towers-University Square
  - $45,000,000.
  - Fiscal Year 2009.

Long-Term Ratings

There are currently three main credit rating agencies widely recognized in the higher education municipal market – Moody's, Standard & Poor's, and Fitch. The first table below highlights the long-term ratings for UNC and the State of North Carolina.

	MOODY'S	STANDARD & POORS	FITCH
State of North Carolina (General Obligation)	Aaa	AAA	AAA
UNC at Chapel Hill	Aa1	AA+	AA+

The table below is a summary of the different bond rating systems and symbols used by each.

Summary Description	MOODY'S	STANDARD & POORS	FITCH
Investment Grade - High Credit Worthiness			
Gilt edge, prime, maximum safety	Aaa	AAA	AAA
High-grade, high-credit quality	**Aa1** Aa2 Aa3	**AA+** AA AA-	**AA+** AA AA-
Upper-medium grade	A1 A2 A3	A+ A A-	A+ A A-
Lower-medium grade	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB+ BBB BBB-
Speculative - Lower Credit Worthiness			
Low grade, speculative	Ba1 Ba2 Ba3	BB+ BB BB-	BB+ BB BB-
Highly speculative	B1 B2 B3	B	B+ B B-
Predominantly Speculative, Substantial Risk, or in Default			
Substantial risk, in poor standing	Caa	CCC+ CCC	CCC+ CCC
May be in default, very speculative	Ca	CC	CC
Extremely speculative	C	C	C
Income bonds - no interest being paid		CI	
Default		D	DDD DD D

Debt Capacity (Bond Rating) Factors

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

Key Ratio Methodology

The University's Debt Policy establishes two key ratios: one to measure the impact to the balance sheet and the other to measure the impact on the operating statement.

- Expendable Resources to Debt (Balance Sheet)
- Debt Service to Operations (Operating Statement)

The following slides compares the measurement of these ratios over the historical period FYE 2002 - 2007 and extends the comparison over a five-year projected period. In addition, the University's financial measures are compared to the peer group established in the debt policy and additional Aaa/Aa1 rated public institutions.

The University's peer group consists of the following institutions:

- The University of Michigan (Aaa)
- The University of Washington (Aa1)
- Indiana University (Aa1)
- North Carolina State University (Aa3)
- The University of Virginia (Aaa)
- Purdue University (Aa1)

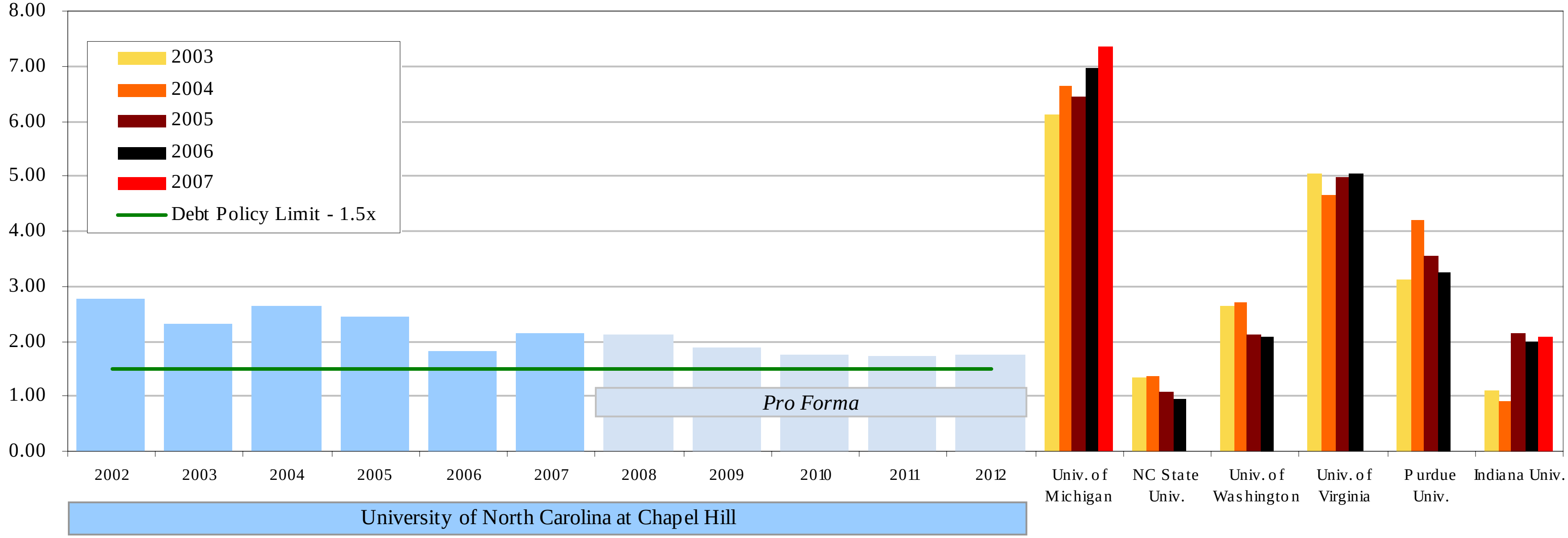
Other peer institutions that have a Aaa/Aa1 rating but that are excluded from ratio comparisons due to various incomparability issues are:

