

University of Alaska
Debt Overview
June 2008

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 May 31, 2008

- Total debt outstanding at May 31, 2008 is \$136.5 million
- Annual debt service is \$11.2 million, representing 2.3% of unrestricted revenues (unrestricted revenues for the year ended June 30, 2007)
- Debt outstanding consists of \$110.1 million general revenue bond debt, \$24.6 million notes payable, and \$1.8 million in vehicle & equipment financings

3. Debt Rating

- On December 26, 2007, Moody's Investors Service upgraded the university's credit rating from A1 to Aa3. Standard & Poor's rating is AA-.
- 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

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Debt Overview
June 2008

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 \$274.1 million, or an additional \$137.6 million above the \$136.5 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

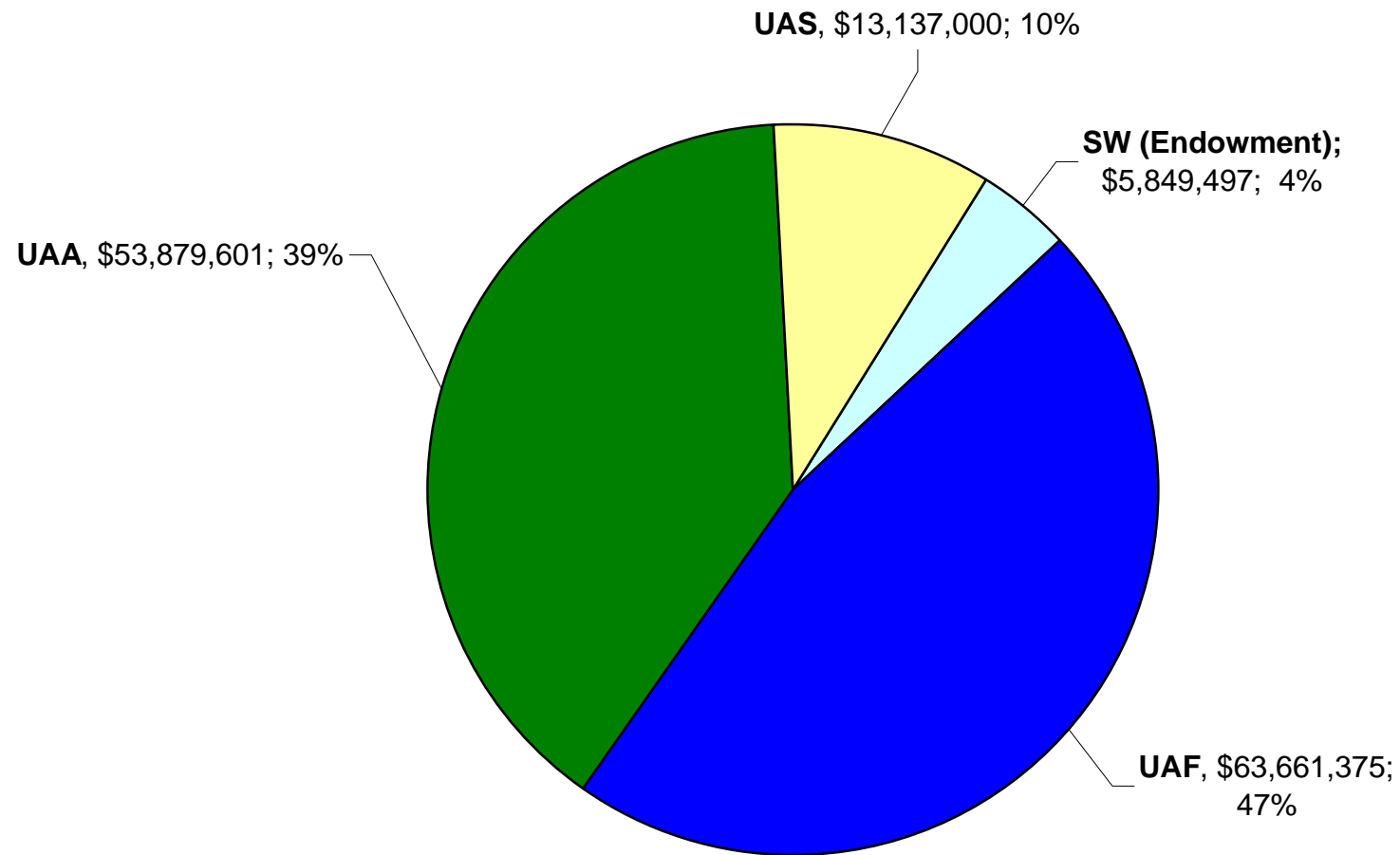
- Debt is issued on an as-needed basis to support prioritized capital projects
- A strategic planning process tied to operating and capital budgeting are important in enabling debt evaluation opportunities for capital development
- Projects should produce a revenue stream adequate to service the debt
- 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



