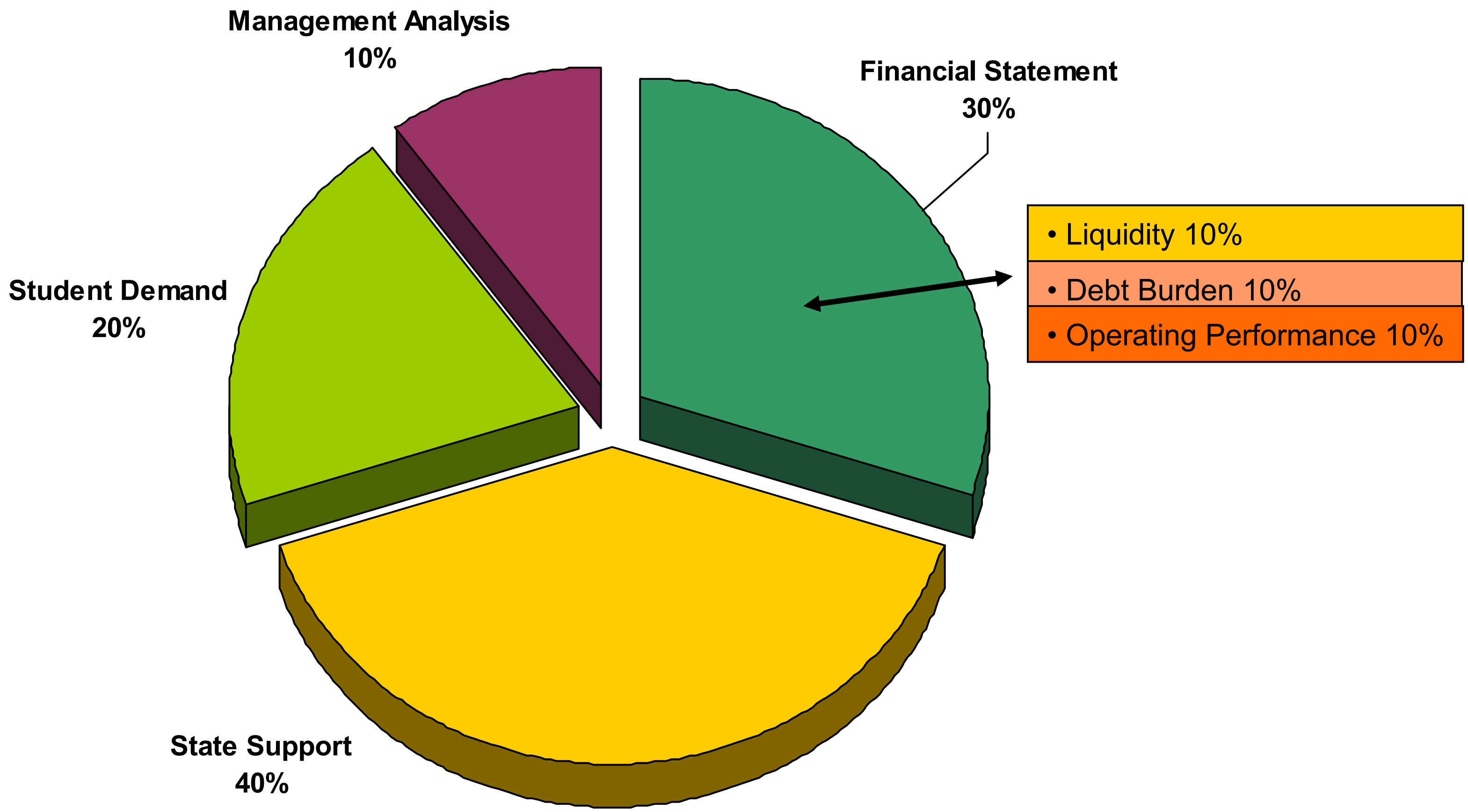
Issues Related to:
Six-Year Capital Improvement Plan

Finance & Operations Committee
March 8, 2007

University of Minnesota
Debt Issuance – Capital Plans Ratio Analysis
Bond Rating Determinants



An analysis of student demand, market position and financial indicators places the University of Minnesota in the strong “Aa” category.

