VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Asset Liability Management Semi-Annual Borrower Reports (SABRe)

For information only.

BACKGROUND

The Semi-Annual Borrower Reports (SABRe) were introduced to the Board of Regents in October 2012 with a plan to share the reports with the Regents two times a year—in the spring and fall. The goal of these reports is to provide the Board with up-to-date information on the financial health of major borrowers and present proforma vs. actual performance for key financial indicators.

The reports provide financial information on four major borrowing units: Intercollegiate Athletics, Housing and Food Services, UW Medical Center and South Lake Union (School of Medicine).

Intercollegiate Athletics, Housing and Food Services, and the UW Medical Center will present a debt metric, a cash flow metric, and a reserves measure. Where available, these measures will be from audited financial statements and benchmarked against the most recent Regent-approved proforma or current financial plan.

The research campus at South Lake Union will look at actual and projected School of Medicine support, and five year historical growth in grants and reserves.

The debt from these entities represents over half of UW's total outstanding debt. Developing leading indicators showing changes in financial performance will allow the Regents to see how the entities are responding to a dynamic business and funding environment.

Attachments

1. Intercollegiate Athletics Semi-Annual Borrower Report – May 2013
2. Housing and Food Services Semi-Annual Borrower Report – May 2013
3. UW Medical Center Semi-Annual Borrower Report – May 2013
4. South Lake Union Semi-Annual Borrower Report – May 2013

