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# Annual Capital Finance & Debt Management Report FY2013



*University of Minnesota  
Finance Committee  
February 13, 2014*

# ***Outline of Presentation***

- *Guiding Principles of Debt Issuance*
- *University's Capital Structure*
- *Credit Rating*
- *Key Financial Indicators*
- *Peer Group Analysis*

# ***Issuance of Debt – Guiding Principles***

- Cannot use debt transactions to fund operating costs
- Use taxable debt when financial considerations indicate its use is in the best interest of the University
- Preserve core long-term debt ratings at Aa/AA category and short-term core debt rating of A-1/P-1
- Receive an investment grade credit rating for special purpose debt
- Maintain key financial metrics to assure continued access to capital markets
- Minimize borrowing costs at acceptable levels of risk over life of the issue
- Maintain portfolio of variable and fixed-rate debt that is in the long-term best interest of the University.

# Long-Term Debt As of June 30, 2013

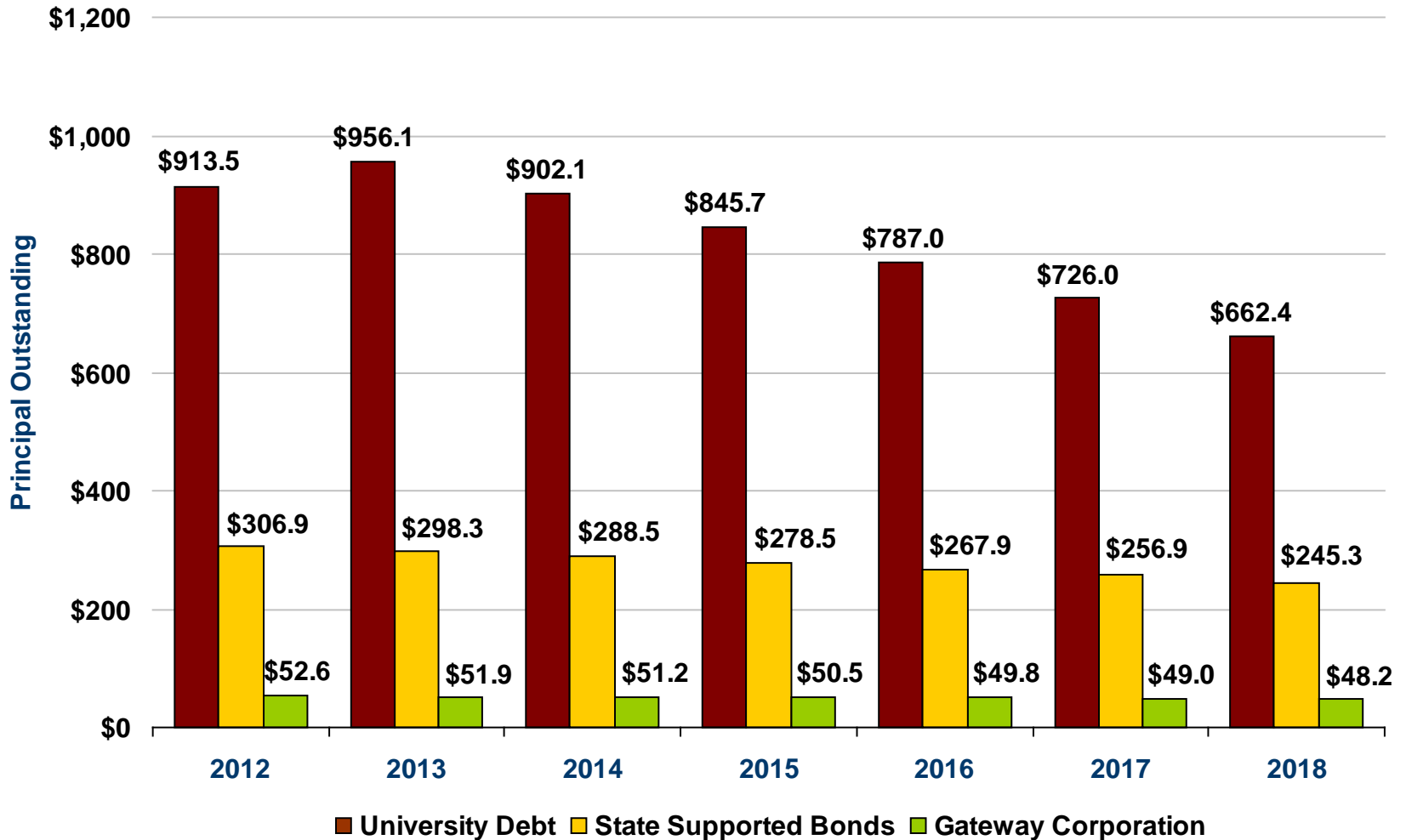
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	Final payment due in fiscal year	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Bonds Series 2013A&B *	2038	\$ 0	\$ 96,483	\$ 134	\$ 96,349
General Obligation Bonds Series 2011D *	2037	60,808		1,455	59,353
General Obligation Bonds Series 2011C *	2037	19,322		299	19,023
General Obligation Bonds Series 2011A *	2037	348,776		22,182	326,594
General Obligation Bonds Series 2010B	2036	40,800		1,295	39,505
General Obligation Bonds Series 2010C&D *	2016; 2030	33,330		1,470	31,860
General Obligation Bonds Series 2009C&D *	2022; 2029	77,033		3,300	73,733
General Obligation Bonds Series 2009A&B *	2029; 2034	54,973		1,756	53,217
Commercial Paper Notes Series A, B, C, D	2029	246,350		16,300	230,050
Obligations to the State of Minnesota pursuant to Infrastructure Development Bonds (IDB)	2025	30,639		4,822	25,817
Auxiliary Revenue Bonds	2014	1,420		800	620
Special Purpose Bonds – Series 2011B *	2037	57,736		593	57,143
Special Purpose Revenue Bonds – Series 2010A *	2036	122,629		3,056	119,573
Special Purpose Revenue Bonds – Series 2006 *	2030	126,584		4,969	121,615
Capital leases and other	2024	5,988	45,306	5,016	46,278
<b>TOTAL PER FINANCIALS</b>		<b>\$ 1,226,388</b>	<b>\$ 141,789</b>	<b>\$ 67,447</b>	<b>\$ 1,300,730</b>