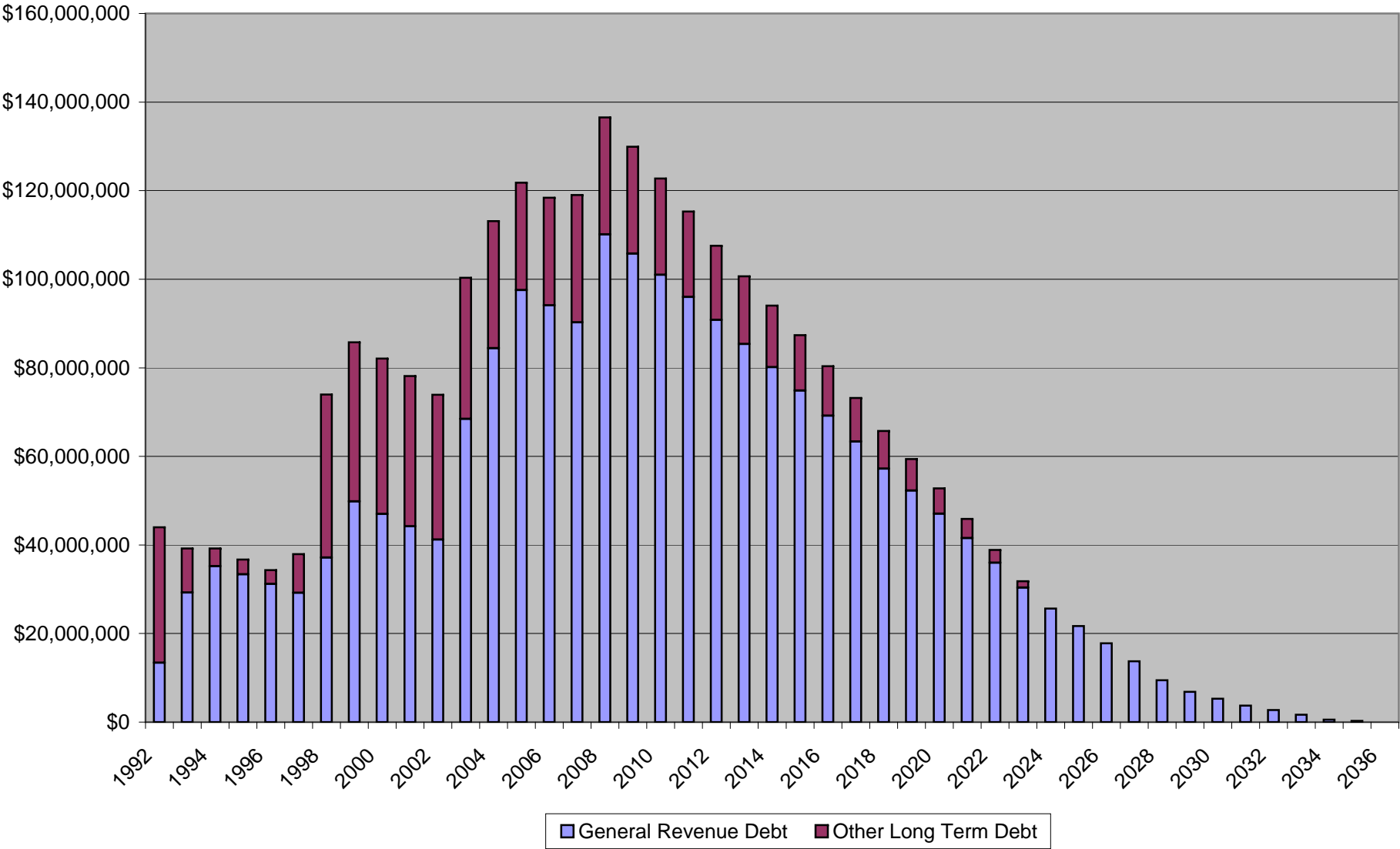
A Status Report on University Debt

as of May 31, 2008

**Total Debt Outstanding (all Types) by MAU: \$136,527,473
as of May 31, 2008**



Total Debt (all types) Outstanding

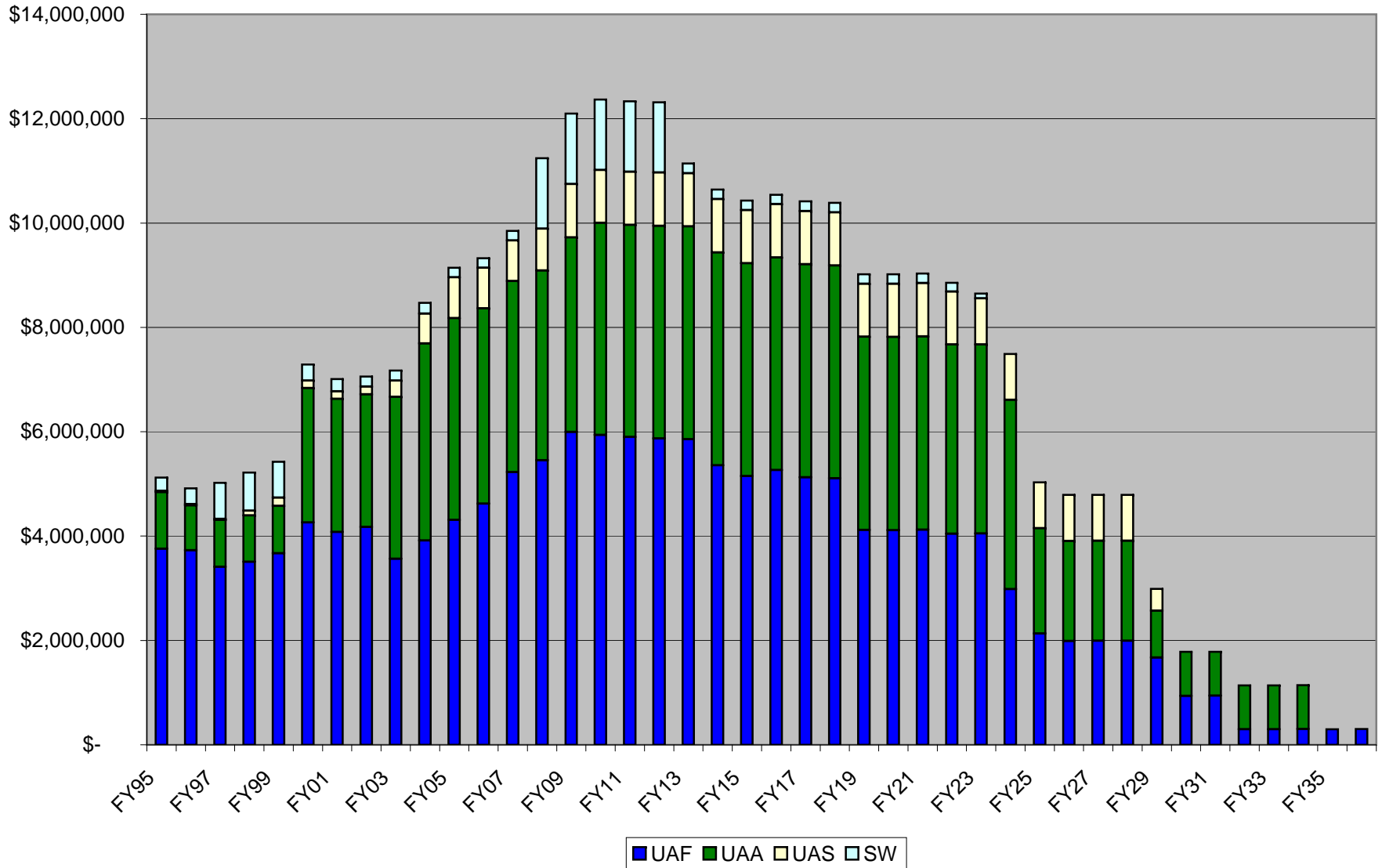


University of Alaska History of Debt Issued

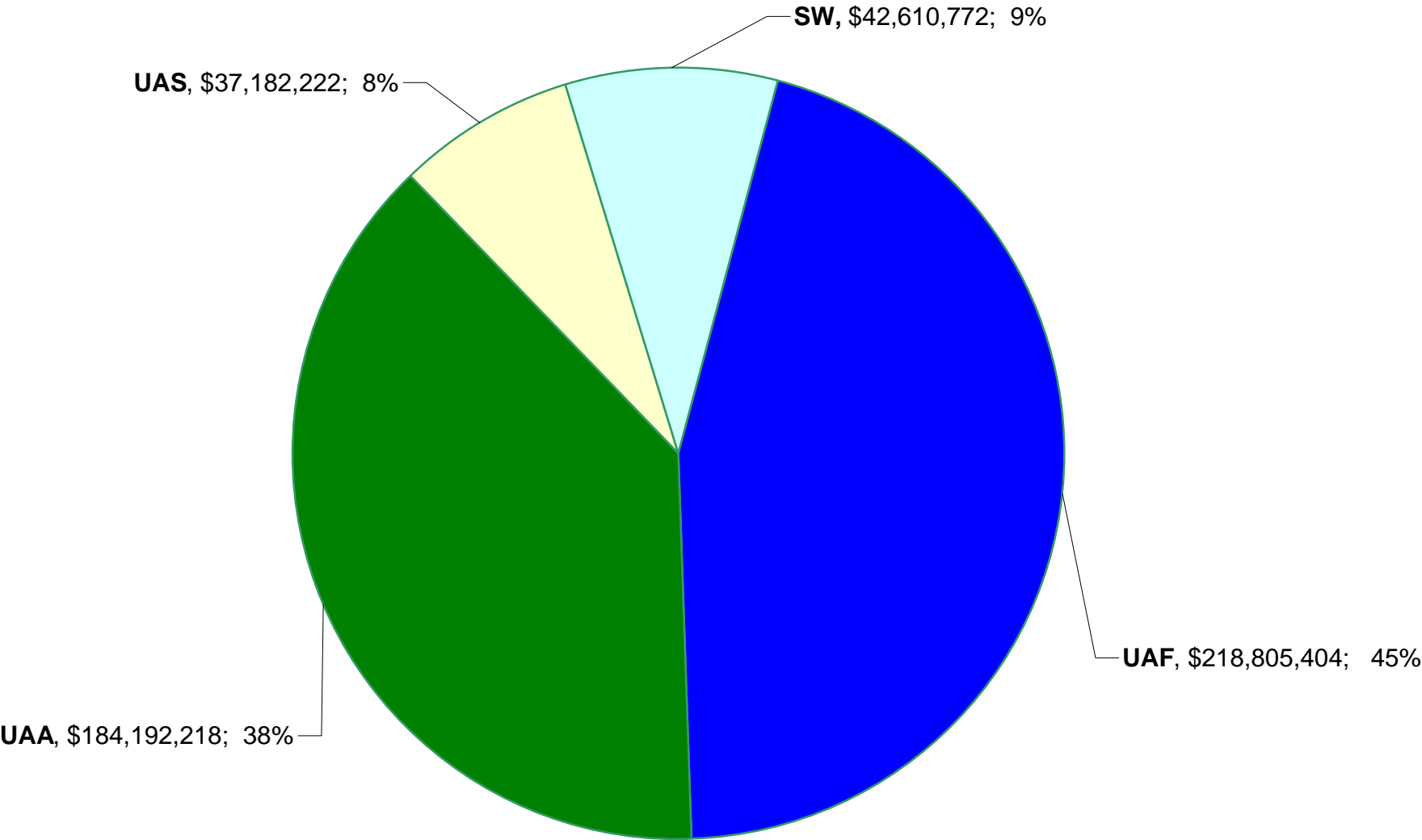
		Principal Outstanding 5/31/2008	Projects (zero balances imply issue subsequently refunded)
	Original Issue		
1990 Series A & B	\$13,390,000	\$0	UAF Power Plant Upgrades, Admin Service Center, and Student Recreation Center
1992 Series C & E	\$15,855,000	\$0	UAF Phones; UAA Temple Wood Apartments and Diplomacy Building
1993 Series F	\$7,090,000	\$0	UAF Heating Corporation (defeased under series K)
1997 Series G	\$10,000,000	\$0	UAF - IARC; UAS Residence Hall (partially defeased with Series N)
1998 Series H	\$9,820,000	\$9,515,000	UAF Coal Water
1999 Series I	\$1,845,000	\$0	UAF Coal Water
1999 Series J	\$13,400,000	\$7,025,000	Refunding of Series A, B, E and earlier issued COP's