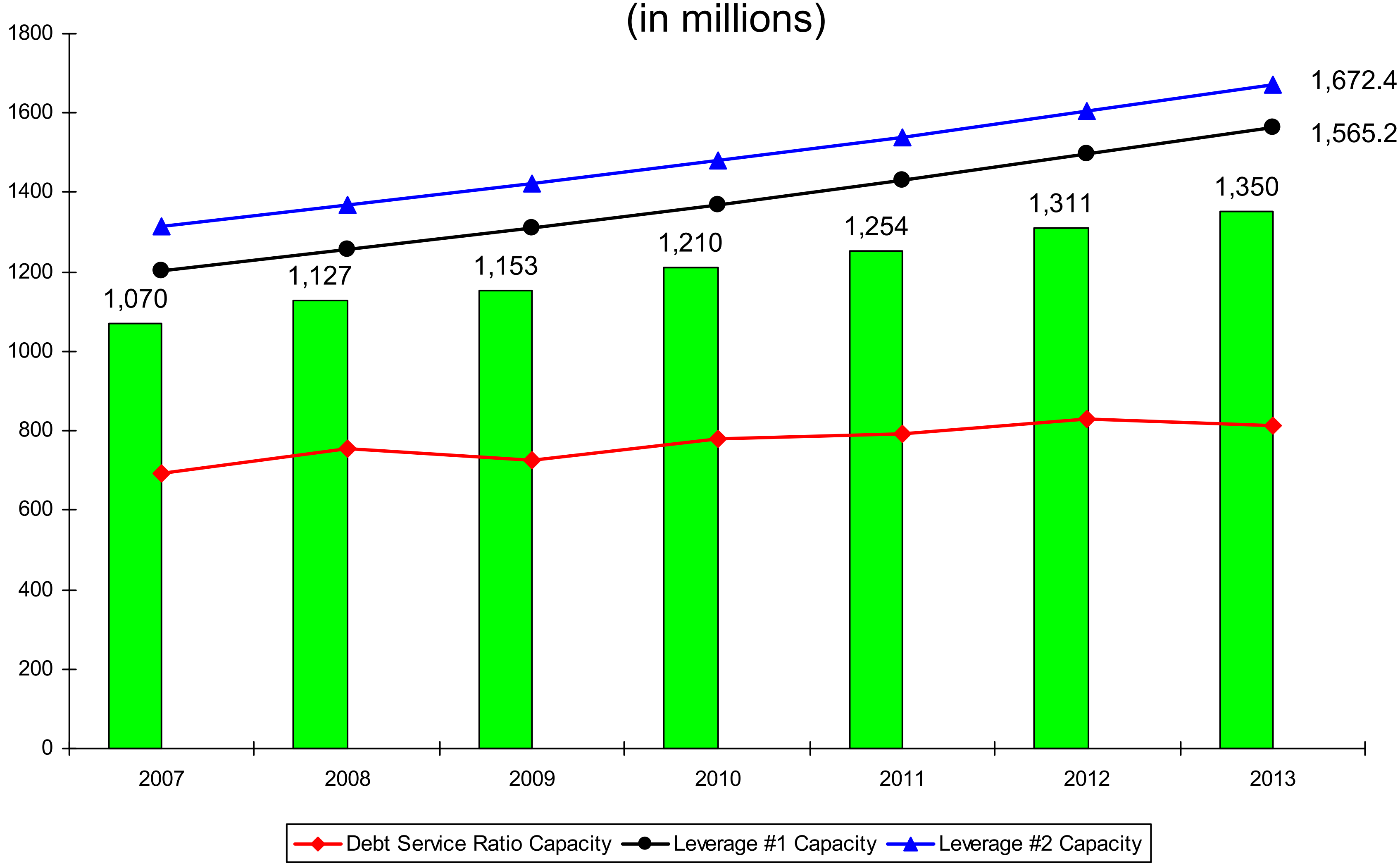
Debt Service Assumptions

- Maintain current Aa2 debt rating
- Current outstanding debt follows existing amortization schedules
- 6/30/06 outstanding debt of $633 million at average rate of 4.37% & average life of 9.5 years
- $576.7 million in additional debt issued through FY2013
  - $285.5 in the Pipeline:
    - Approved 2005 State Capital Request and other prior approved projects
    - Football Stadium (excluding State-Supported Stadium bonds issued November 2006)
    - East Campus Gateway Expansion
    - Approved 2006 Legislative Bonding Bill
  - $291.2 new estimates for Six-Year Capital Plan – 2008-2012
- New debt to be issued 12/31 each year except for CP of $61million issued 3/1/07
  - Tax-exempt at 4.5% for 25 yrs; taxable at 6.0% for 25 years
- Annual principal payments each 1/1; semi-annual interest payments each 7/1 and 1/1
- Capital financing plan based on debt ratio forecasts:
  - Debt Service Ratio: <u>Annual Debt Service/Total Operating Expenses</u>
  - Leverage Ratio 1: <u>Total Resources/Total Comprehensive Long Term Debt</u>
  - Leverage Ratio 2: <u>Expendable Financial Resources /Total Direct Long-Term Debt</u>