Intercollegiate Athletics

Semi-Annual Borrower Report - May 2013

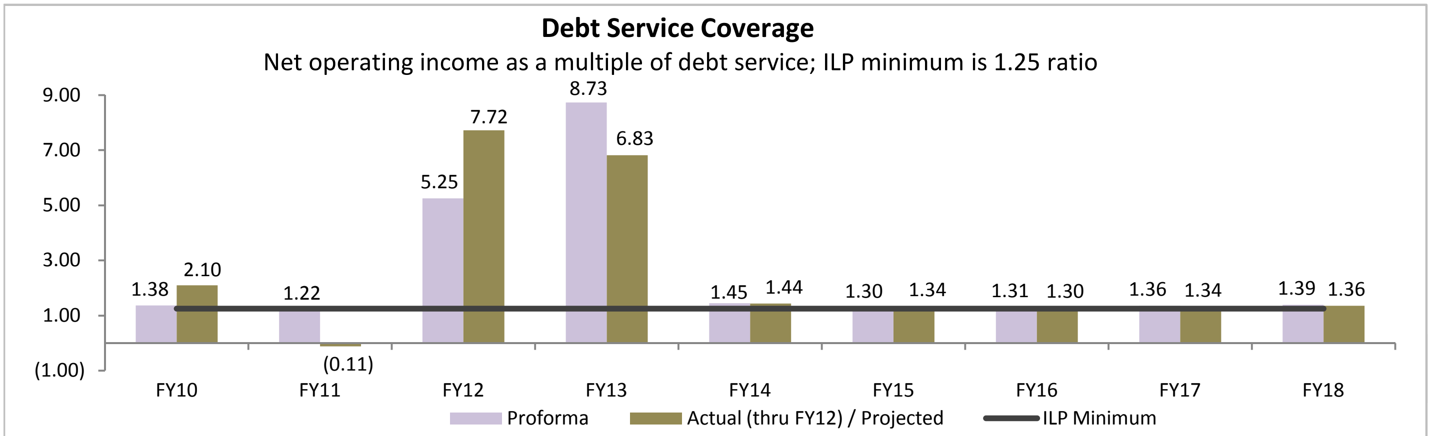
Summary

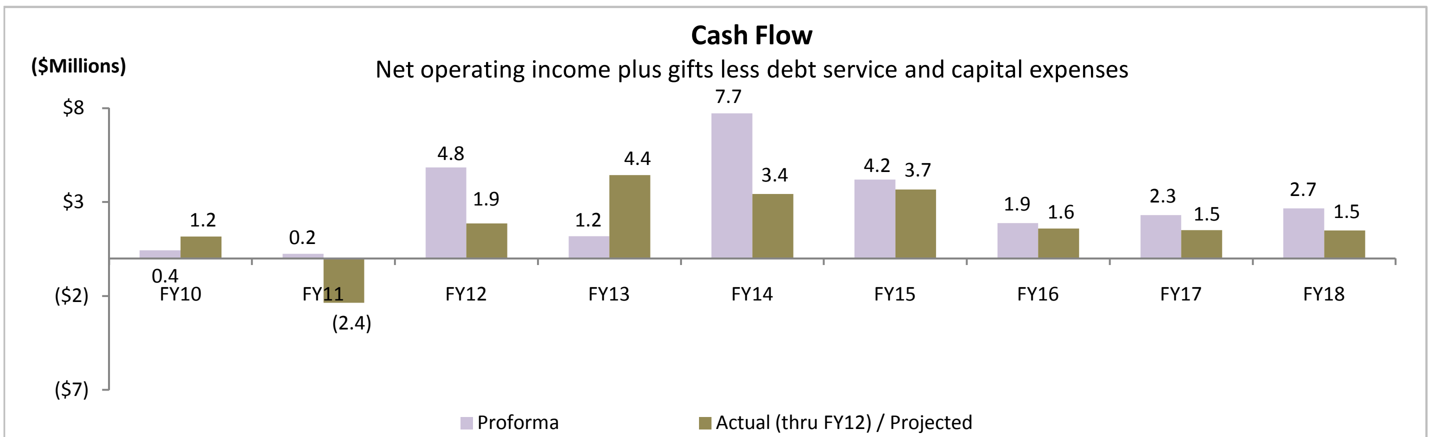
New debt service starting in FY2014 lowers debt service coverage to projected low of 1.30 in 2016. New forecasted planned debt, capital expenditures, and loan prepayments reduce future operating reserves below proforma projections. Current revenue forecasts exceed proforma projections in conference TV rights and premium seating contributions in the renovated Husky Stadium. FY2013 performance to date includes $1M more gate revenue and more seat-related contributions than originally projected.