\* Net unamortized premium/discount is included in beginning and ending balances

# Current Amortization Structure (in millions)

6/30/13 Outstanding University Bonds & Commercial Paper Plus Gateway Debt

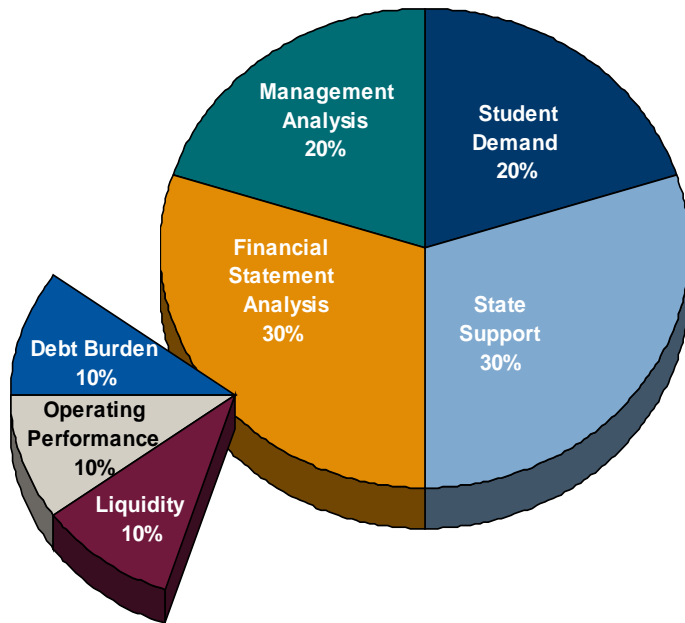


# Long Term Debt Analysis

	<u>6/30/2012</u>	<u>6/30/2013</u>
Total Outstanding per financials	\$ 1,226.4 million	\$1,300.7 million
Less: Capital leases and other	(6.0) million	(46.3) million
<b>University Bonds and Commercial Paper</b>	<b>\$ 1,220.4 million</b>	<b>\$1,254.4 million</b>
University Supported	\$ 913.5 million	\$ 956.1 million
State Supported Bonds	\$ 306.9 million	\$ 298.3 million
Fixed Rate* / Variable Rate	91% / 9%	86% / 14%
University Issued* / State Issued	97% / 3%	98% / 2%
University Issued Weighted Average *	3.66%	3.52%
State Issued Fixed Rate	4.74%	4.75%
<b>Total Weighted Average University Debt</b>	<b>3.68%</b>	<b>3.55%</b>
<b>Annual debt service (principal paid + interest expense)</b>	<b>\$ 101.0 million</b>	<b>\$ 107.8 million</b>

\* Includes State Supported Special Purpose Revenue Bonds – Series 2006, 2010A, & 2011B

# Credit Rating and Debt Capacity Determinants



## Student Demand - **Strong “Aa”**

- Solid student market position

## Financial Statement Analysis - **Strong “Aa”**

- Strength of General Obligation pledge
- Solid financial resources— particularly relative to debt and enrollment
- Debt per student in line with peers
- Debt service as a percentage of budget is moderate

## State Support - **State of Minnesota “Aa1/AA+”**

- History of strong appropriations, but budget pressures continue

## Management Analysis - **Strong “Aa”**

- Analyst’s assessment of University management strength
- Research position and strategy

An analysis of student demand, market position and financial indicators places the University of Minnesota solidly in the strong “Aa” category. Debt capacity and credit ratings are not a function of ratios alone, but are highly dependent on other factors such as debt strategy, essentiality of debt, future fundraising, revenue producing capability and debt structure.

# Letter Ratings to Designate University Credit Quality

Moody's Investors Service Rating
Aaa
<b>Aa1</b> , Aa2, Aa3
A1, A2, A3
Baa1, Baa2, Baa3
Ba1, Ba2, Ba3
B1, B2, B3
Caa to C

Financial Security Evaluation
Exceptional
Excellent
Good
Adequate
Moderate
Weak
Default

Standard and Poor's Rating
AAA
AA+, <b>AA</b> , AA-
A+, A, A-
BBB+, BBB, BBB-
BB+, BB, BB-
B+, B, B-
CCC to D

The University of Minnesota is currently rated Aa1 by Moody's, and AA by Standard and Poor's.



# *University of Minnesota – Ratings Evaluation*

## STRENGTHS

- Strong market position as Minnesota’s flagship research and land grant university and Big 10 member
- Competitive demand trends and stable enrollment; competitive professional and graduate programs
- Substantial research organization
- Financial resources are growing
- Expendable financial resources provide a strong cushion of pro-forma debt
- Manageable pro forma maximum annual debt service
- Operations and cash flow are consistently positive from a well diversified revenue base
- History of solid fund raising

## CHALLENGES

- Substantial anticipated debt plans
- Federal funding environment & heightened competition for research funding
- Demand debt (CP) represents 17% of pro-forma debt
- Constrained state funding for operations
- Modest unrestricted financial resources for a public flagship institution

