

University of Alaska
Debt Overview
June 2007

1. Authority to borrow money, issue debt, or enter into long-term obligations

Alaska Statutes (AS) Sec. 14.40.040 provides the university authority to issue debt

- AS 14.40.253 and 14.40.254 provide authority to issue revenue bonds and requires that notice be provided the legislature when a debt issuance exceeds \$1.0 million annual debt service
- Regents' Policy Part V, Chapter IV requires all facilities and real property debt issuances to be approved by the Board of Regents. Total annual debt service may not exceed 5 percent of the university's unrestricted revenues

2. Debt statistics at June 30, 2006

- Total debt outstanding at June 30, 2006 is \$118.4 million
- Annual debt service is \$9.3 million, representing 2.1% of unrestricted revenues
- Debt outstanding consists of \$94.1 million general revenue bond debt, \$22.9 million note payable to AHFC, and \$1.4 million in equipment financings

3. Debt Rating

- The university has maintained a Moody's Investors Service A1 credit rating and a Standard & Poor's rating of AA- since the university was first rated in 1992
- Debt rating involves a complex interplay of multiple credit factors:
 - a. Market position in core "businesses", such as education and research
 - b. Financial reserve levels and ability to manage and grow reserves from various sources, such as fund raising, investment returns and re-invested surpluses
 - c. Capital funding needs and sources for capital investment
 - d. Operating performance, diversity and strength of revenue streams and ability to cover debt service from operations
 - e. Relationship with state, including consistency of funding. State's degree of oversight and control
 - f. Management's competence and sophistication, as well as institutional strategy

University of Alaska
Debt Overview
June 2007

4. Debt Capacity

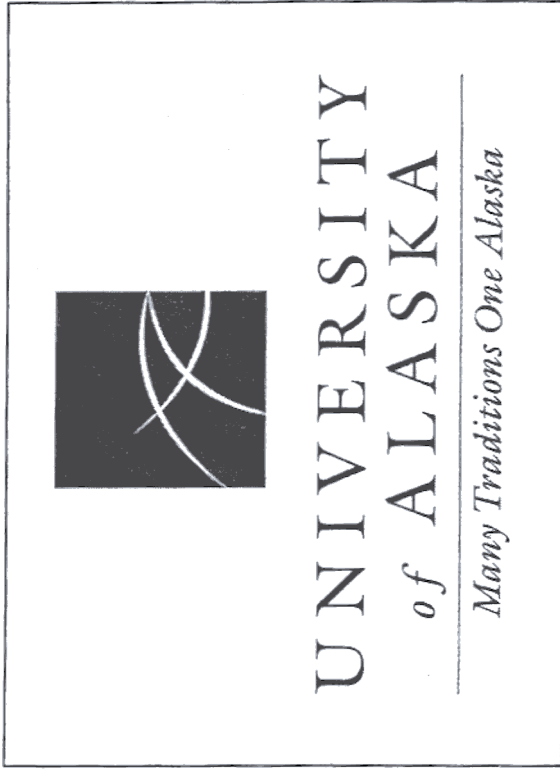
- Debt capacity is the level of debt an institution can bear prudently
- Per Regents' Policy P05.04.02 total annual debt service may not exceed 5 percent of unrestricted revenues
At 5 percent of unrestricted revenues, UA's debt capacity approximates \$260 million, or an additional \$142 million above the \$118.4 million currently outstanding
- Debt capacity is also limited by UA's intent to maintain investment grade creditworthiness as determined by credit rating organizations. Debt capacity is not merely a quantitative analysis, but it is influenced by strategy and the credit factors listed in number 3 above.
- Ability to identify revenue sources to pay debt service

5 Debt Strategy and Practice

- Debt is issued on an as-needed basis to support prioritized capital projects
- A strategic planning process tied to operating and capital budgeting are important in enabling debt evaluation opportunities for capital development
- Projects should produce a revenue stream adequate to service the debt
- Projects that are of strategic importance to the university make a better case for debt financing
- The Board of Regents authorize the issuance of debt for facilities and real property

6. Approved Debt Needs To Be Financed Within One Year, Total = \$21.83m

- UAS Gitkov Building Acquisition, Renovation and Remodel, \$3.67m. Approved at the April 13, 2005 and December 6, 2006 Board of Regents' meetings.
- UAF State Virology Lab Building, \$1.5m. Approved at December 7, 2005 Board of Regents meeting.
UAF School of Fisheries and Ocean Sciences Building at Lena Point in Juneau, \$3.0m. Approved at the December 7, 2006 Board of Regents' meeting.
- UAA East Campus Parking Structure and Loop Road Construction, \$13.66m. Approved at April 18, 2007 Board of Regents' meeting.
- At a future date, management will seek Regents approval of a General Revenue Bond Resolution that provides authority to issue tax exempt bonds



A Status Report on University Debt

**University of Alaska
Carryforward and Fund Balance Management Guidelines**

The purpose of these guidelines is to set forth considerations to assist in the management of University of Alaska carryforward and unrestricted fund balances.

Background, Definitions and Requirements:

Carryforward is the unrestricted fund (fund one) fund balance, less encumbrances. Fund balance is defined as the difference between the assets and liabilities of a fund. Fund balance is increased when fiscal year revenues exceed expenditures. For State of Alaska budgetary reporting purposes, all carryforward from the prior fiscal year is deemed to have been expended first in the following fiscal year, at the allocation level. Carryforward is a part of the University receipts budgetary line item.

State of Alaska Statutes Sec. 37.25.010 (c) allows carryforward of University receipts to be expended in the following fiscal year: "University receipts received on or before June 30 of a fiscal year in excess of the amount expended for that year may be expended in the succeeding fiscal year if an appropriation of university receipts has been made for the succeeding fiscal year. The amount of university receipts expended in a fiscal year may not exceed the amount of university receipts appropriated for that year."

The university president has authority to establish carryforward levels. Chancellors at each MAU, and the Chief Financial Officer at the Statewide MAU, are responsible for managing the carryforward of their MAU.