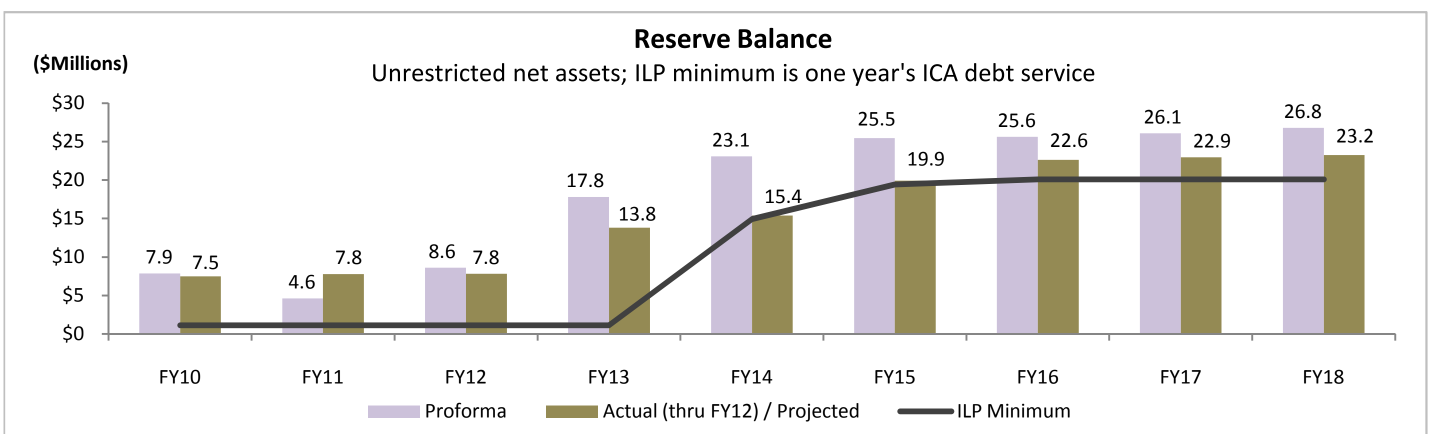
Risks and Mitigations

- Lower than projected ticket sales, seat-related contributions, and premium seating revenues would stress system resources.
- Projected debt service coverage near minimum requirement allows little room for operating revenue shortfalls or unexpected operating expenses.
- Scaling back capital plan, reducing operating expenditures, and eliminating loan prepayments would help mitigate these risks.

Audited actuals for Fiscal Year 2012. Proforma numbers reflect most recent Regents' action as of that fiscal year end.