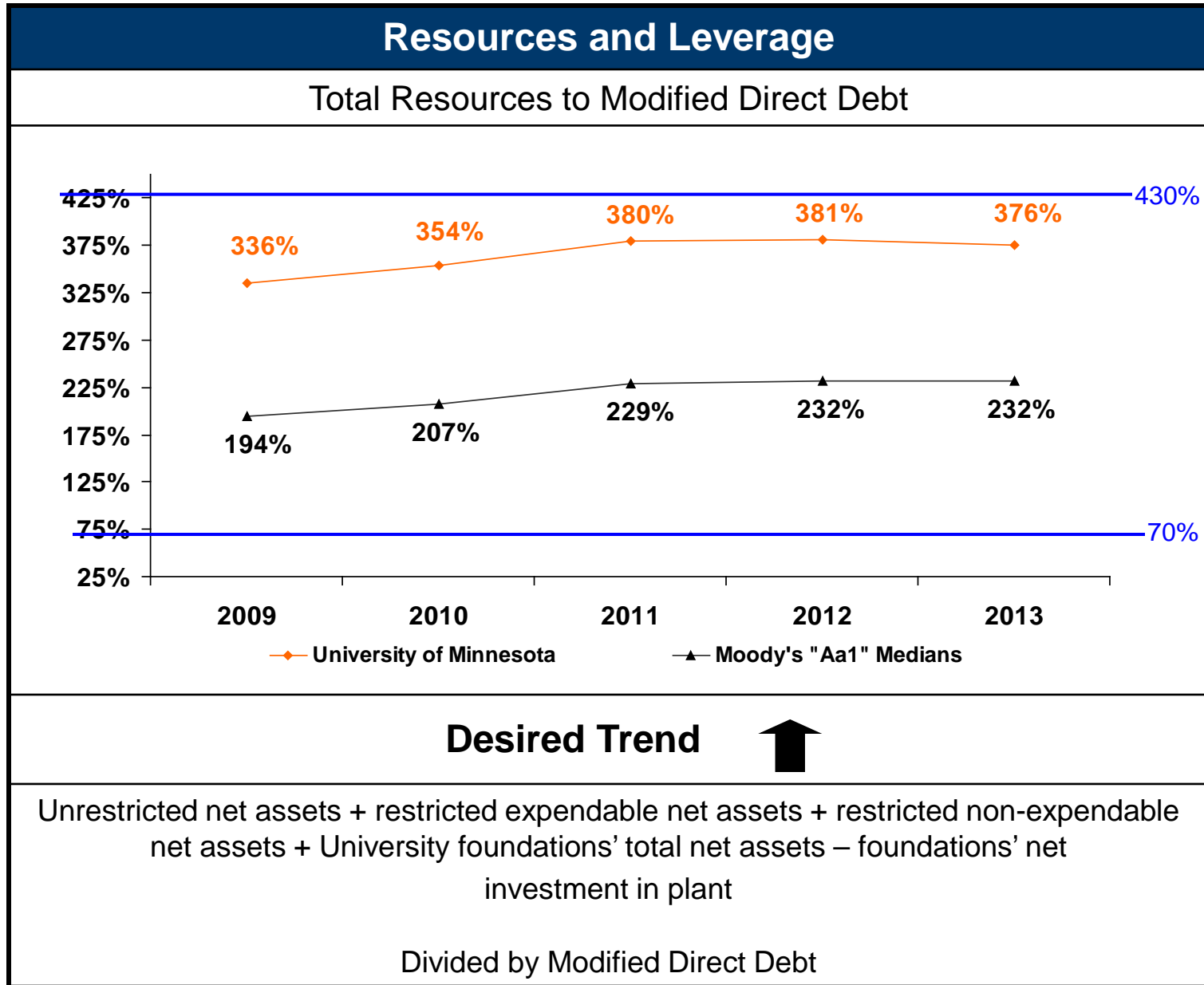
## Stable Outlook

Reflects continued favorable student demand and research market positions, positive operating cash flow and debt service coverage despite additional debt plans and constrained state funding and growing financial resources and liquidity.