- The University of Texas System (Aaa)
- Texas A&M University System (Aa1)

Expendable Resources to Debt

This ratio is one of the most basic determinants of financial health and credit quality. It is intended to measure the availability of expendable assets to cover long-term obligations should the University be required to repay all its outstanding obligations immediately. A higher ratio indicates a stronger position. The University's debt policy sets the floor for this ratio at 1.50X. For the historical and projected period, the University is above the policy floor.

							Pro Forma				
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Expendable Resources	991,936	929,944	1,283,478	1,471,660	1,686,706	2,097,760	2,244,603	2,401,726	2,569,847	2,749,736	2,942,217
Total University Debt (less EPA)	356,770	401,832	487,880	604,669	920,344	970,618	1,069,338	1,284,010	1,465,412	1,602,432	1,669,235
Ratio	**2.78x**	**2.31x**	**2.63x**	**2.43x**	**1.83x**	**2.16x**	**2.10x**	**1.87x**	**1.75x**	**1.72x**	**1.76x**

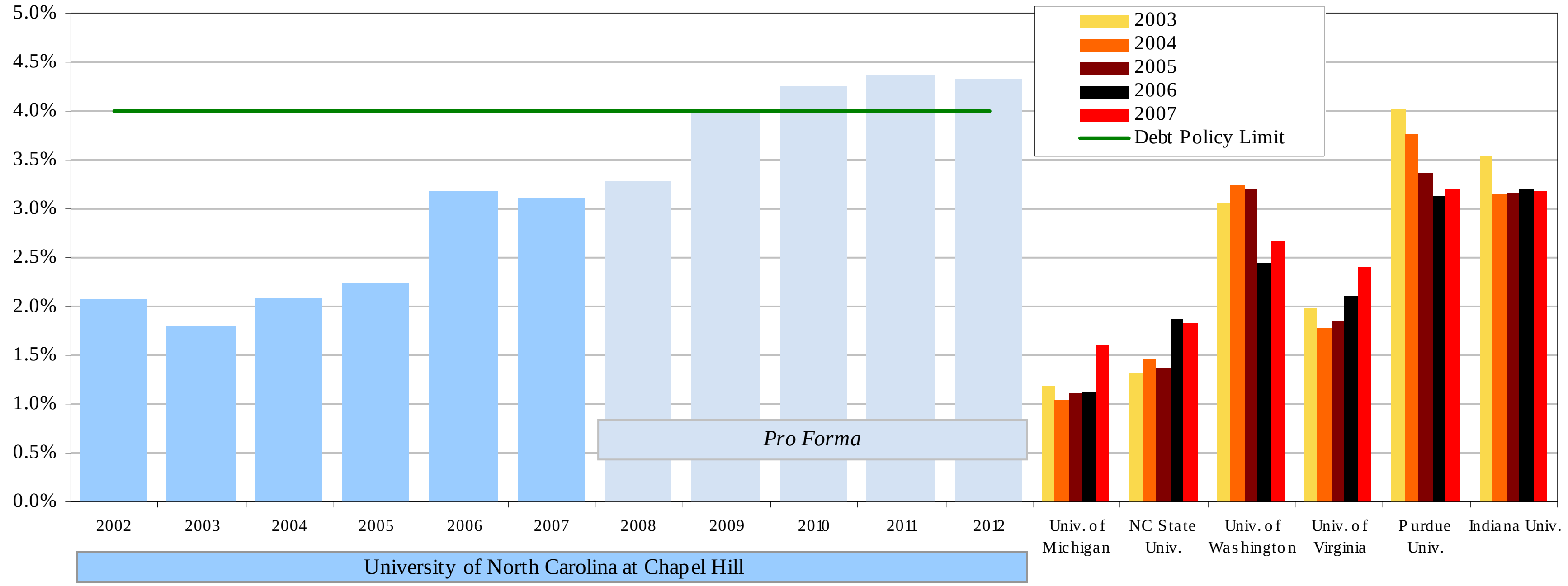


Note: Pro forma figures assume 7% growth in expendable resources and 5.03% interest rate on incremental debt.

Debt Service to Operations

This ratio measures 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. A lower percentage indicates a stronger ratio.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
							Pro Forma				
Net Debt Service	30,664	27,767	33,423	37,757	57,397	60,493	67,285	84,598	97,005	104,938	109,370
Total Operating Expenditures	1,477,013	1,543,717	1,603,386	1,681,901	1,802,431	1,948,282	2,049,464	2,165,886	2,282,357	2,399,557	2,518,721
Ratio	**2.08%**	**1.80%**	**2.08%**	**2.24%**	**3.18%**	**3.10%**	**3.28%**	**3.91%**	**4.25%**	**4.37%**	**4.34%**



Note: Assumes additional debt issued at a 5.03% interest rate; assumes 5% growth in other operating expenditures.

Debt Service to Operations Policy Limit

- Based upon projected debt funding needs and operating expenses, the projected measure of "Debt Service to Operations" may exceed the University-set policy limit of 4% in fiscal years 2010 through 2012.