2002 Series K	(a) \$33,515,000	\$28,635,000	UAA Univ. Center; UAS Recreation; UAF WRRB; Refunding Series C and I
2003 Series L	\$9,970,000	\$7,385,000	UAF Rural Colleges (Bristol Bay, Ft. Yukon, Nome), Athletic Facilities, Electric lines, West Ridge Facility, Refinance Series F
2004 Series M	\$11,070,000	\$9,930,000	UAA Land Acquisition, UAF Logistic Facility, UAF Hutchison Center, UAJ Science Laboratory, SW Refinance University Lake building debt
2005 Series N	\$24,355,000	\$23,835,000	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
2008 Series O	\$23,795,000	\$23,795,000	UAA Parking Structure; UAF Research Labs - Arctic Health Research Building & State of AK Virology Building Basement; UAF Museum Expansion; UAF SFOS Lena Point Building; UAS Campus Improvements - Gitkov
Subtotal - General Revenue Bonds	\$174,105,000	\$110,120,000	
Alaska Housing Finance Corp (AHFC)	\$33,000,000	\$20,731,601	UAA Housing
Bunnell Park - Note Payable	\$4,646,528	\$3,854,497	
Vehicle & Equipment Financings	\$3,331,810	\$1,821,375	
Subtotal - Other Long Term Debt	\$40,978,338	\$26,407,473	
Total Debt	\$215,083,338	\$136,527,473	