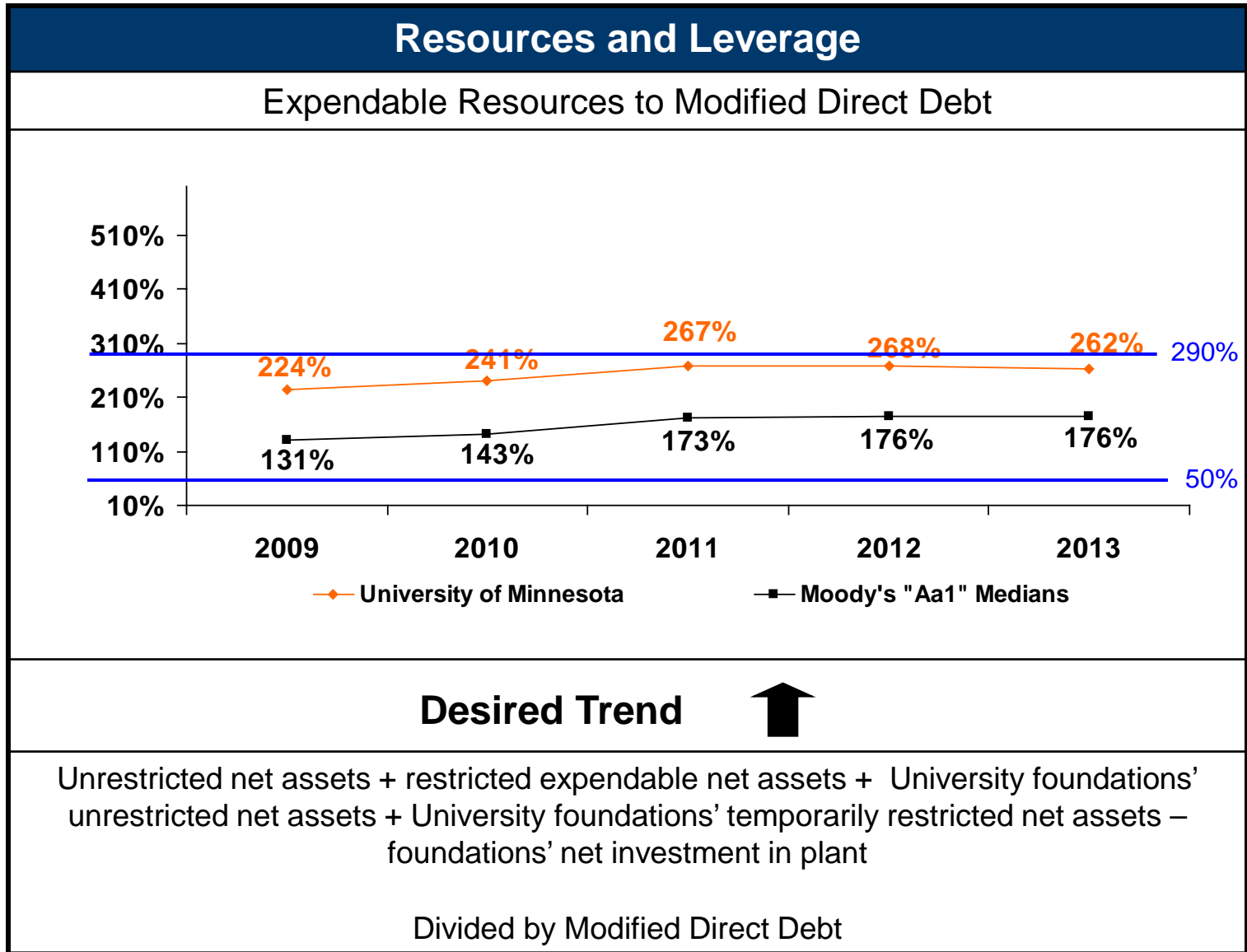
# Key Financial Metrics

RATIO	KEY COMPONENT	DEFINITION
A - Total Financial Resources to Modified Direct Debt	Total financial resources  <i>Measure of the total financial wealth of the institution</i>	Unrestricted net assets + restricted expendable net assets + restricted nonexpendable net assets + University foundations' total net assets less foundations' net investment in plant
B - Expendable Resources to Modified Direct Debt	Expendable resources  <i>Measure of financial resources that are ultimately expendable</i>	Unrestricted net assets + restricted expendable net assets + University foundations' unrestricted/temporarily restricted net assets less foundations' net investment in plant
	Modified direct debt  <i>Measure of the direct obligations of the institution</i>	The sum of the University's outstanding debt including capital leases, plus Gateway debt, less the special purpose debt (i.e., state-supported stadium debt and 75% of the biomedical facilities bonds)
C - Debt Service to Operations	Debt service  <i>Actual principal &amp; interest paid</i>	Sum of the principal and interest paid on capital debt by the University excluding principal and interest on the special purpose debt
	Operations  <i>Measures size of operating budget</i>	University operating expense less scholarships & fellowships, plus interest on capital asset-related debt, excluding the interest on the special purpose debt

# University of Minnesota: Analysis of Key Credit Ratios



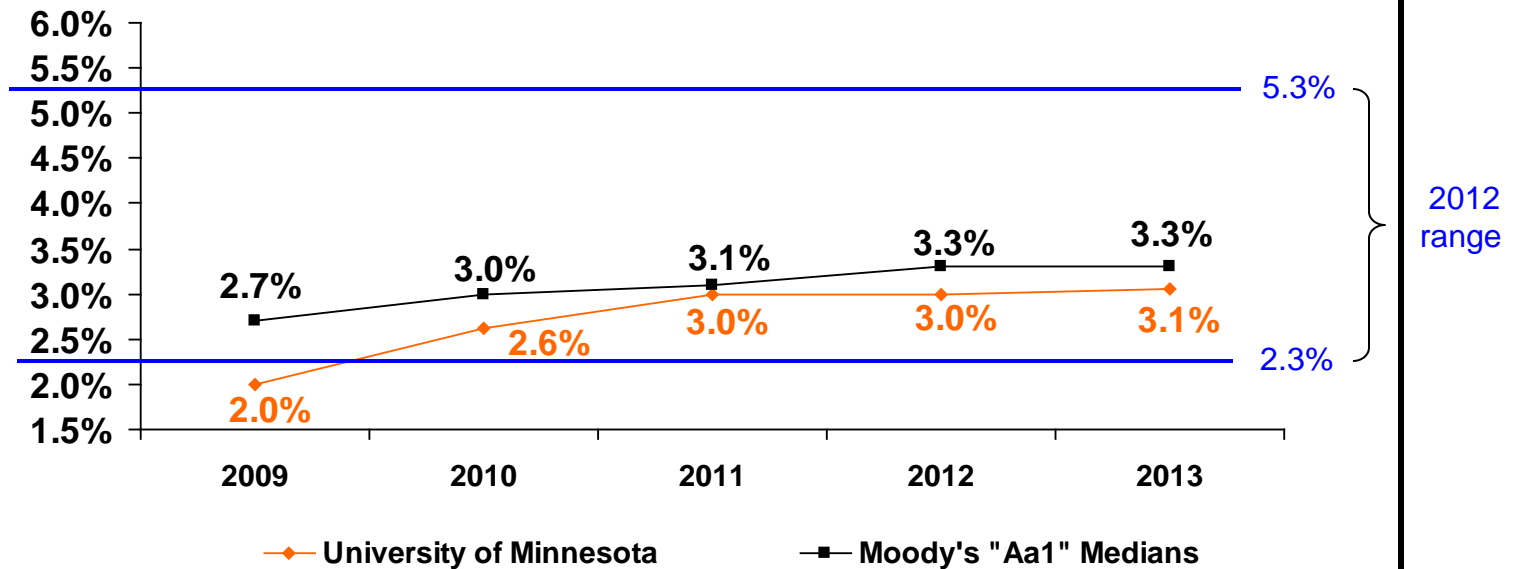
# University of Minnesota: Analysis of Key Credit Ratios



# University of Minnesota: Analysis of Key Credit Ratios

## Resources and Leverage

### Debt Service to Operations



### Desired Trend



### Actual Annual Debt Service

Divided by Total Operating Expenses (as adjusted)