Theoretical Projected Debt Capacity

Based on Aa2 Medians

(in millions)



F&O: Issues Relating to Six-Year Capital Budget, 2008-2013

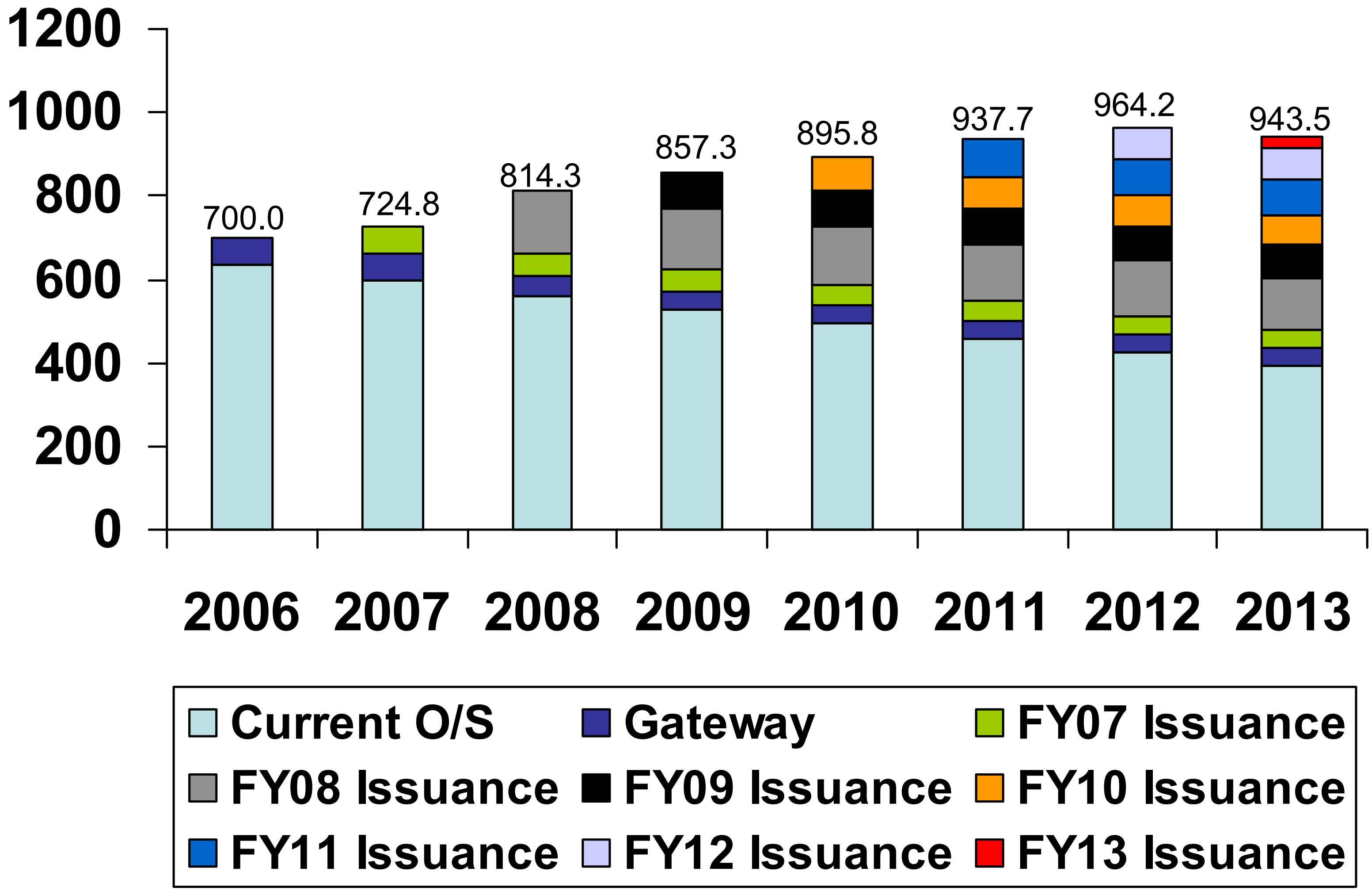
Projected Debt Issuance
FY2007 thru FY2013 *(in $ millions)*
$576.7 million