(a) The State of Alaska is reimbursing UA approximately \$1.4 million annually for debt service on Series K debt principal.

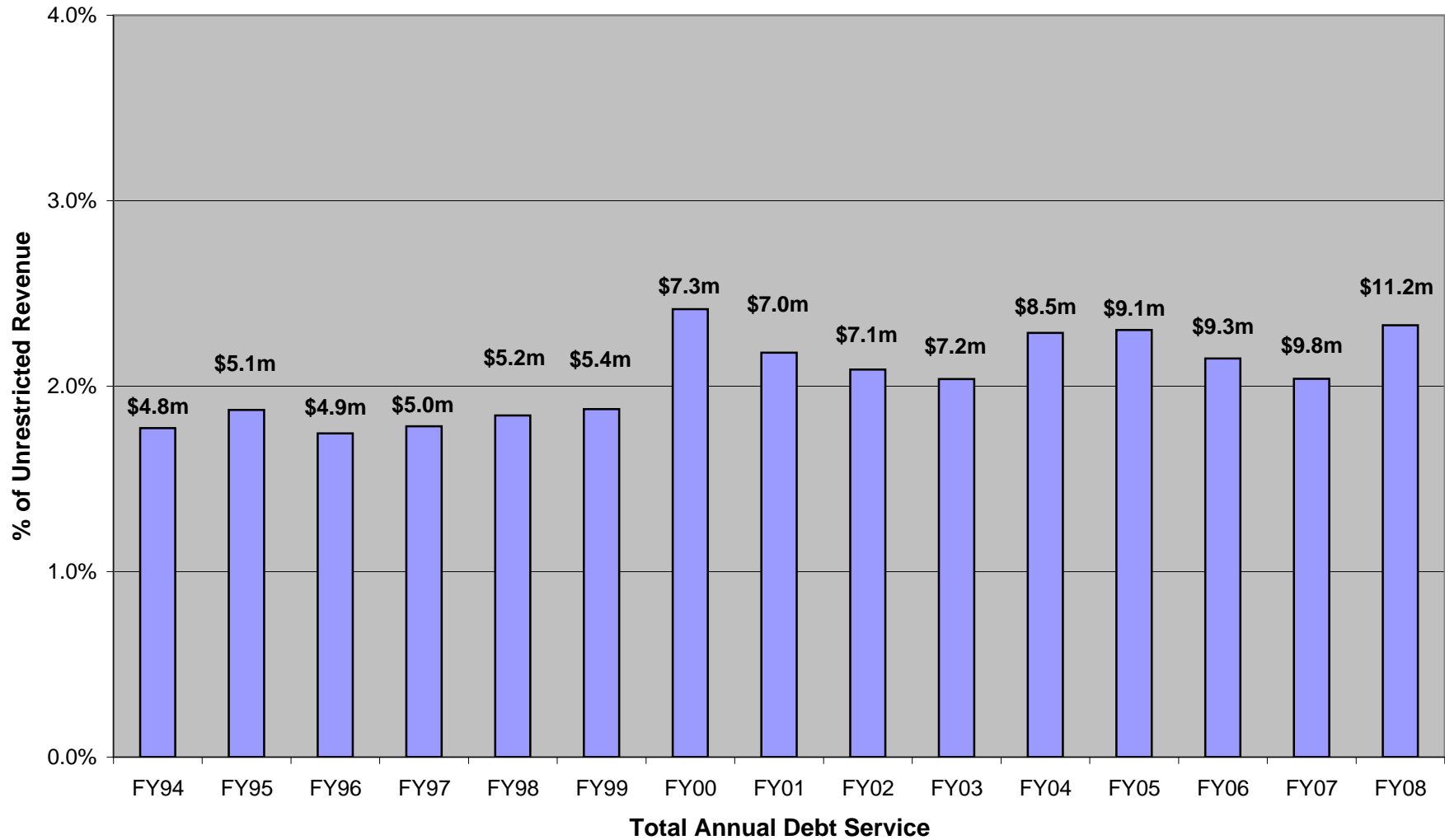
Total Annual Debt Service (all types) By MAU