Recharge centers or service centers "fund 17's" have a distinct carryforward which should not be commingled with fund one carryforward. Recharge center carryforwards are not part of these guidelines.

Discussion and Considerations:

Responsible fiscal management requires adequate reserves, or fund balances, to mitigate current and future risks. Adequate fund balances are essential to offsetting cyclical variations in revenues and expenditures and to protect against 1) catastrophic events, 2) unforeseen revenue declines or expenditure gaps, 3) unexpected legal obligations, and 4) failures of major business systems.

Management of carryforward levels is not the primary goal of fiscal management; rather, it is a residual consideration after taking into account all conditions and directives for the prudent use of resources to meet the objectives and mission of the university.

There are political considerations for having "excess" carryforward. Generally, the appearance of a large carryforward is not desirable. Because of the funding mix of state general funds and student tuition and fees, any excess balances could be interpreted to represent unwarranted tuition and fee rates or unnecessary state appropriations.

University of Alaska
Carryforward and Fund Balance Management Guidelines

Analysis and Recommendations:

The attachment shows the five year trend for carryforward levels. In total, the UA FY06 carryforward represents five percent of current funds operating revenues and about 19 days of operating expenses. Carryforward levels have increased over the past five years.

For the University of Alaska in total and campus MAU's, acceptable carryforward levels are two to six percent of current funds (unrestricted and restricted funds) operating revenues and no more than 30 days of current funds operating expenses.

The principles of carryforward management differ between campus MAU's and the Statewide MAU. Generally, the Statewide MAU must retain the capacity to respond to System needs and therefore its carryforward may and should be higher than other MAU's, relative to its operating revenues and expenses.

Projection of end of fiscal year carryforward should take place throughout the year, but especially informed by the formal January management report. When carryforward levels exceed the six percent level, a plan to expend the carryforward and rebalance operations is required. Given that carryforward is fund balance, expenditures should be one-time and not require a recurring budgetary commitment. For example, it would not be appropriate to fund a permanent position or establish an ongoing program from carryforward.

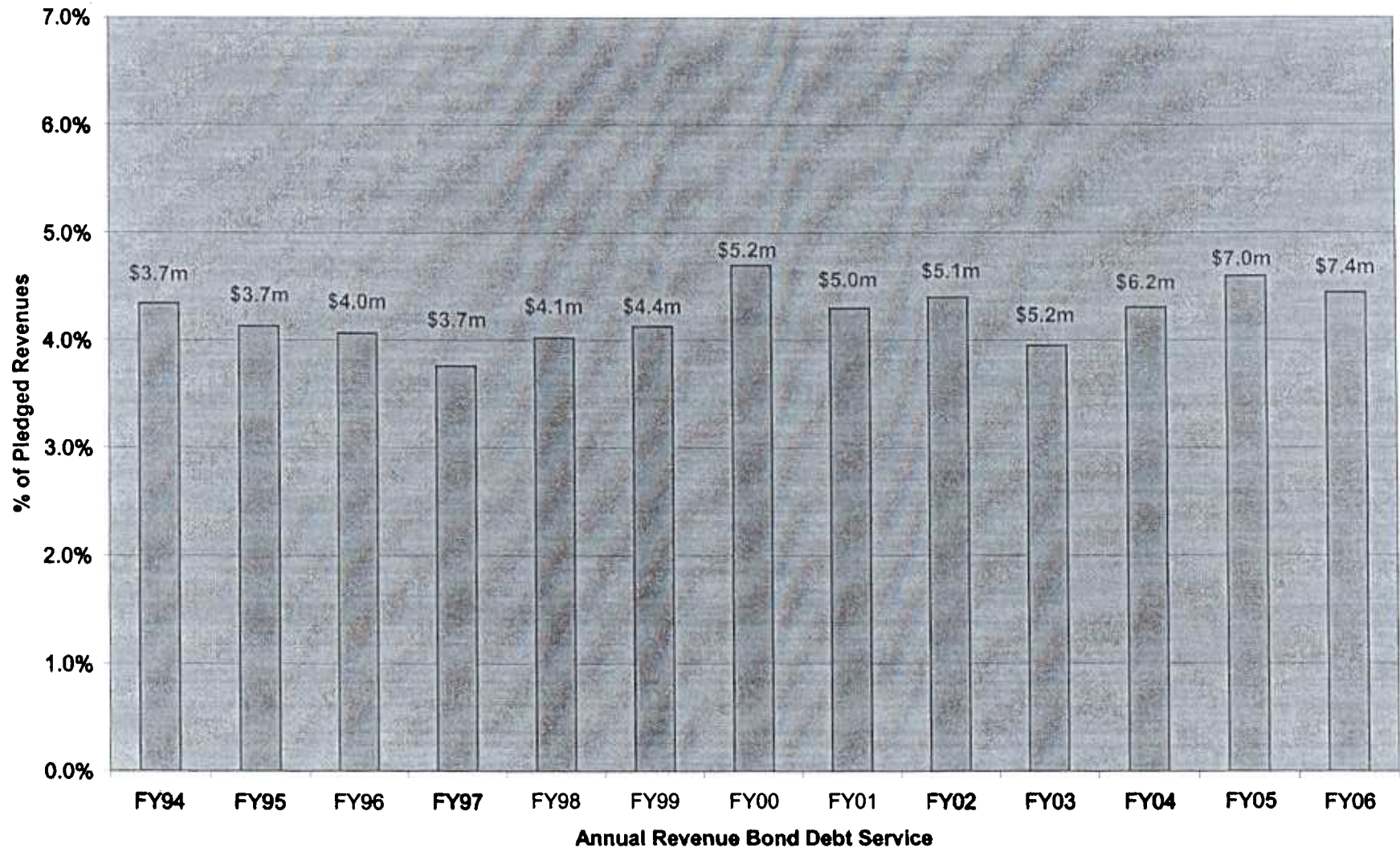
University of Alaska
Carryforward Analysis
FY02 - FY06