	February $285.5 In Pipeline		March $291.2 New		Annual Total
FY2007 – Commercial Paper – Issued 3/1/07	61.0				61.0
2005 State Capital Request Approved		21.0			
Other Prior Approved Projects		40.0			
FY2008	150.4				150.4
Football Stadium – taxable		19.0			
East Campus Gateway Expansion		18.2			
2006 State Capital Request Approved		51.5			
Other major projects		61.7			
FY2009	69.2		18.2		87.4
Football stadium/Sponsorship/Gift Bridging		69.2			
20% of 2008 Capital Request				13.2	
University Funded Projects				5.0	
FY2010	4.9		77.0		81.9
50% of 2008 Capital Request				33.0	
20% of University Funded Projects				23.0	
100% of University Funded Projects				21.0	
Biomedical Authority		4.9			
FY2011			90.5		90.5
30% of 2008 Capital Request				19.8	
50% of University Funded Projects				57.5	
20% of 2010 Capital Request				13.2	
FY2012			74.8		74.8
30% of University Funded Projects				34.5	
50% of 2010 Capital Request				33.0	
Biomedical Research Facilities				7.3	
FY2013			30.7		30.7
30% of 2010 Capital Request				19.8	
20% of 2012 Capital Request				10.9	

Summary of Outstanding Debt

Projected June 30 Balances

(in millions)



Financial Resources

Annual Growth Assumptions

(FY06 Actual as base year)

- Annual debt service – based on existing and projected debt outstanding
- Interest expense – based on existing and projected debt outstanding
- Operating expenses – 4.5% increase
- Unrestricted net assets & restricted expendable net assets – 2% increase
- Restricted nonexpendable net assets – 1% increase
- Foundations' total net assets
  - University of Minnesota Foundation – 7% increase
  - Minnesota Medical Foundation – 5% increase
  - Others – 1% increase