# Projected Long Term Debt as of June 30, 2014 (in millions)

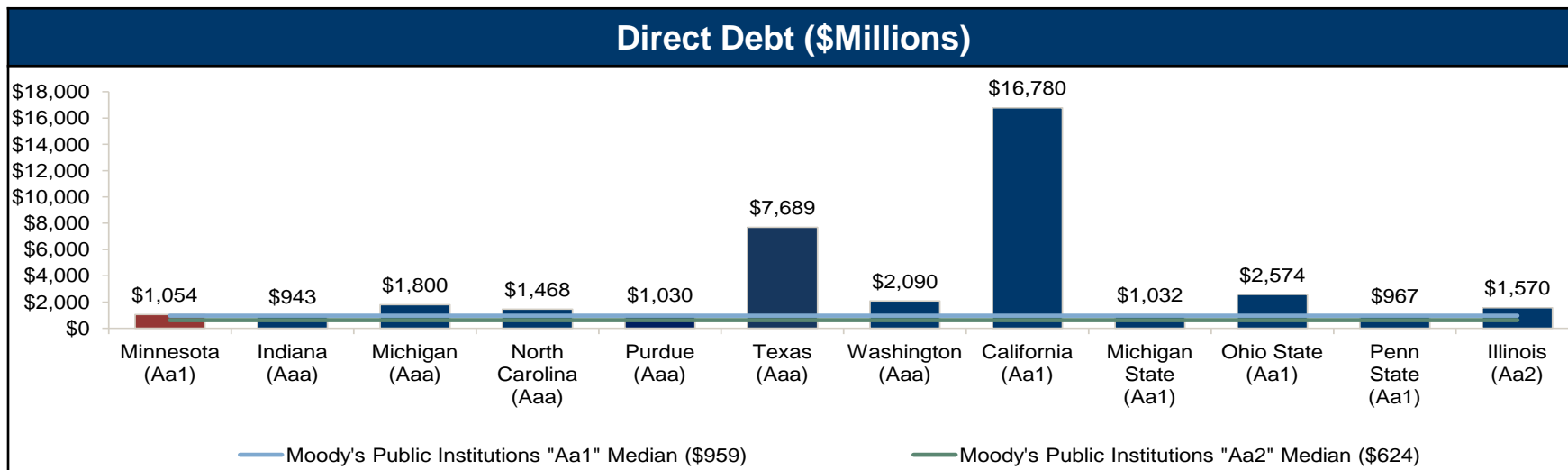
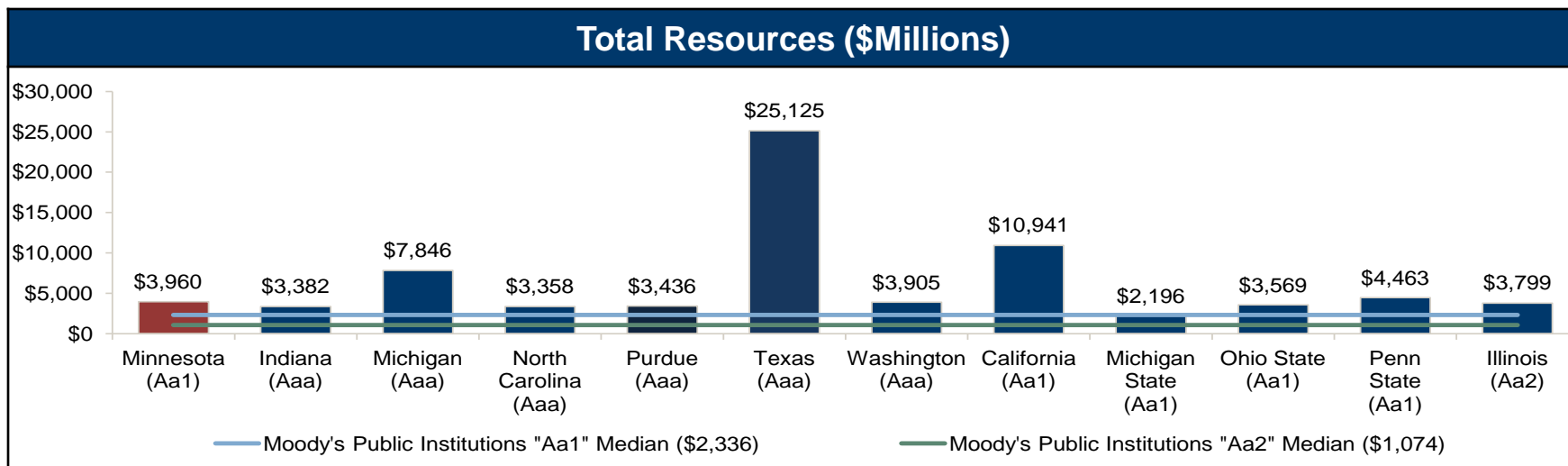
	University Supported	Special Purpose*	Total	
Balance June 30, 2013	\$ 956.1	\$ 298.3	\$ 1,254.4	
New issuances (par plus net premium/discount):				
Series 2013C – Microbiology - Special Purpose	-	38.2	38.2	
Series 2013D – Microbiology - GO taxable	12.8	-	12.8	
Series 2014A – Combined Heat & Power (CHP)	40.0	-	40.0	
Series 2014B – Ambulatory Care Center (ACC)	165.5	-	165.5	
Subtotal	1,174.4	336.5	1,510.9	
Scheduled reductions <i>(principal payments and net premium amortization)</i>	(54.0)	( 9.8)	(63.8)	
Projected balance June 30, 2014	\$ 1,120.4	\$ 326.7	\$ 1,447.1	\$113.1 Annual Debt service
Projected interest expense FY2014	\$ 36.1	\$ 13.2	\$ 49.3	

\* *Special Purpose Revenue Bonds are excluded for debt capacity calculations and consist of debt issued for TCF Bank Stadium and Biomedical Sciences Research Facilities for which annual state appropriations are received to reimburse the University for the annual debt service on these bonds.*

# *Peer Group Analysis*

- *Total Resources*
- *Direct Debt*
- *Total Resources to Direct Debt*
- *Expendable Resources to Direct Debt*
- *Debt Service as a % of Operations*
- *Expendable Resources to Operations*