Dollars in millions	FY02	FY03	FY04	FY05	FY06
UAA (includes PWSCC)					
Unrestricted Carryforward	\$2.5	\$4.2	\$5.5	\$6.0	\$9.3
Operating Revenues	\$161.9	\$172.4	\$181.4	\$191.8	\$208.9
Operating Expenses	\$158.0	\$168.5	\$176.3	\$186.3	\$204.2
Carryforward as % of Operating Revenues	1.5%	2.4%	3.0%	3.1%	4.5%
# of days of Operating Expenses in Cfwd	5.8	9.1	11.4	11.8	16.6
UAF					
Unrestricted Carryforward	\$2.0	\$4.2	\$6.2	\$9.2	\$13.7
Operating Revenues	\$260.6	\$286.9	\$306.3	\$325.8	\$345.3
Operating Expenses	\$258.2	\$280.1	\$298.0	\$316.5	\$337.1
Carryforward as % of Operating Revenues	0.8%	1.5%	2.0%	2.8%	4.0%
# of days of Operating Expenses in Cfwd	2.8	5.5	7.6	10.6	14.8
UAS					
Unrestricted Carryforward	\$0.5	\$0.5	\$1.0	\$1.2	\$1.5
Operating Revenues	\$35.0	\$35.0	\$38.0	\$38.4	\$42.0
Operating Expenses	\$34.9	\$34.4	\$36.7	\$37.2	\$40.7
Carryforward as % of Operating Revenues	1.4%	1.4%	2.6%	3.1%	3.6%
# of days of Operating Expenses in Cfwd	5.2	5.3	9.9	11.8	13.5
SW					
Unrestricted Carryforward	\$4.2	\$3.7	\$3.9	\$3.6	\$7.3
Operating Revenues	\$26.7	\$26.3	\$29.2	\$34.9	\$40.8
Operating Expenses	\$34.5	\$26.6	\$21.8	\$35.6	\$33.0
Carryforward as % of Operating Revenues	15.7%	14.1%	13.4%	10.3%	17.9%
# of days of Operating Expenses in Cfwd	44.4	50.8	65.3	36.9	80.7
UA Total					
Unrestricted Carryforward	\$9.2	\$12.6	\$16.6	\$20.0	\$31.8
Operating Revenues	\$484.2	\$520.6	\$554.9	\$590.9	\$637.0
Operating Expenses	\$485.6	\$509.6	\$532.8	\$575.6	\$615.0
Carryforward as % of Operating Revenues	1.9%	2.4%	3.0%	3.4%	5.0%
# of days of Operating Expenses in Cfwd	6.9	9.0	11.4	12.7	18.9

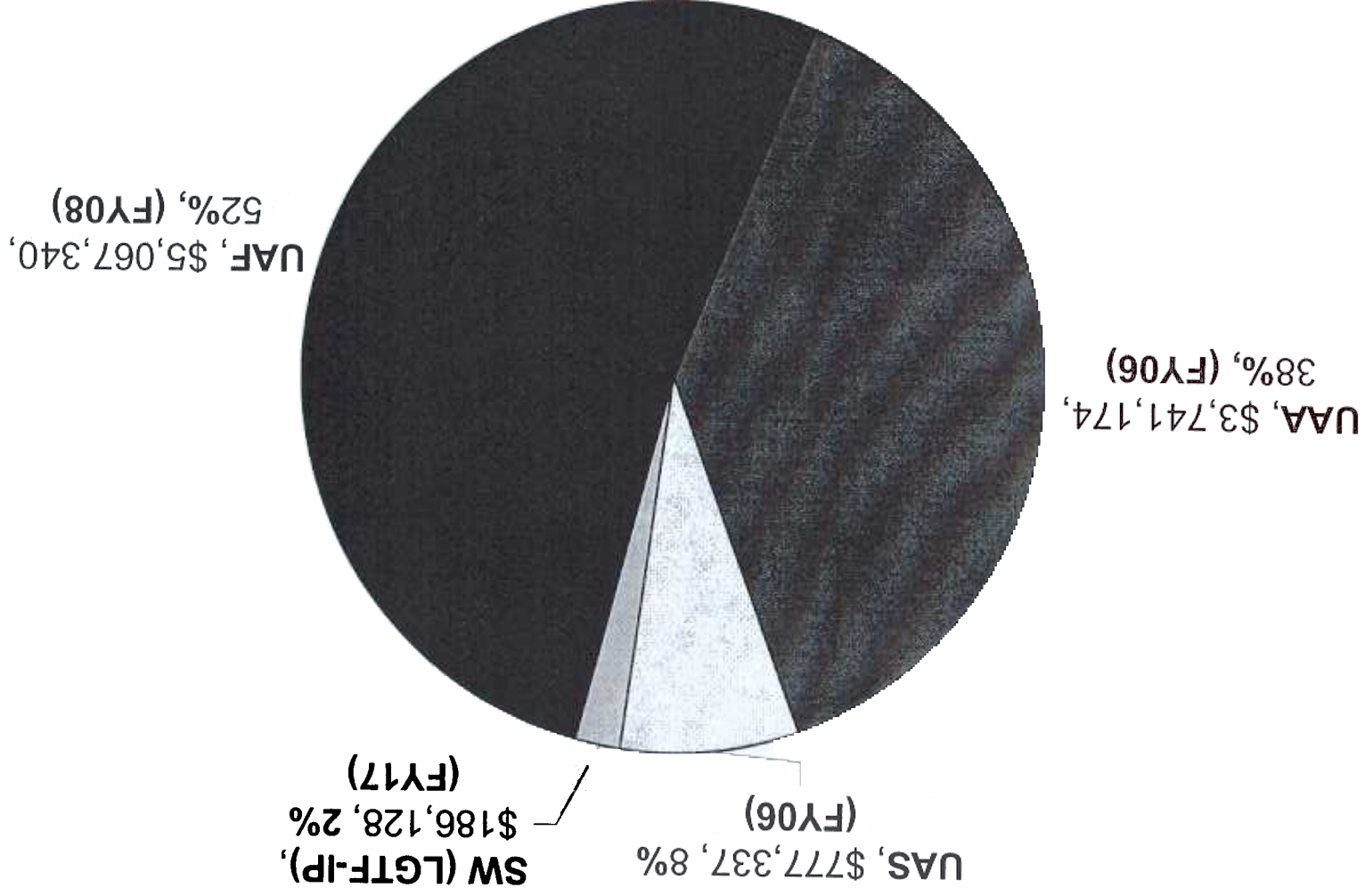
Notes:

1. Operating Revenue and Expense Data from UA Supplementals Schedules 2.0 and 5.0
2. Operating Revenue and Expenses include total current funds (unrestricted and restricted)
3. Operating Expenses exclude effect of Net Pension Obligation
4. Carryforward excludes Recharge Center (Fund 17's) carryforwards

Annual Revenue Bond (only) Debt Service As Percent of Pledged Revenue



Maximum Annual Debt Service (all types) by MAU (\$9,771,979)



University of Alaska
Share of Debt by MAU
June 30, 2006

(\$ in thousands, revenue data as of June 30, 2006)

	<u>SW</u>	<u>UAF</u>	<u>UAA</u>	<u>UAS</u>	<u>Total</u>
A. Unrestricted Revenues	\$32,942	\$198,695			
Share of unrestricted revenue	8%	46%			
Maximum debt service (all debt)	\$186	\$5,067	\$3,741	\$777	\$9,772
Share of maximum debt service	2%	52%	38%	8%	
Over (Under) share of Unrestricted Revenue	-6%	6%	-1%	0%	
B. Pledged Revenues	\$5,633	\$76,754	\$71,860	\$11,871	\$166,118
Share of pledged revenue	3%	46%	43%	7%	
Maximum debt service (general revenue only)	\$186	\$4,875	\$2,161	\$777	\$8,000
Share of maximum debt service	2%	61%	27%	10%	
Over (Under) share of Pledged Revenue	-1%	15%	-16%	3%	
C. Share of unrestricted revenue (60% weight)	8%	46%	39%	8%	
Share of pledged revenue (40% weight)	3%	46%	43%	7%	
Share of weighted average revenue	---	46%	41%	8%	
Total Debt	\$2,200	\$58,325	\$47,412	\$10,446	\$118,383
Share of total debt	2%	49%	40%	9%	
Over (Under) share of weighted avg. revenue	-4%	3%	-1%	1%	

Conclusion: There is no inequity among MAU's, as each MAU's total debt only slightly varies to share of weighted average revenue securing the debt.

University of Alaska
Debt Capacity
June 30, 2006

A. Additional Debt Capacity can be viewed as the additional amount of debt the University can issue before it has an adverse effect on its credit rating. UA's current Moody's credit rating is A1; the next lower rating is A2.

- B. Debt Capacity involves a complex interplay of multiple credit factors:
- 1 Market position in core "businesses", such as education and research
 - 2 Financial reserve levels and ability to manage and grow reserves from various sources, such as fundraising, investment returns, and re-invested surpluses
 - 3 Capital funding needs and sources for capital investment
 - 4 Operating performance, diversity and strength of revenue streams and ability to cover debt service from operations.
 - 5 Relationship with state, including consistency of funding. State's degree of oversight and control.
 - 6 Management's competence and sophistication, as well as institutional strategy.

C. Listed below are three approaches to determining additional debt capacity. Current Regent's policy restricts the maximum amount of additional debt the University may incur to approximately \$142 million. On the basis of comparing UA to the A2 Moody's credit rating, a reasonable range of additional debt is between \$151 million and \$200 million. However, this range exceeds the maximum allowed by Regent policy. Amounts above \$142 million would require a Regent's policy change and other credit factors would have to be strong. Such factors include strong state support, demonstrated student demand/growth, improving operating performance and ability to demonstrate strategic importance of project being financed.

1. State of Alaska and Board of Regents Debt Policies:

State statute does not limit UA debt, however it does require that UA seek legislative approval when the annual debt service by project exceeds \$1.0 million. Regents' policy (05.04) limits annual debt service to 5% of UA unrestricted revenues. Currently, UA's maximum annual debt service is \$9.6 million (FY07) and 5% of unrestricted revenue equates to about \$21.7 million, which leaves room for approximately \$12.1 million more of annual debt service, or about \$142 million of additional debt principal.

2. Peer comparisons with other A1 rated universities:

The median debt outstanding for A1-rated universities is \$148.4 million. UA has debt outstanding of \$118.4 million

If University of Vermont is the high end of the A1 range, UA has potential for \$235 million additional debt if all other credit factors are excellent. (However, this would exceed Regents' limit of \$142 million noted above).

For comparative purposes, total outstanding debt for selected A1 peer institutions is listed below:

	Total Debt	Debt per FTE	FTE	Population of State
University of Vermont	\$353,846,607	\$35,291	10,021	623,908
West Virginia University	\$326,049,000	\$10,427	31,271	1,818,470
North Dakota University System	\$249,760,094	\$6,461	38,659	635,867
University of Delaware (S&P AA+)	\$199,862,000	\$10,809	18,491	853,476
University of Hawaii	\$190,373,562	\$5,563	34,222	1,285,498
A1 Median	\$148,360,000	\$7,341	19,283	NA
Colorado State University System	\$132,099,000	\$6,050	21,834	4,753,377
University of Idaho	\$127,010,036	\$13,027	9,750	1,466,465
University of Alaska	\$118,383,069	\$6,749	17,541	670,053
New Mexico State University	\$107,362,138	\$8,392	12,793	1,954,599

University of Alaska
Debt Capacity
June 30, 2006

3. Comparisons with Moody's A2 medians:

UA can evaluate its additional debt capacity by quantitative means using industry ratios. UA measures the effect of issuing additional debt on each of the following key ratios, and then compares the result with Moody's public medians of the next lowest credit rating, A2. Weights reflecting relative influence on the credit rating are then applied to the additional debt under each ratio to determine a weighted average additional debt capacity. Two scenarios using different weighting schemes are provided below. With an equal weighting additional debt is \$150.8 million. In the second scenario, ratios already exceeding the A2 median carry a low (5%) impact and the result is \$200.4 million of additional debt.