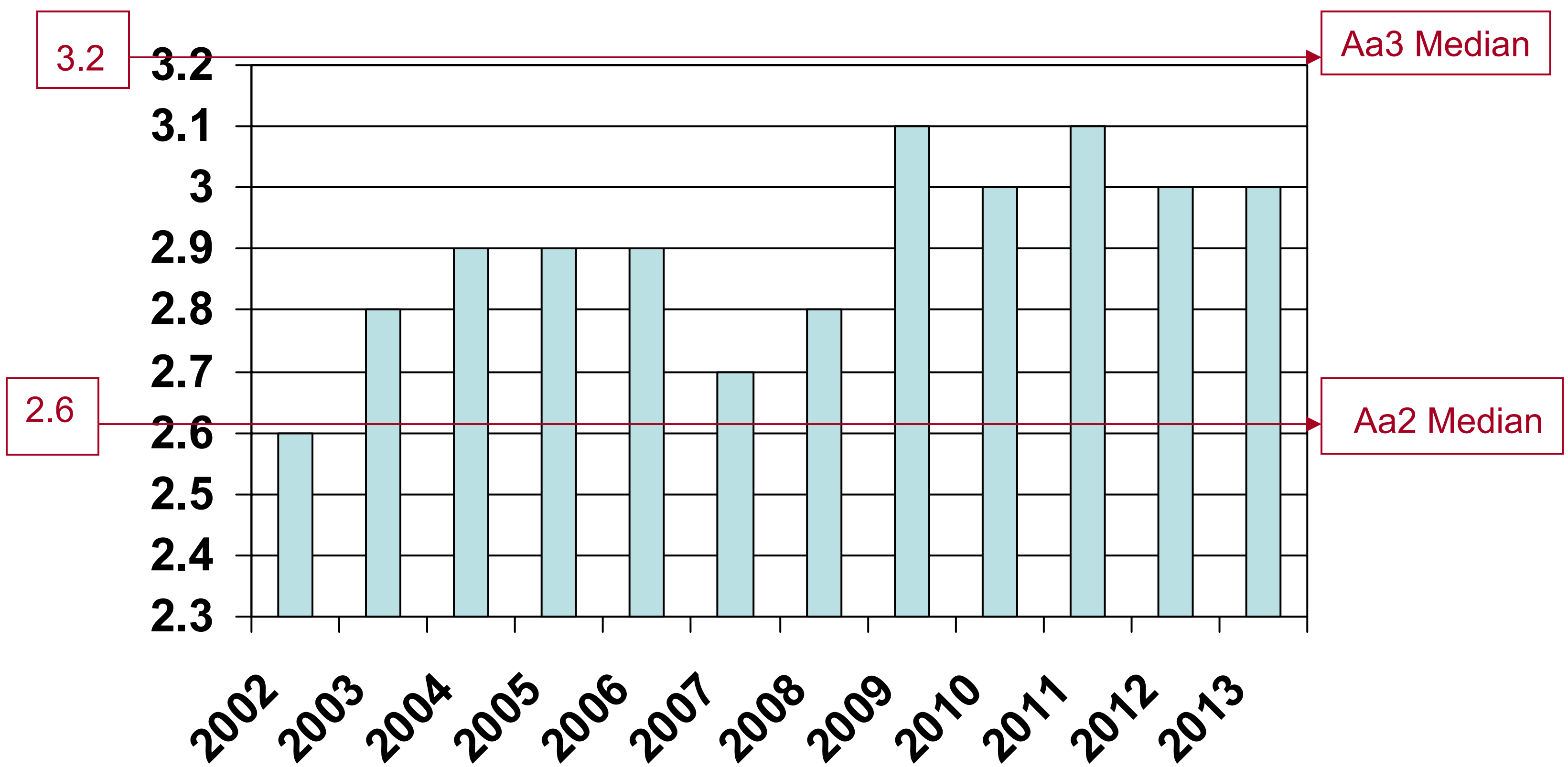
Debt Service Ratio

- Measures the University's ability to service debt and the impact of debt financing on the University's operations
- Annual Debt Service divided by Total Operating Expenses
- 2006 Moody's Aa2 Median = 2.6%
- 2006 Moody's Aa3 Median = 3.2%
- Desired trend = downward

Debt Service Ratio

[Annual Debt Service/Total Operating Expenses]