- Project construction timing, funding timing, and expense growth rate are factors that will impact this measure.

- The below table shows projected debt funding needs (in 000s) for each fiscal year through 2012. The second line shows the amount by which debt funding would need to be reduced in the associated fiscal year so that the ratio measure in that fiscal year will not exceed the policy limit.

	Pro Forma				
	2008	2009	2010	2011	2012
Projected Debt Funding Need*	355,713	234,262	207,657	157,710	88,117
Adjustment	0	0	(87,493)	(49,710)	0
Adjusted Debt Funding Need	355,713	234,262	120,164	108,000	88,117

**in (000s)*

EXHIBIT A

SEE ATTACHED "PUBLIC & PRIVATE DEBT FINANCING AND CAPITAL SPENDING RATIOS"

Conclusion

- Debt capacity is dynamic, and it is a complex interplay of quantitative and qualitative measures.

- The University is only one of seven public universities rated Aa1/AA+ or better. The rating agencies recognize the University for its management, market position, strong State support, fundraising support, investment performance, positive operating performance, and diversified revenue base. All three rating agencies cite the large capital program, with significant debt financing needs, as a challenge in coming years.

- Key areas that can impact the University's bond rating include: research funding, State support, leverage relative to rating peers, investment performance, and fundraising.

- The University has significantly increased its leverage profile relative to peers of similar or higher long-term credit ratings over the last several years, as debt has been a planned funding source for the comprehensive Capital Improvement Program, and cash sources were primarily utilized first.

- The University has significant capital spending and debt funding plans over the next five years.

- Given the dynamic nature of debt capacity and given the interplay of quantitative and qualitative factors, it is important to reserve debt financing for projects that support the core strategies of the institution and that have an established source of repayment in place (cash flow).