(\$ in thousands)

<u>Balance Sheet and Operating Ratios</u>	UA's Actual Ratio	Moody's A2 ratios	Weight	Maximum add'l debt before exceeding A2 ratio	Weighted share of add'l debt
Expendable Financial Resources-to-Direct Debt (x)	1.76	0.70	20%	\$178,000	\$35,600
Total Financial Resources-to-Direct Debt (x)	2.80	0.90	20%	\$252,000	\$50,400
Actual Debt Service-to-Operating Expense (%)	1.3%	3.8%	20%	\$221,000	\$44,200
Unrestricted Financial Resources-to-Direct Debt (x)	0.48	0.30	20%	\$72,000	\$14,400
Actual Debt Service-to-Operating Surplus (x)	3.04	2.40	20%	\$31,000	\$6,200
Maximum additional debt					<u>\$150,800</u>

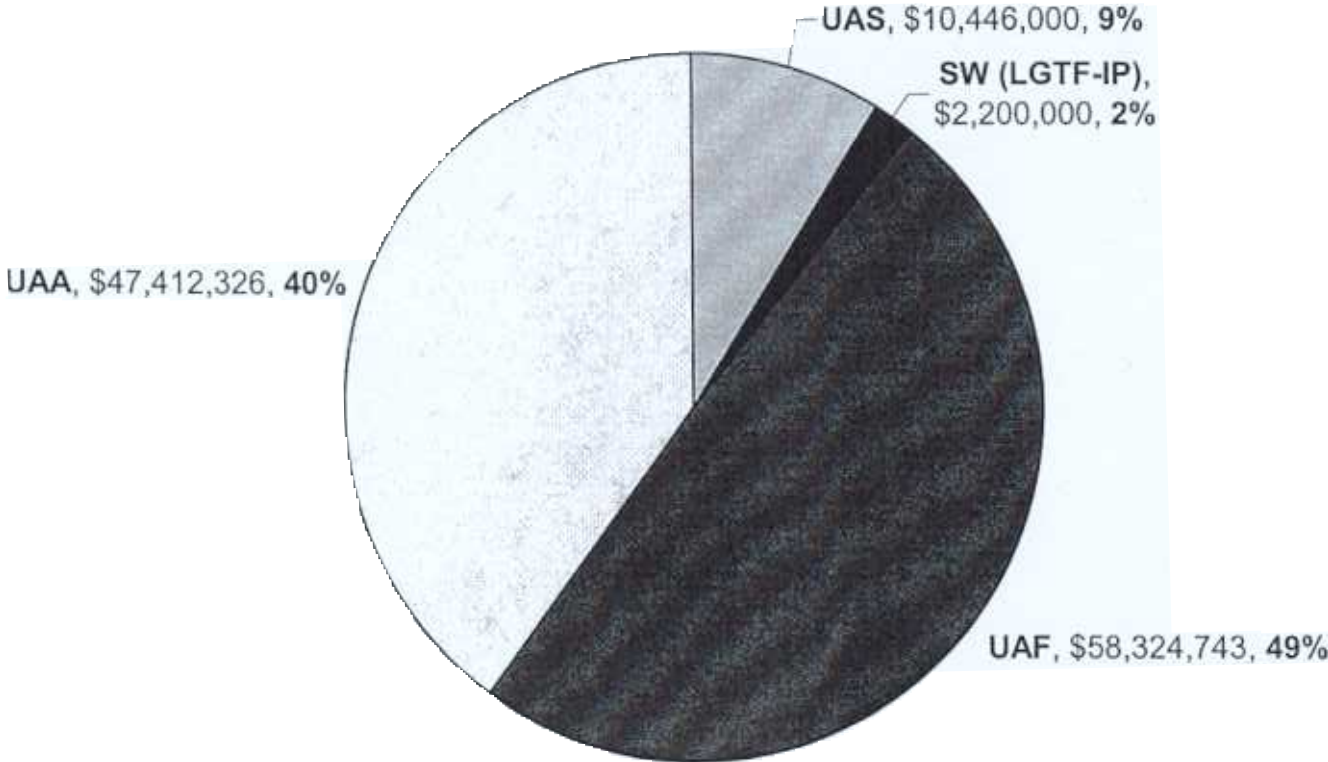
(\$ in thousands)

<u>Balance Sheet and Operating Ratios</u>	UA's Actual Ratio	Moody's A2 ratios	Weight	Maximum add'l debt before exceeding A2 ratio	Weighted share of add'l debt
Expendable Financial Resources-to-Direct Debt (x)	1.76	0.70	30%	\$178,000	\$53,400
Total Financial Resources-to-Direct Debt (x)	2.80	0.90	30%	\$252,000	\$75,600
Actual Debt Service-to-Operating Expense (%)	1.3%	3.8%	30%	\$221,000	\$66,300
Unrestricted Financial Resources-to-Direct Debt (x)	0.48	0.30	5%	\$72,000	\$3,600
Actual Debt Service-to-Operating Surplus (x)	3.04	2.40	5%	\$31,000	\$1,550
Maximum additional debt					<u>\$200,450</u>