Total FY07 Unrestricted Revenues by MAU \$482,790,616

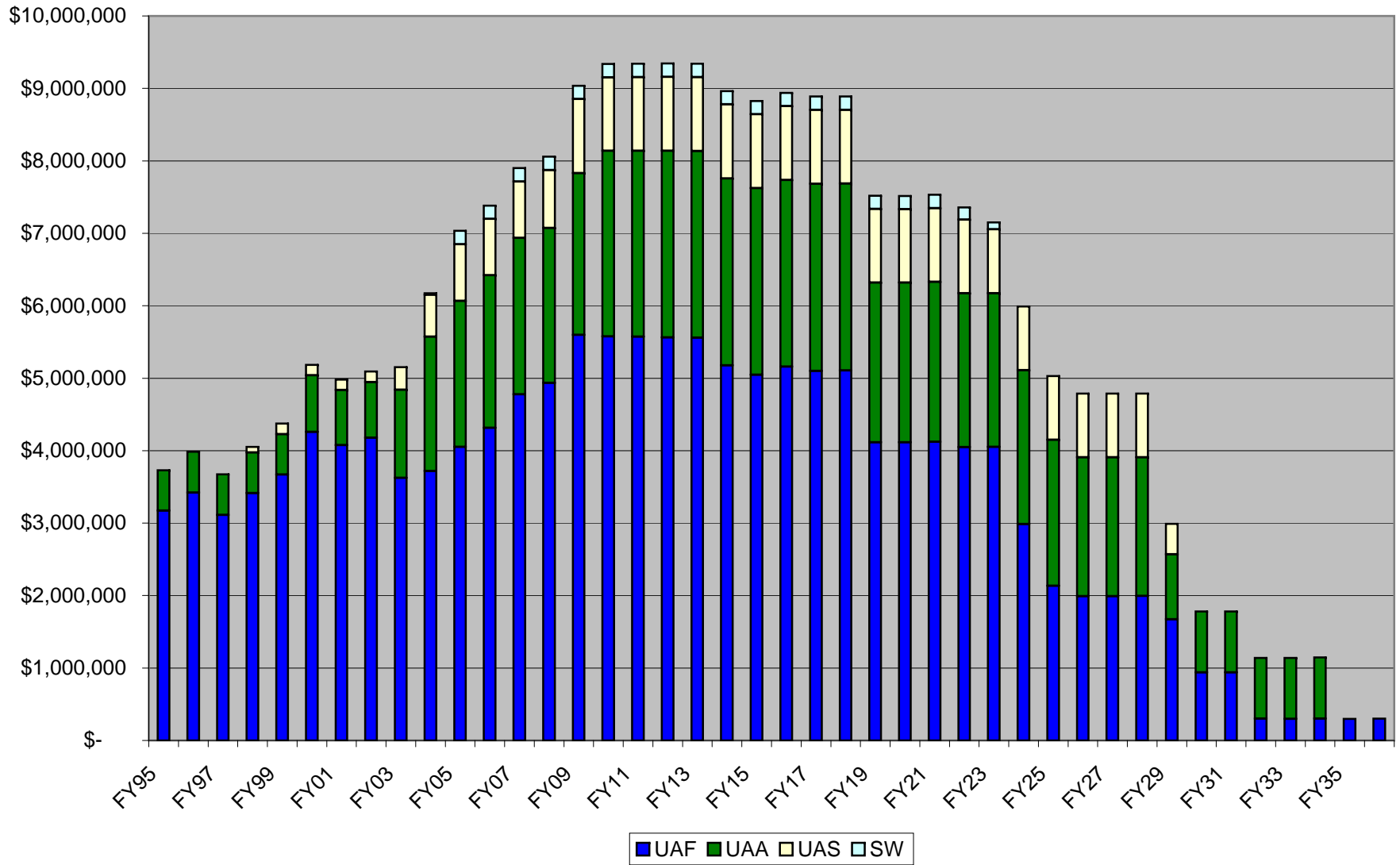


Total Annual Debt Service (all types) As Percent of Total Unrestricted Revenues
(FY08 Annual Debt Service as a % of FY07 Revenues)

