



THE UNIVERSITY  
*of* NORTH CAROLINA  
*at* CHAPEL HILL

## **2009 Self-Liquidating Resolution and Financing Update**

September 23, 2009

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## Background

- ❖ Self-liquidating projects are capital projects that are funded by University sources: cash and/or debt.
- ❖ General statutes require Board of Trustee approval for University to issue debt to fund capital projects.
- ❖ Annual practice to take the recently approved (by the General Assembly) self-liquidating list of projects to BOT for approval to issue debt (entire list).
- ❖ This year's self-liquidating list contains three projects: Carolina Inn renovations; Smith Center renovations; and residence hall sprinkler systems.
- ❖ Primary planned funding source for these projects is cash (Fundraising, auxiliary, repair and renovation), with debt as a contingent source.
- ❖ Small project list in comparison to prior years reflecting that University is in the back side of capital improvement program begun in 2000.
- ❖ Funding for these projects may not occur for one to two years after approval, depending upon the project timing.
- ❖ Based upon previously approved projects and anticipated projects, the University has approximately \$638 million in long-term debt financing needs through the FY 13-14 (including purchase financing of Granville Towers/University Square and only the first phase of Kenan Stadium in the amount of \$25 million). Also, it should be noted that if subject projects on the proposed self-liquidating resolution were not included on a contingency basis, then the total estimated long-term debt financing needs would be approximately \$614 million.
- ❖ 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/AA+ or Aaa/AAA.



# University Debt Over Time

	<b>FYE 2000</b>		<b>FYE 2009</b>		<b>FYE 2014</b>	
Utilities	\$112,244,142	42.1%	\$354,367,663	32.0%	\$483,512,524	31.7%
Academic/Research <sup>1</sup>	\$19,165,000	7.2%	\$236,578,942	21.4%	\$280,234,490	18.3%
Housing	\$16,815,000	6.3%	\$241,289,595	21.8%	\$241,910,608	15.8%
Academic/Research <sup>2</sup>	\$3,900,000	1.5%	\$97,260,972	8.8%	\$106,977,948	7.0%
Student Life	\$16,050,000	6.0%	\$28,310,504	2.6%	\$80,025,603	5.2%
Athletics	\$27,795,000	10.4%	\$29,247,027	2.6%	\$72,203,300	4.7%
Parking	\$28,720,000	10.8%	\$64,455,134	5.8%	\$82,486,469	5.4%
ERP	\$0	0.0%	\$0	0.0%	\$58,656,881	3.8%
Granville Towers/University Square	\$0	0.0%	\$0	0.0%	\$45,750,000	3.0%
Dining	\$13,205,000	5.0%	\$31,288,478	2.8%	\$33,307,338	2.2%
Misc	\$28,575,000	10.7%	\$23,693,169	2.1%	\$42,299,001	2.8%
ITS	\$0	0.0%	\$0	0.0%	\$0	0.0%
	<u>\$266,469,142</u>		<u>\$1,106,491,484</u>		<u>\$1,527,364,162</u>	

[1] Supported by central overhead receipts

[2] Supported by departmental funds



## 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

(in 000s)

Fiscal Year Ending	2004	2005	2006	2007	2008	PROJECTED					
						2009	2010	2011	2012	2013	2014
<b>Expendable Resources to Debt</b>											
Expendable Resources	\$1,283,478	\$1,471,660	\$1,686,706	\$2,097,760	\$2,263,950	\$1,811,160	\$1,811,160	\$1,956,053	\$2,112,537	\$2,281,540	\$2,464,063
Debt	\$487,880	\$604,669	\$920,344	\$970,618	\$1,155,909	\$1,181,773	\$1,416,259	\$1,472,659	\$1,532,351	\$1,545,837	\$1,527,364
Measure	2.63	2.43	1.83	2.16	1.96	1.53	1.28	1.33	1.38	1.48	1.61
Policy Threshold	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
<b>Debt Service to Operations</b>											
Debt Service	\$33,423	\$37,757	\$57,397	\$60,493	\$73,252	\$82,167	\$91,116	\$103,333	\$105,840	\$113,749	\$115,477
Operating Expenses	\$1,603,386	\$1,681,901	\$1,802,431	\$1,948,282	\$2,089,290	\$2,172,862	\$2,270,641	\$2,384,173	\$2,515,302	\$2,666,220	\$2,839,525
Measure	2.08%	2.24%	3.18%	3.10%	3.51%	3.78%	4.01%	4.33%	4.21%	4.27%	4.07%
Policy Ceiling	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%



## Peer Comparisons

*(in descending order based upon FYE 2008)*

<b>School</b>	<b>Moody's Long-Term Rating</b>	<b>Expendable Resources to Debt</b>				
		<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Michigan	Aaa	5.36	7.36	6.95	6.46	6.65
UVA	Aaa	5.04	6.42	5.28	5.41	5.50
Purdue	Aa1	2.60	2.71	2.43	2.72	2.63
University of Washington	Aa1	2.47	2.24	2.10	2.11	2.70
<b>UNC-Chapel Hill</b>	<b>Aa1</b>	<b>2.00</b>	<b>2.20</b>	<b>1.80</b>	<b>2.40</b>	<b>2.60</b>
NCSU	Aa2	1.40	1.43	1.15	1.17	1.52
Indiana	Aa1	1.17	1.12	1.03	1.13	0.92

*(in ascending order based upon FYE 2008)*

<b>School</b>	<b>Moody's Long-Term Rating</b>	<b>Debt Service to Operations</b>				
		<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Michigan	Aaa	1.43%	1.62%	1.13%	1.12%	1.04%
NCSU	Aa2	1.75%	1.86%	1.89%	1.38%	1.47%
UVA	Aaa	1.99%	2.44%	2.13%	1.87%	1.78%
University of Washington	Aa1	2.66%	2.71%	2.47%	3.25%	3.28%
Purdue	Aa1	3.23%	3.26%	3.18%	3.42%	3.82%
Indiana	Aa1	3.42%	3.26%	3.26%	3.22%	3.19%
<b>UNC-Chapel Hill</b>	<b>Aa1</b>	<b>3.50%</b>	<b>3.20%</b>	<b>3.20%</b>	<b>2.20%</b>	<b>2.10%</b>

## Closing Points

- ❖ Project list is smaller than in the past based upon the cycle point of the capital improvement program begun in 2000.
- ❖ Primary funding sources for projects is cash/gifts or State Repair & Renovations funds (sprinklers), with debt being a contingent source.
- ❖ The University expects to issue approximately \$625 million in long-term debt through FY 13-14.
- ❖ University is leveraged relative to rating peers, as debt has been a planned funding source of the capital improvement program.
- ❖ Debt capacity is based upon both qualitative and quantitative measures.
- ❖ Positive factors in University rating include: management; history of strong State support (State of North Carolina: Aaa/AAA); academic and research reputation; research growth; fundraising results; strong student demand; broadly diversified revenue base; and liquidity.
- ❖ University is planning a long-term bond issue for December 2009. University representatives will be meeting with all three bond rating agencies in October/November.