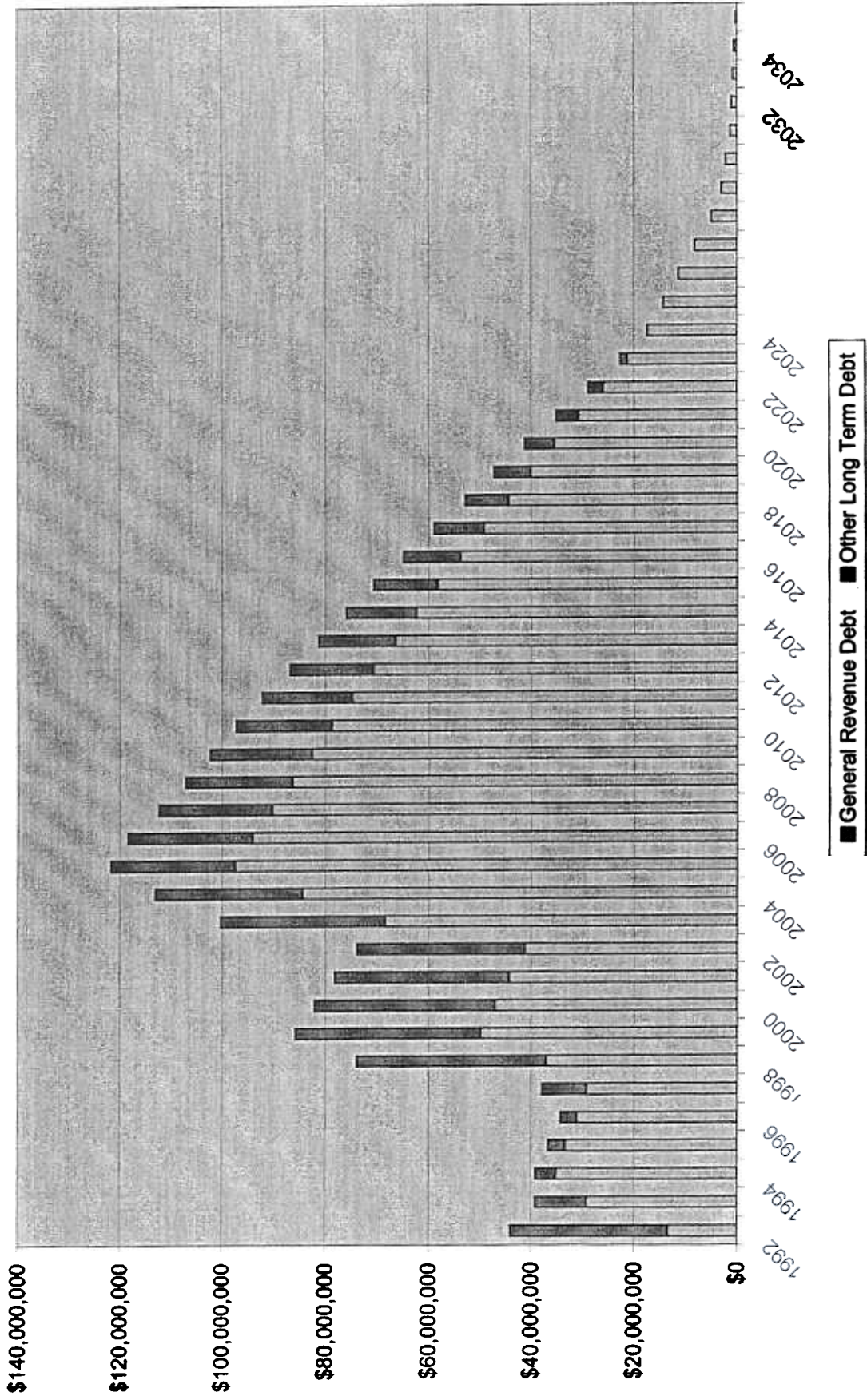
Ratio Detail:

	<u>08/30/06</u>
UA Unrestricted net assets	\$56,394
UA Restricted expendable net assets	58,590
UA Foundation unrest and temp restricted net assets	93,441
Expendable Financial Resources	<u>208,425</u>
UA Restricted nonexpendable net assets	123,275
Total Financial Resources	<u>\$331,700</u>
Total Direct Debt	\$118,383
Actual debt service (net of Series K reimbursement, \$1.413m)	\$8,219
Operating expenses	\$621,373
Operating surplus (deficit)	\$24,986
Expendable Financial Resources-to-Direct Debt (x)	1.76
Total Financial Resources-to-Direct Debt (x)	2.80
Actual Debt Service-to-Operating Expense (%)	1.3%
Unrestricted Financial Resources-to-Direct Debt (x)	0.48
Actual Debt Service-to-Operating Surplus (x)	3.04

Total Debt Outstanding (all Types) by MAU June 30, 2006 (\$118,383,069)