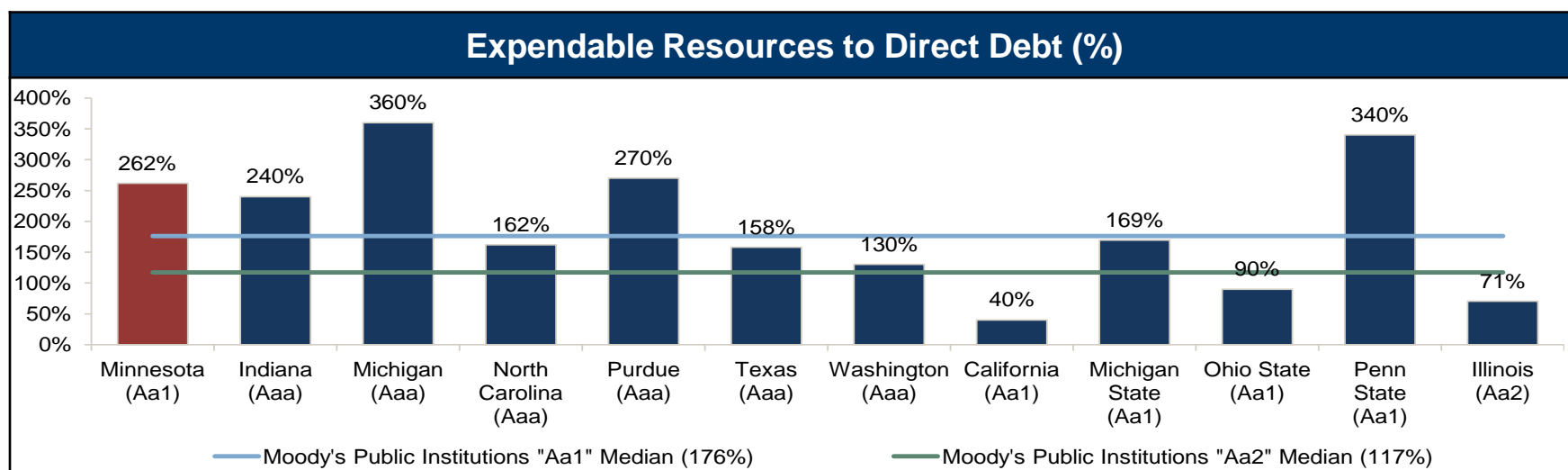
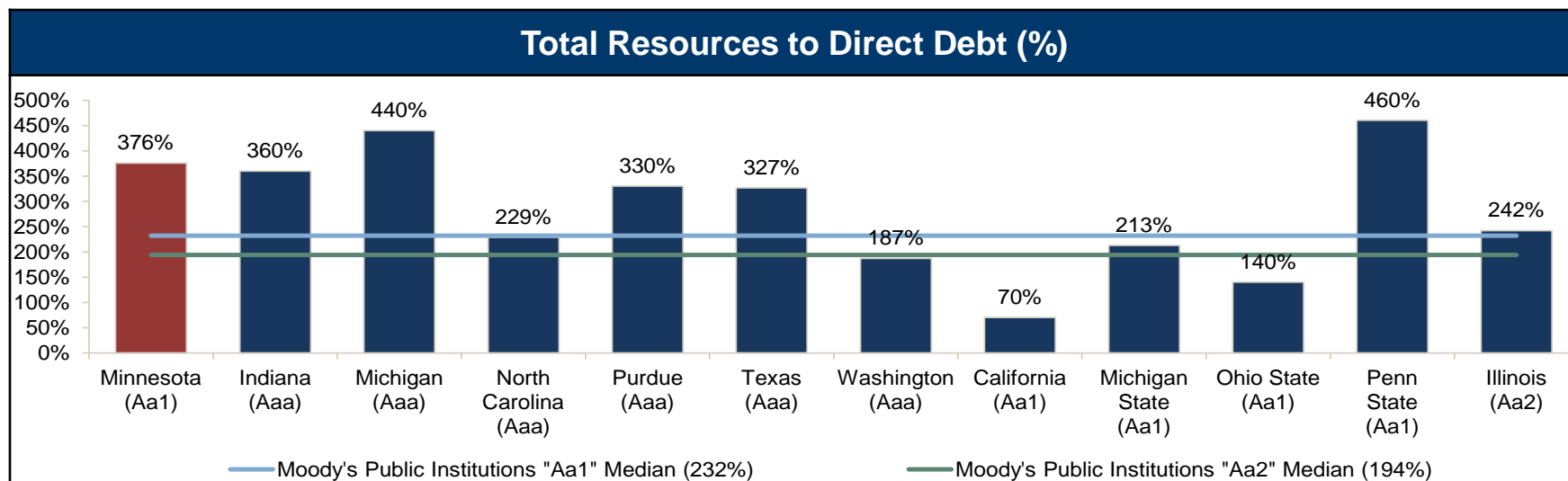
# University of Minnesota Peer Group Analysis



Note: Direct debt for the University of Minnesota excludes State Supported Stadium and Biomedical Facilities Bonds as well as indirect debt.  
 Source for Median Values: Moody's Investors Service.