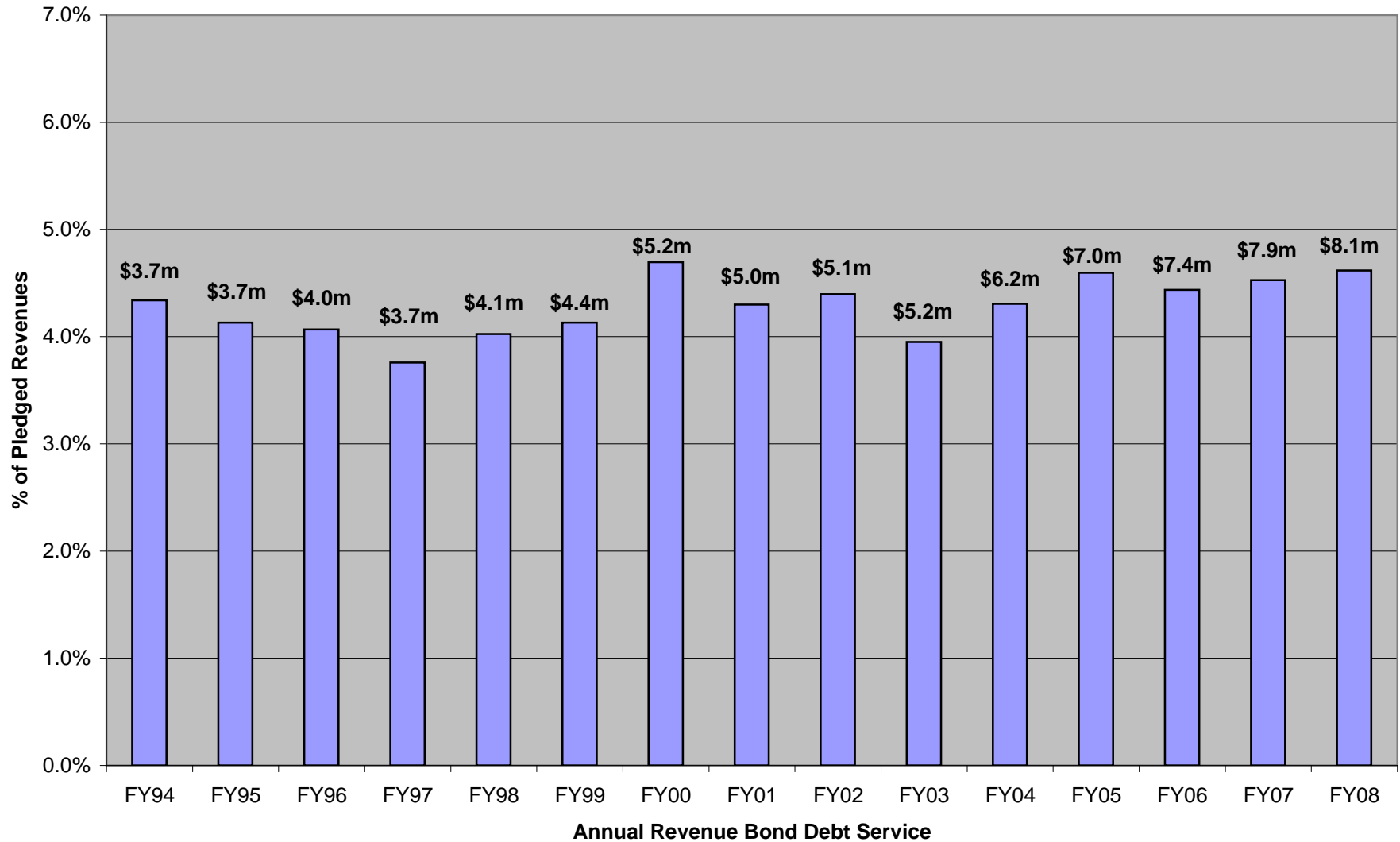


Note: Per Regents' Policy, UA's annual debt service shall not exceed 5 percent of unrestricted revenues.