Total Debt (all types) Outstanding

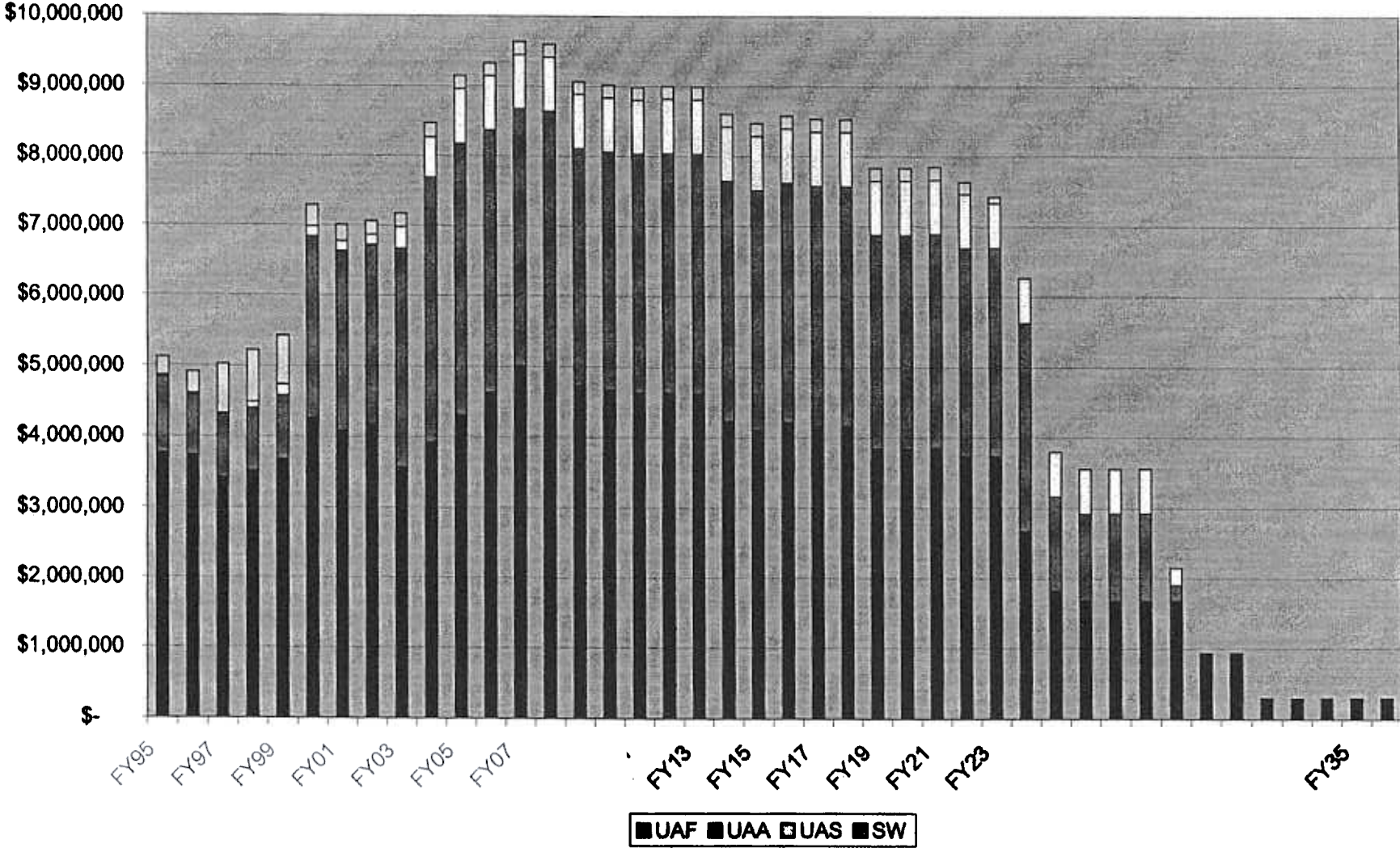


**University of Alaska
History of Debt Issued**

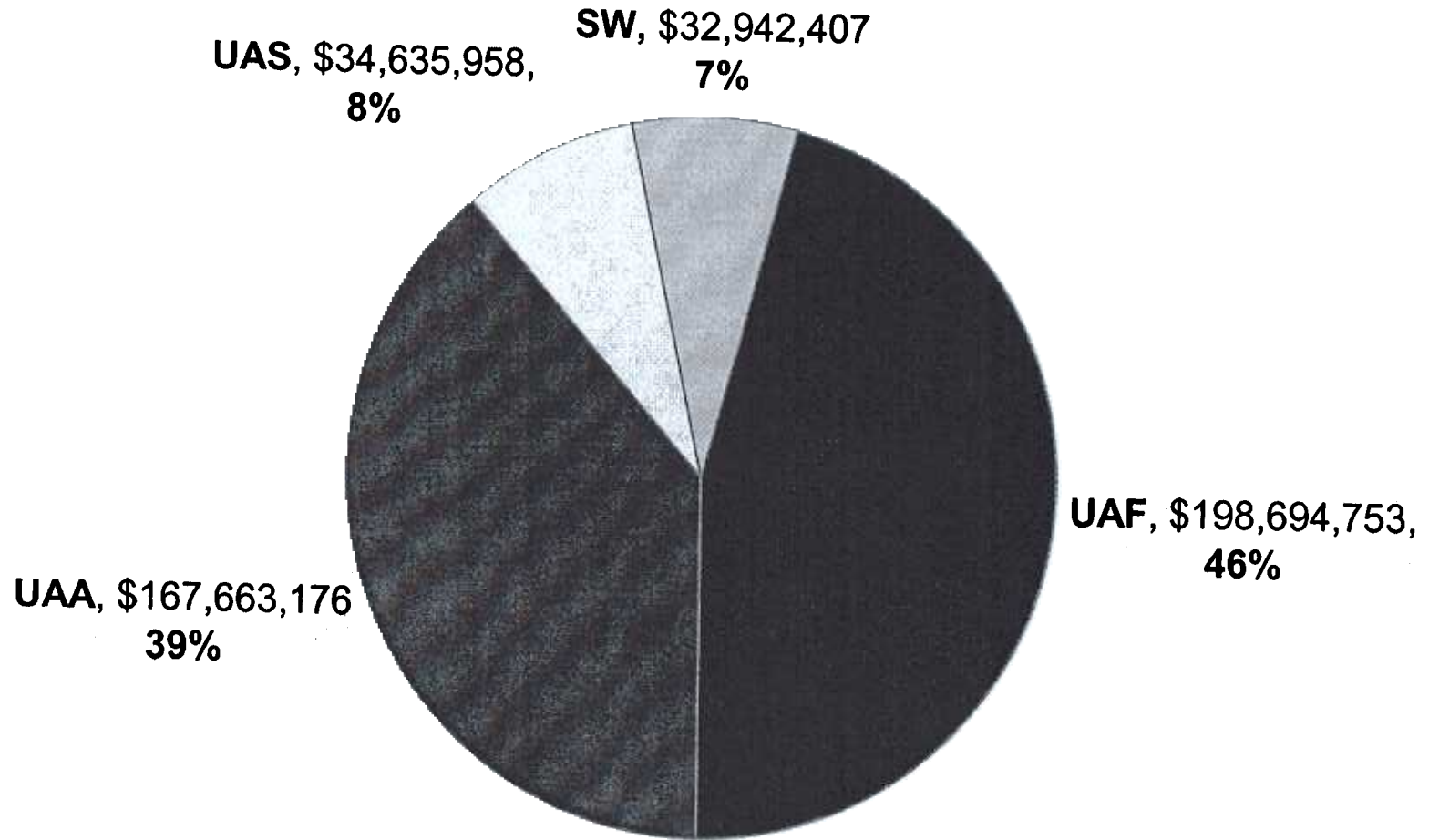
	Original Issue	Outstanding 6/30/2006	Projects (zero balances imply issue subsequently refunded)
1990 Series A & B	\$13,390,000	\$0	UAF Power Plant Upgrades, Admin Service Center, and Student Recreation Center
1992 Series C & E	\$15,855,000	\$0	UAF Phones; UAA Temple Wood Apartments and Diplomacy Building
1993 Series F	\$7,090,000	\$0	UAF Heating Corporation (deceased under series K)
1997 Series G	\$10,000,000	\$645,000	UAF - IARC; UAS Residence Hall (partially deceased with Series N)
1998 Series H	\$9,820,000	\$9,820,000	UAF Coal Water
1999 Series I	\$1,845,000	\$0	UAF Coal Water
1999 Series J	\$13,400,000	\$9,510,000	Refunding of Series A, B, E and earlier issued COP's
2002 Series K	(a) \$33,515,000	\$30,535,000	UAA Univ. Center; UAS Recreation; UAF WRRB; Refunding Series C and I
2003 Series L	\$9,970,000	\$8,705,000	UAF Rural Colleges (Bristol Bay, Ft. Yukon, Nome), Athletic Facilities, Electric lines, West Ridge Facility, Refinance Series F
2004 Series M	\$11,070,000	\$10,520,000	UAA Land Acquisition, UAF Logistic Facility, UAF Hutchison Center, UAJ Science Laboratory, SW Refinance University Lake building debt
2005 Series N	\$24,355,000	\$24,355,000	UAF BiRD Facility, UAF Chiller Project, UAF Elvey Cooling, UAF Aurora Warehouse, UAF Patty Center, UAF GVEA Intertie, UAA Kachemak Bay, Refinance portion of AHFC UAA Housing Note, Advance Refund Series G
Subtotal - General Revenue Bonds	<u>\$150,310,000</u>	<u>\$94,090,000</u>	
Alaska Housing Finance Corp (AHFC)	\$33,000,000	\$22,924,211	UAA Housing
Vehicle Financing	\$863,755	\$863,755	UAF Vehicle Pool
Installment Contracts	<u>\$1,640,185</u>	<u>\$505,103</u>	Equipment
Total Debt	<u>\$185,813,940</u>	<u>\$118,383,069</u>	