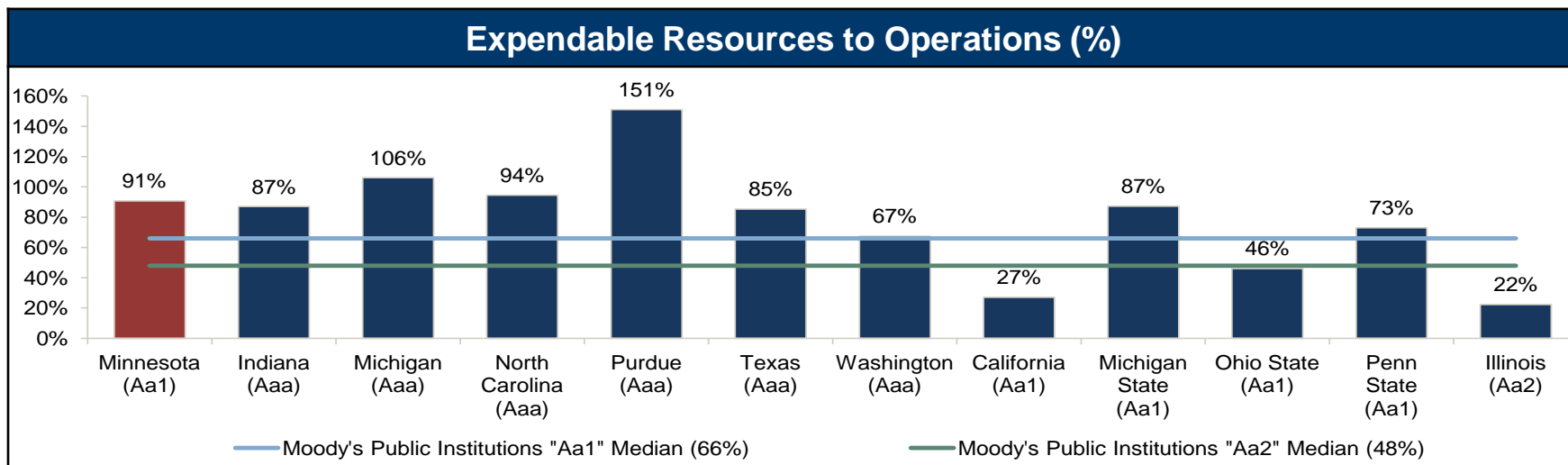
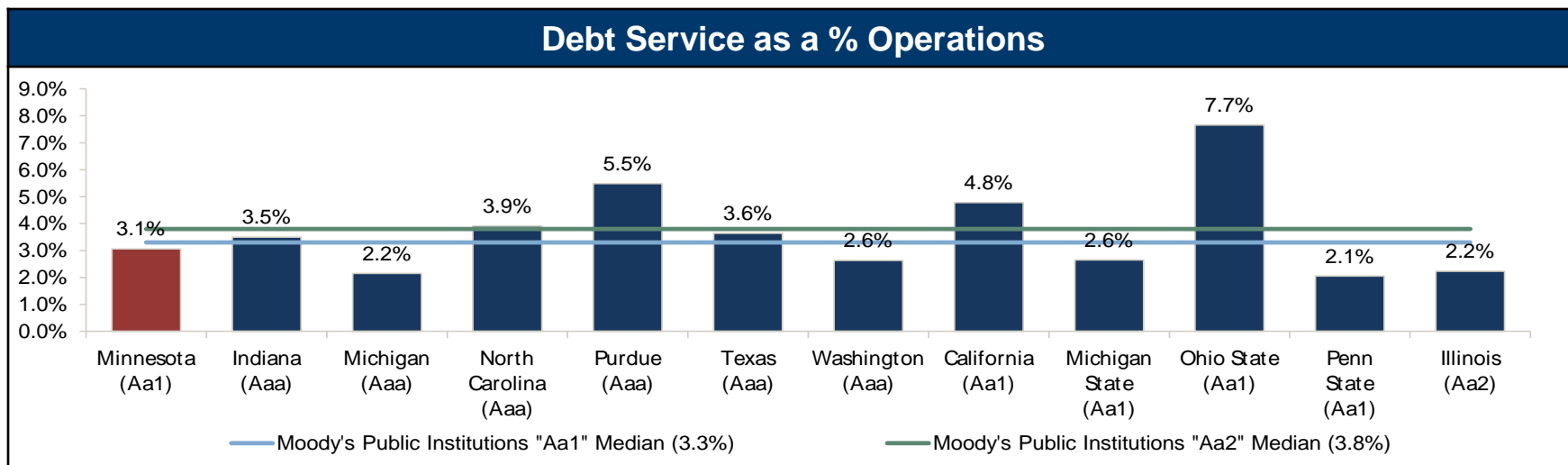


# University of Minnesota Peer Group Analysis



Note: Direct debt for the University of Minnesota excludes State Supported Stadium and Biomedical Facilities Bonds as well as indirect debt.  
 Source for Median Values: Moody's Investors Service.

# University of Minnesota Peer Group Analysis



Note: Debt service as a percentage of operations ratio for the University of Minnesota is adjusted to exclude debt service related to the State Supported Stadium Bonds.  
 Source for Median Values: Moody's Investors Service.

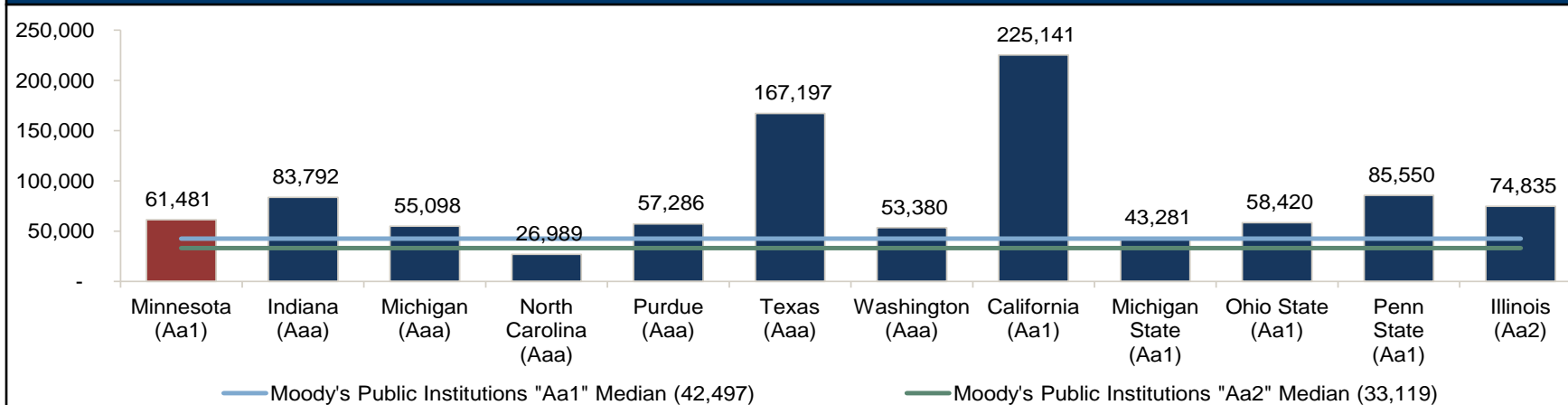
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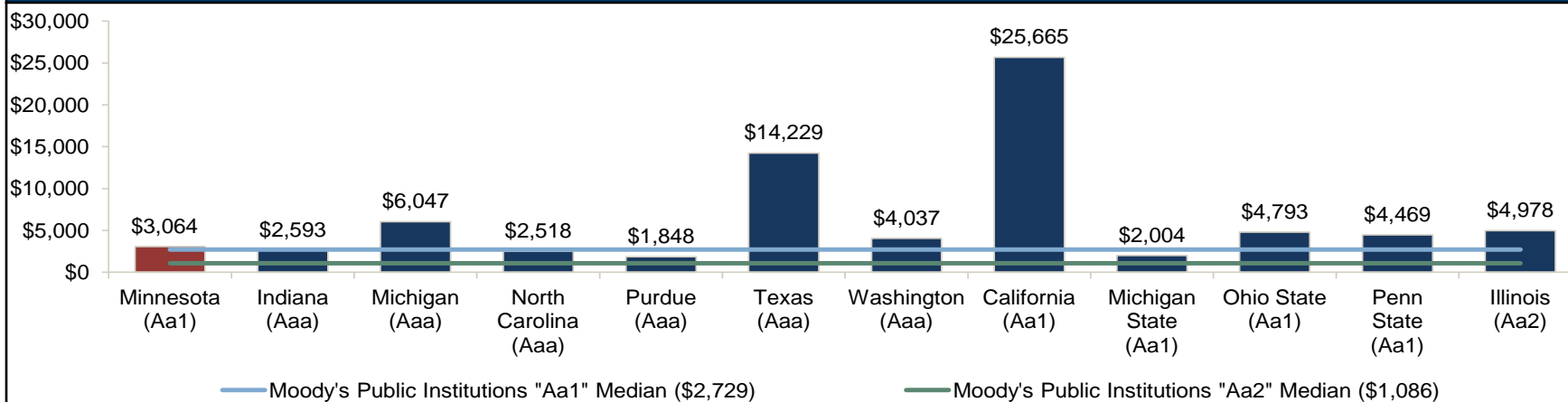
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# University of Minnesota Peer Group Analysis