Desired Trend = ↓



Current debt levels plus projected issuance thru FY2013

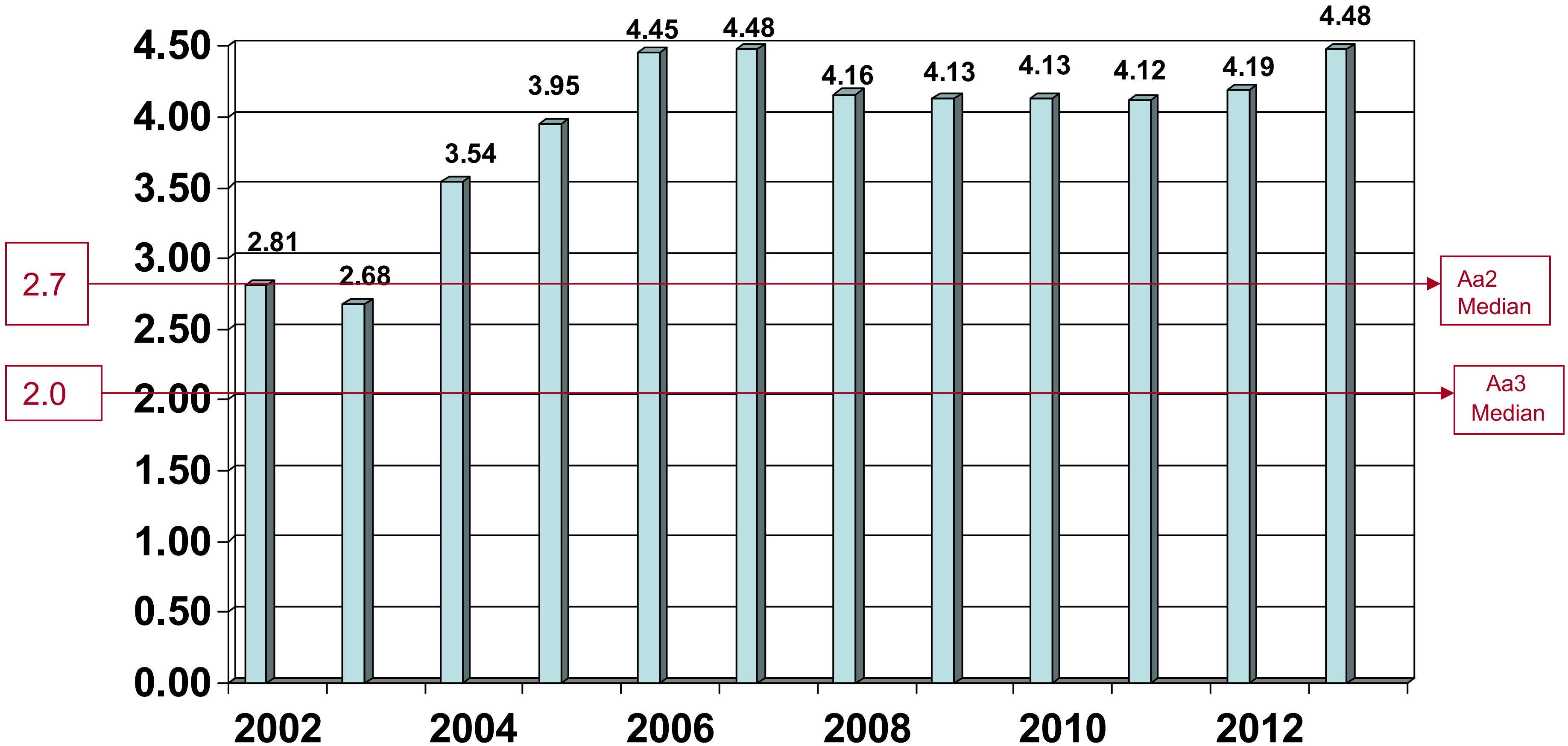
Leverage Ratio #1

- Measures the University's ability to retire debt with assets
- Total Financial Resources divided by Total Comprehensive Long-Term Debt Outstanding
- 2006 Moody's Aa2 Median = 2.70
- 2006 Moody's Aa3 Median = 2.00
- Desired trend = upward

Leverage Ratio #1

[Total Financial Resources/Total Comprehensive Long-term Debt]