(a) The State of Alaska is reimbursing UA \$1.4 million annually for debt service on \$19,330,000 remaining Series K debt principal.

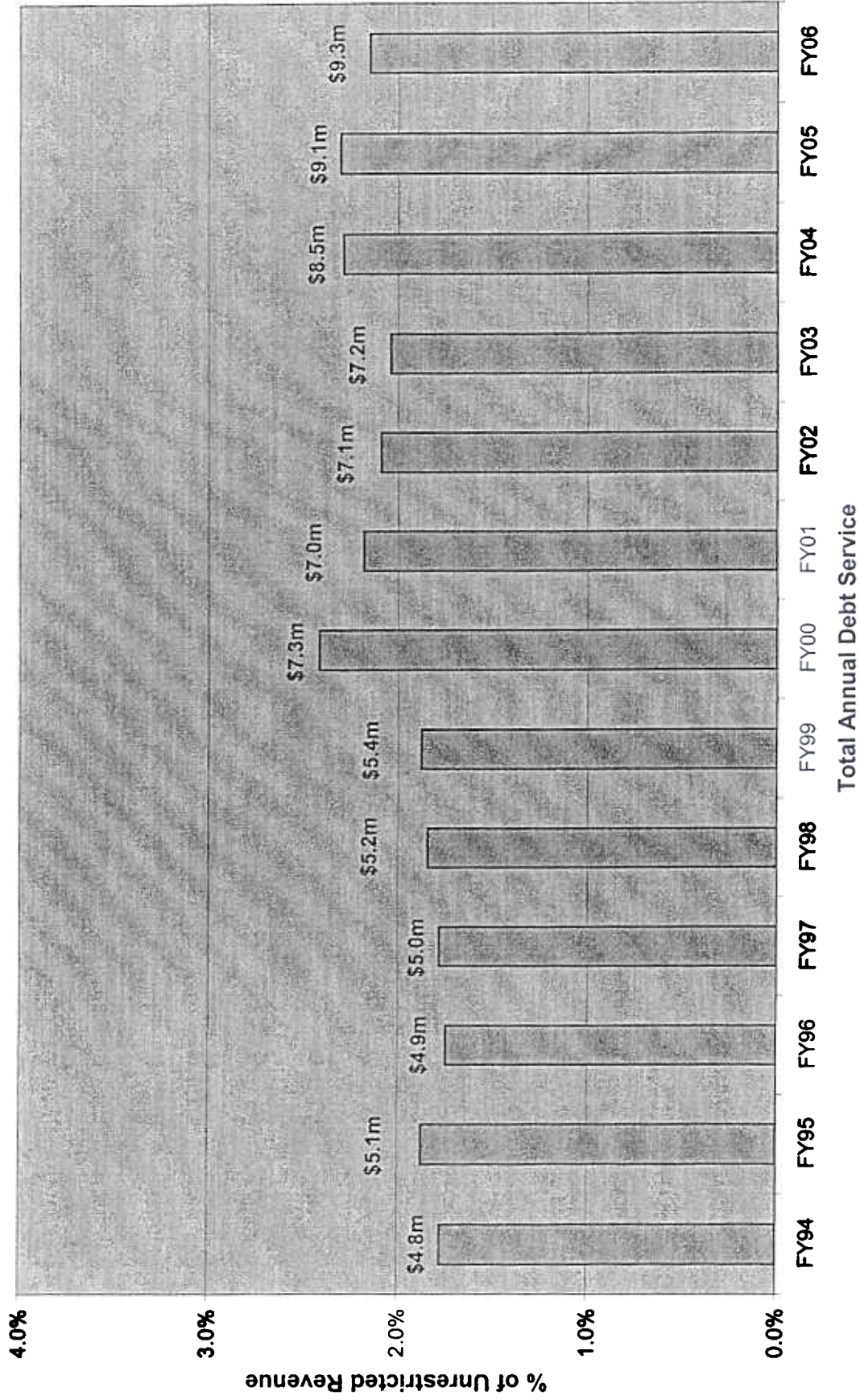
Total Annual Debt Service (all types) By MAU June 30, 2006



Total FY06 Unrestricted Revenues by MAU (\$433,936,293)



Total Annual Debt Service (all types) As Percent of Total Unrestricted Revenues



Note: Per Regents' Policy, UA's annual debt service shall not exceed 5 percent of unrestricted revenues.

Annual General Revenue Bond (only) Debt Service By MAU