## Enrollment

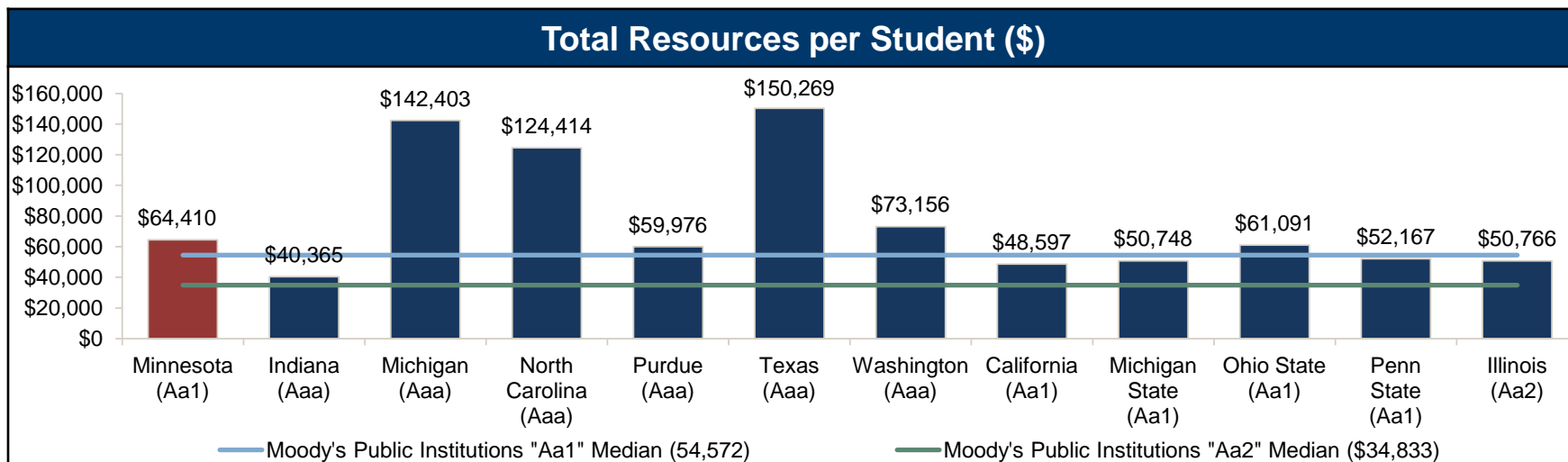
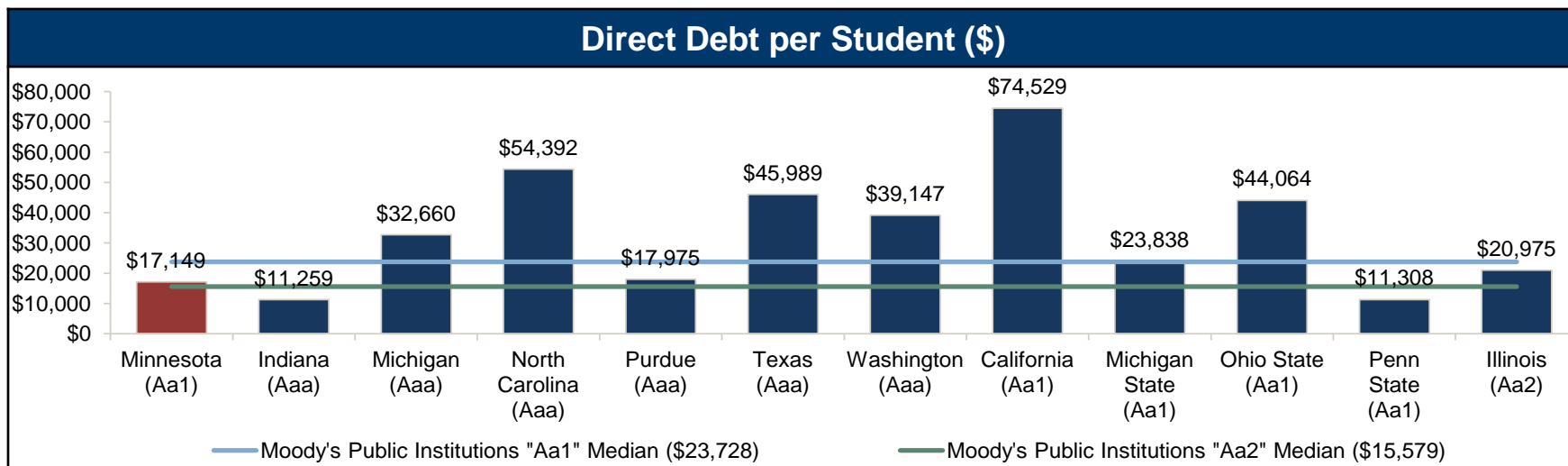


## Operating Budget (\$Millions)



Note: Source for Median Values: Moody's Investors Service.

# University of Minnesota Peer Group Analysis



Note: Utilizes Fall 2011 enrollment statistics for UNC Chapel Hill.  
 Source for Median Values: Moody's Investors Service.