Desired Trend = ↑



Current debt levels plus projected issuance thru FY2013

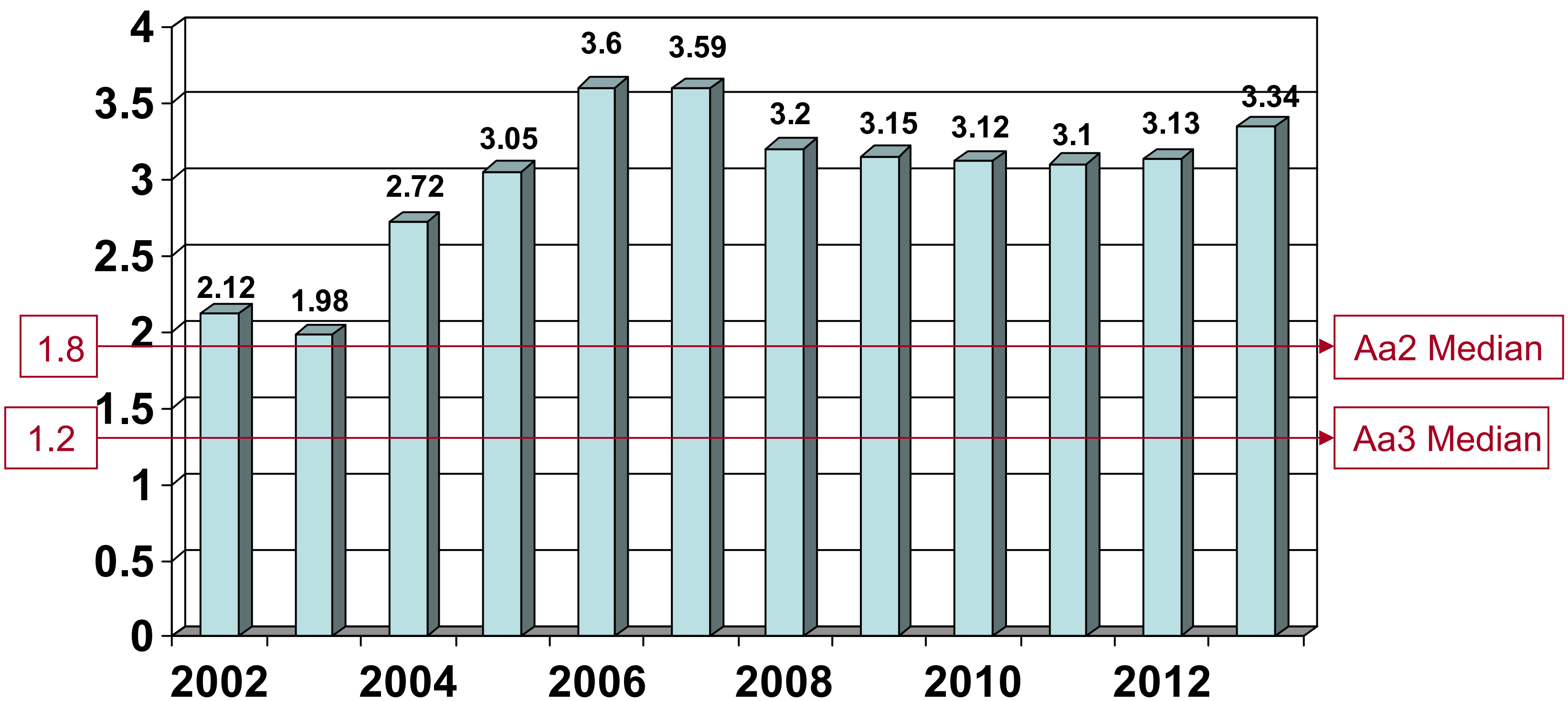
Leverage Ratio #2

- Measures the University's ability to retire debt with assets
- Expendable Financial Resources divided by Total Direct Long-Term Debt Outstanding
- 2006 Moody's Aa2 Median = 1.8
- 2006 Moody's Aa3 Median = 1.2
- Desired trend = upward

Leverage Ratio #2

[Expendable Financial Resources/Total Direct Long-term Debt]