Annual General Revenue Bond (only) Debt Service By MAU

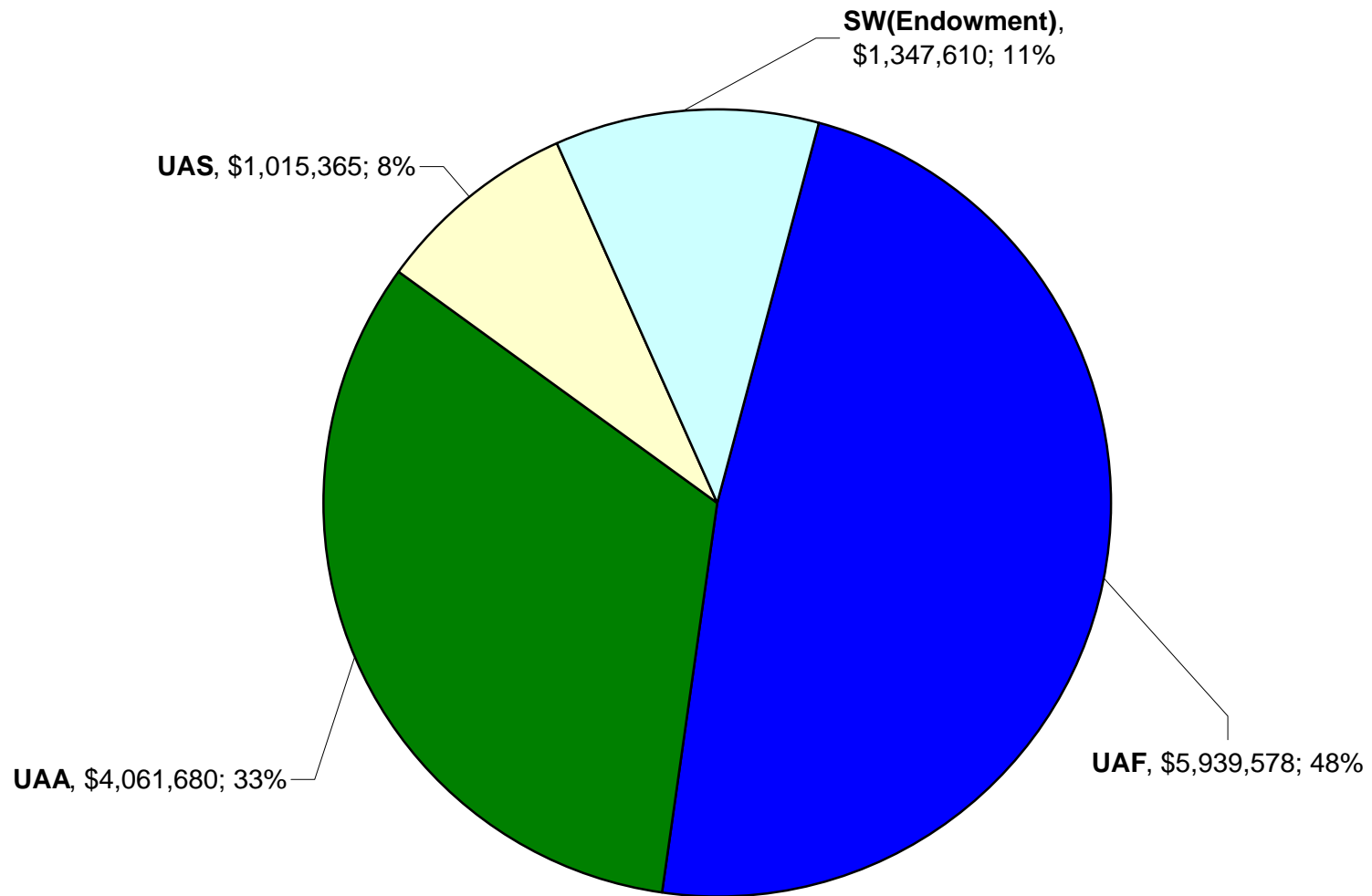


Annual Revenue Bond (only) Debt Service As Percent of Pledged Revenue
(FY08 Annual Bond Debt Service as a % of FY07 Revenues)



Note: Per the General Revenue Bond Trust Indenture, Pledged revenue includes: Student tuition and fees, Indirect Cost Recovery, Auxiliary Revenue, Sales and Services of Educational Departments and other revenues.

Maximum Annual Debt Service (all types) by MAU
\$12,364,233 - FY10



University of Alaska
Share of Debt by MAU
May 31, 2008

(\$ in thousands, revenue data as of June 30, 2007)

	<u>SW</u>	<u>UAF</u>	<u>UAA</u>	<u>UAS</u>	<u>Total</u>
A. Unrestricted Revenues	\$42,611	\$218,805	\$184,192	\$37,182	\$482,791
Share of unrestricted revenue	9%	45%	38%	8%	
Maximum debt service (all debt)	\$1,348	\$5,939	\$4,062	\$1,015	\$12,364
Share of maximum debt service	11%	48%	33%	8%	
Over (Under) share of Unrestricted Revenue	2%	3%	-5%	0%	
B. Pledged Revenues	\$7,136	\$78,590	\$76,943	\$11,840	\$174,509
Share of pledged revenue	4%	45%	44%	7%	
Maximum debt service (general revenue only)	\$186	\$5,563	\$2,574	\$1,021	\$9,344
Share of maximum debt service	2%	60%	27%	11%	
Over (Under) share of Pledged Revenue	-2%	15%	-17%	4%	
C.					
Share of unrestricted revenue (60% weight)	9%	45%	38%	8%	
Share of pledged revenue (40% weight)	4%	45%	44%	7%	
Share of weighted average revenue	7%	45%	40%	8%	
Total Debt	\$5,849	\$63,661	\$53,880	\$13,137	\$136,527
Share of total debt	4%	47%	39%	10%	
Over (Under) share of weighted avg. revenue	-3%	2%	-1%	2%	

Conclusion: There is essentially 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
May 31, 2008

Revenue data is as of June 30, 2007.

- A.** Additional debt capacity can be viewed as the additional amount of debt the University can issue before it substantially weakens its key financial ratios and/or debt service exceeds Board of Regents policy. Based on the analysis below UA's additional debt capacity is \$137.6 million.
- 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 Regents' policy restricts the maximum amount of additional debt the University may incur to approximately \$137.6 million (based on FY07 unrestricted revenues). On the basis of comparing UA to the A2 Moody's credit rating, a reasonable amount of additional debt is \$173 million. However, this amount exceeds the maximum allowed by Regents' policy. Amounts above \$137.6 million would require a Regents' 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 statutes do 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 \$12.4 million (FY10) and 5% of FY07 unrestricted revenue equates to about \$24.1 million, which leaves room for approximately \$11.7 million more of annual debt service, or about \$137.6 million of additional debt principal. (Assuming \$85,000 debt service per \$1.0 million of debt principal; $\$11.7\text{m}/.085=\137.6m)

2. Peer comparisons with other universities:

The median debt outstanding for A1 rated universities is \$141.6 million. As of May 31, 2008 UA has total debt outstanding of \$136.5 million.

If University of Vermont is the high end of the A1 range, UA has potential for \$233 million additional debt if all other credit factors are excellent. (However, this would exceed Regents' limit of \$137.6 million noted above).

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

	Total Debt as of 6/30/07	Debt per FTE	Fall 2006 FTE	2006 US Census Population of State
University of Vermont	\$369,546,000	\$34,797	10,620	623,908
West Virginia University	\$321,970,000	\$10,296	31,271	1,818,470
University of Delaware (S&P AA+)	\$266,115,000	\$14,392	18,491	853,476
North Dakota University System	\$243,317,219	\$6,294	38,659	635,867
University of Hawaii (Moody's 2007 Medians Aa3)	\$187,202,000	\$5,470	34,222	1,285,498
A1 Median	\$141,620,000	\$7,811	18,132	N/A
University of Alaska (as of May 31, 2008)	\$136,527,473	\$7,783	17,541	670,053
University of Idaho	\$123,842,467	\$12,702	9,750	1,466,465
Colorado State University System	\$120,362,000	\$5,513	21,834	4,753,377
New Mexico State University (Moody's 2007 Medians upgraded Aa3)	\$101,965,990	\$7,970	12,793	1,954,599

University of Alaska
Debt Capacity
May 31, 2008

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. With an equal weighting the analysis shows UA could issue additional debt of \$173.0 million.