Desired Trend = ↑

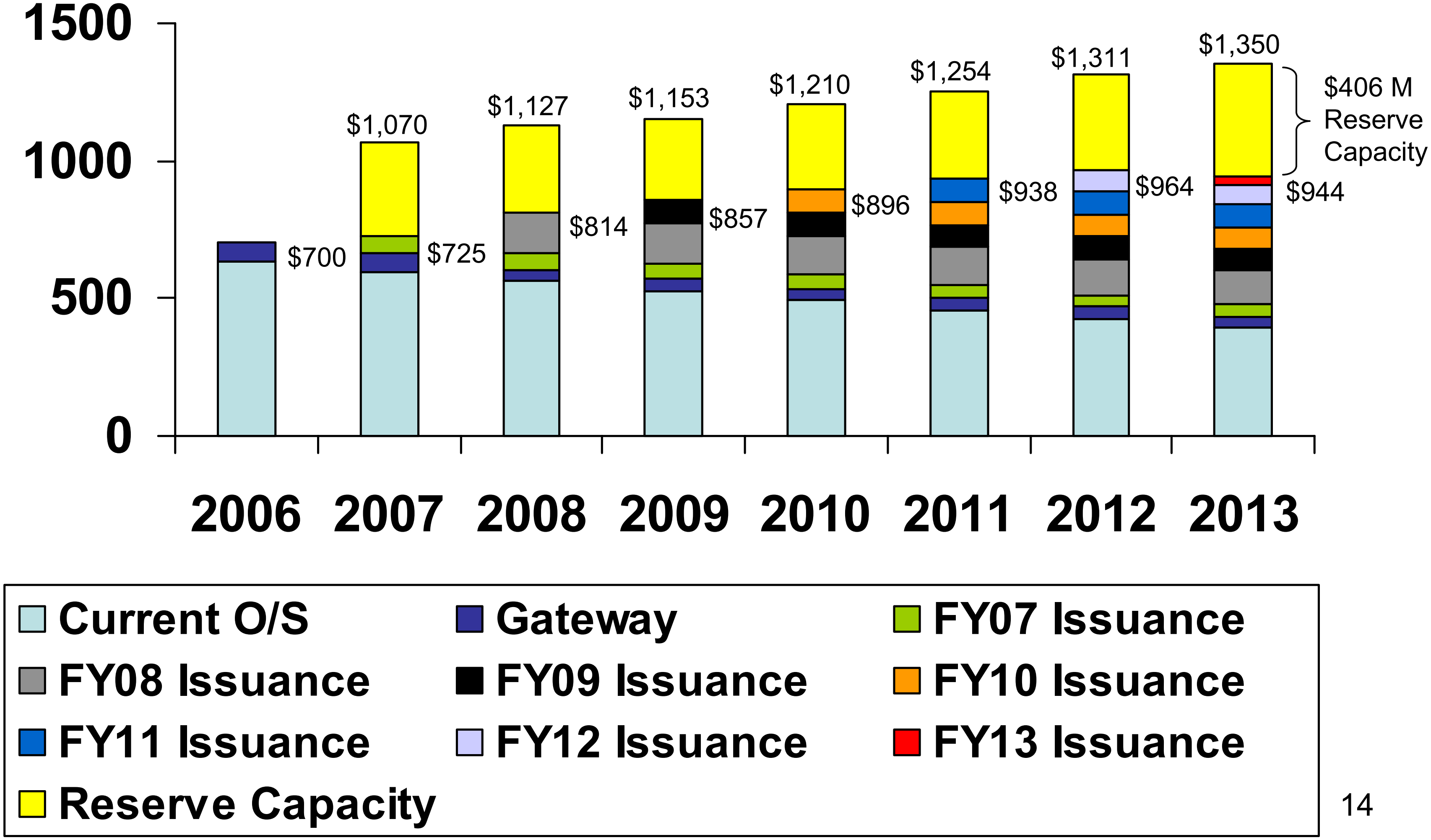


Current debt levels plus projected issuance thru FY2013

Summary of Outstanding Debt

Projected June 30 Balances

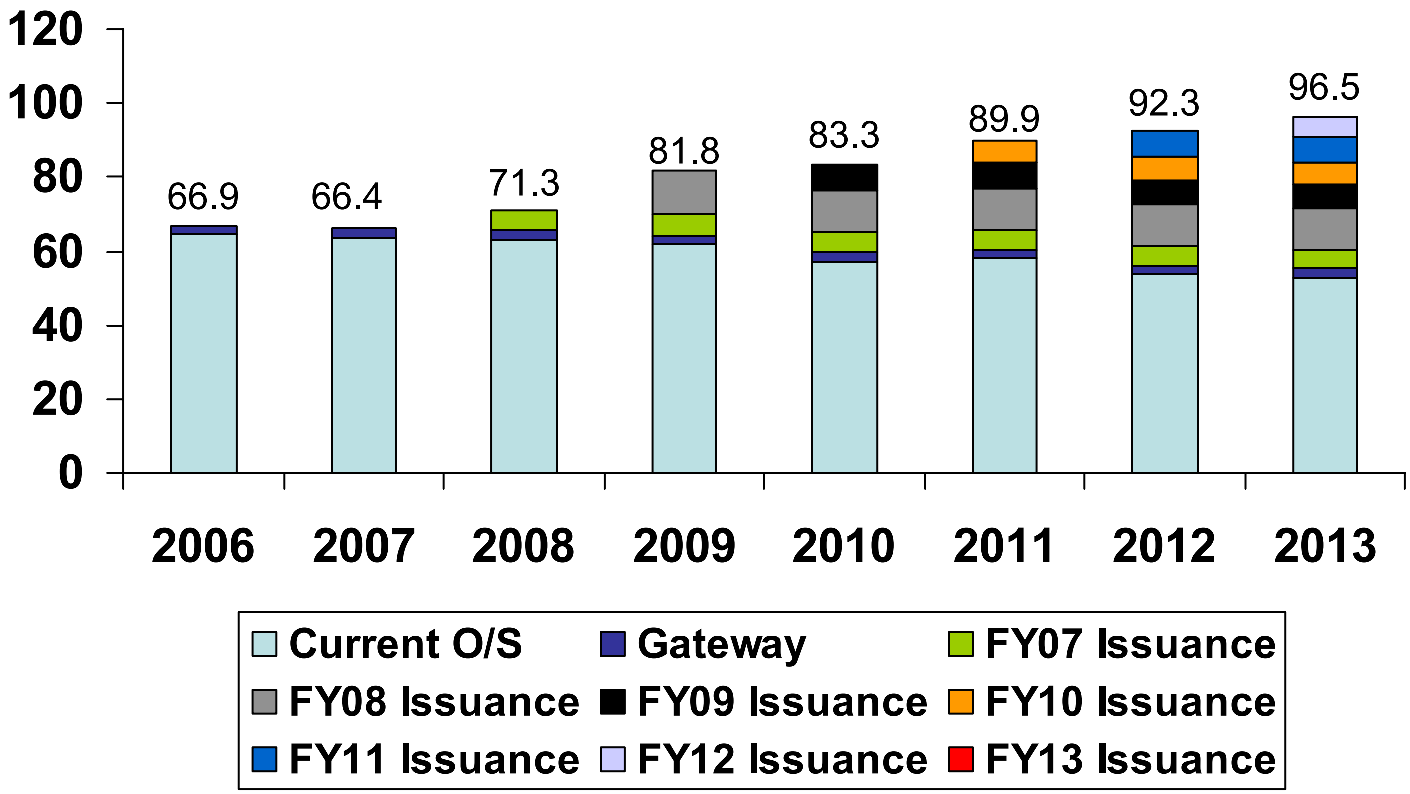
(in millions)



Summary of Annual Debt Service

Projected Fiscal Year Amounts

(in millions)



Six Year Plan
Debt Capacity Impacts

- Maintains Aa2 debt rating
- Issues $576.7 million of additional debt through FY2013
- Increases outstanding debt by $218.7 million (net of payoffs) to a total of $943.5 million in FY2013
- Establishes debt reserve of 30% or roughly $400 million of total debt capacity