(\$ in thousands)					
	UA's Actual	Moody's		Maximum add'l	Weighted
	Ratio	A2 ratios	Weight	debt before	share of
<u>Balance Sheet and Operating Ratios</u>				exceeding	add'l debt
				<u>A2 ratio</u>	<u>add'l debt</u>
Expendable Financial Resources-to-Direct Debt (x)	1.90	0.70	20%	\$234,000	\$46,800
Total Financial Resources-to-Direct Debt (x)	3.18	1.00	20%	\$297,000	\$59,400
Actual Debt Service-to-Operating Expense (%)	1.5%	4.3%	20%	\$250,000	\$50,000
Unrestricted Financial Resources-to-Direct Debt (x)	0.45	0.30	20%	\$67,000	\$13,400
Actual Debt Service-to-Operating Surplus (x)	2.96	2.40	20%	\$17,000	\$3,400
Maximum additional debt			100%		\$173,000

Ratio Detail: (Revenues & expenditures as of 6/30/07, debt service as of 5/31/08)

	06/30/07	
UA Unrestricted net assets	\$60,935	
UA Restricted expendable net assets	82,736	
UA Foundation unrest and temp restricted net assets	115,516	
Expendable Financial Resources	259,187	
UA Restricted non expendable net assets	124,114	
UA Foundation permanently restricted net assets	50,445	
Total Financial Resources	\$433,746	
Total Direct Debt	\$136,527	
Actual debt service (net of Series K reimbursement, \$1.412m)	\$9,828	(FY08)
Maximum debt service (net of Series K reimbursement, \$1.412m)	\$10,952	(FY10)
Operating expenses	\$667,413	
Operating surplus (deficit)	\$29,120	
Expendable Financial Resources-to-Direct Debt (x)	1.90	
Total Financial Resources-to-Direct Debt (x)	3.18	
Actual Debt Service-to-Operating Expense (%)	1.5%	
Maximum Debt Service-to-Operating Expense (%)	1.6%	
Unrestricted Financial Resources-to-Direct Debt (x)	0.45	
Actual Debt Service-to-Operating Surplus (x)	2.96	
Maximum Debt Service-to-Operating Surplus (x)	2.66	

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:

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 - FY07**

Dollars in millions

	FY02	FY03	FY04	FY05	FY06	FY07
UAA (includes PWSCC)						
Unrestricted Carryforward	\$2.5	\$4.2	\$5.5	\$6.0	\$9.3	\$ 10.4
Operating Revenues	\$161.9	\$172.4	\$181.4	\$191.8	\$208.9	\$ 219.1
Operating Expenses	\$158.0	\$168.5	\$176.3	\$186.3	\$201.1	\$ 217.1
Carryforward as % of Operating Revenues	1.5%	2.4%	3.0%	3.1%	4.5%	4.7%
# of days of Operating Expenses in Cfwd	5.8	9.1	11.4	11.8	16.9	17.5
UAF						
Unrestricted Carryforward	\$2.0	\$4.2	\$6.2	\$9.2	\$13.7	\$ 12.9
Operating Revenues	\$260.6	\$286.9	\$306.3	\$325.8	\$345.3	\$ 372.5
Operating Expenses	\$258.2	\$280.1	\$298.0	\$316.5	\$331.8	\$ 359.7
Carryforward as % of Operating Revenues	0.8%	1.5%	2.0%	2.8%	4.0%	3.5%
# of days of Operating Expenses in Cfwd	2.8	5.5	7.6	10.6	15.1	13.1
UAS						
Unrestricted Carryforward	\$0.5	\$0.5	\$1.0	\$1.2	\$1.5	\$ 1.4
Operating Revenues	\$35.0	\$35.0	\$38.0	\$38.4	\$42.0	\$ 44.0
Operating Expenses	\$34.9	\$34.4	\$36.7	\$37.2	\$40.0	\$ 43.4
Carryforward as % of Operating Revenues	1.4%	1.4%	2.6%	3.1%	3.6%	3.2%
# of days of Operating Expenses in Cfwd	5.2	5.3	9.9	11.8	13.7	11.8
SW						
Unrestricted Carryforward	\$4.2	\$3.7	\$3.9	\$3.6	\$7.3	\$ 8.0
Operating Revenues	\$26.7	\$26.3	\$29.2	\$34.9	\$40.8	\$ 50.0
Operating Expenses	\$34.5	\$26.6	\$21.8	\$35.6	\$32.1	\$ 40.7
Carryforward as % of Operating Revenues	15.7%	14.1%	13.4%	10.3%	17.9%	16.0%
# of days of Operating Expenses in Cfwd	44.4	50.8	65.3	36.9	83.0	71.7
UA Total						
Unrestricted Carryforward	\$9.2	\$12.6	\$16.6	\$20.0	\$31.8	\$32.7
Operating Revenues	\$484.2	\$520.6	\$554.9	\$590.9	\$637.0	\$685.6
Operating Expenses	\$485.6	\$509.6	\$532.8	\$575.6	\$605.0	\$660.9
Carryforward as % of Operating Revenues	1.9%	2.4%	3.0%	3.4%	5.0%	4.8%
# of days of Operating Expenses in Cfwd	6.9	9.0	11.4	12.7	19.2	18.1

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