Housing and Food Services

Semi-Annual Borrower Report - May 2013

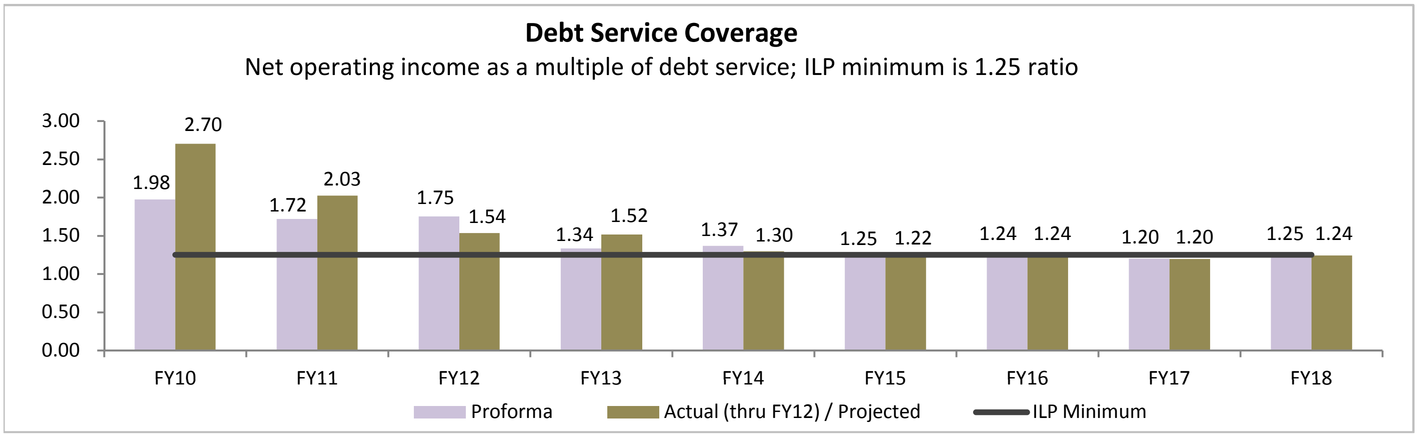
Summary

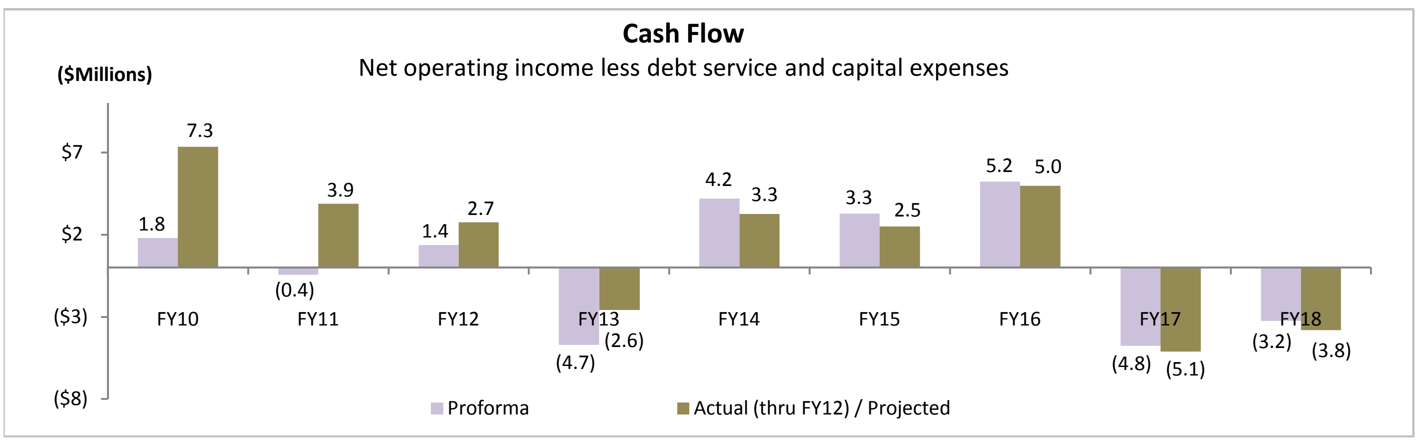
Forecasted results for FY 2013 reflect the current strong demand for housing including the Phase 1 units. Continued demand for residence hall style housing has resulted in an occupancy plan to maximize the use of the Mercer Court apartment complex scheduled to open in Autumn 2013.

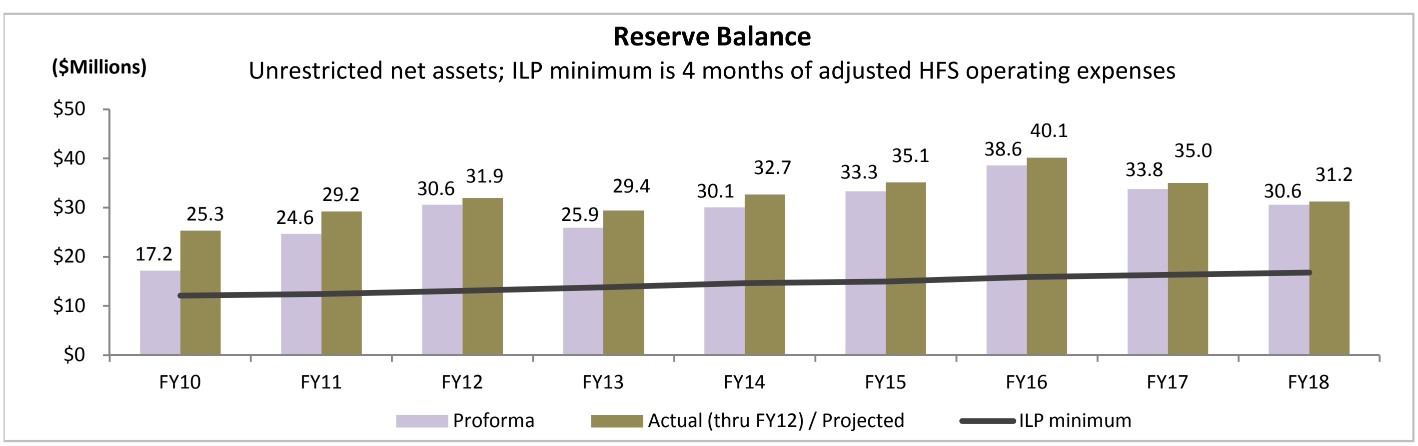
Risks and Mitigations

- Lower student occupancy levels due to a variety of potential issues such as private market competition, price sensitivity, or a change in UW enrollment plan. Ongoing monitoring of private market conditions and the Mercer occupancy plan will help balance apartment and residence hall space availability across the system.
- Projected negative cash flows in fiscal years 2017 to 2018 for capital expenses assumed in lieu of Phase 4. This risk is mitigated by strong cash reserves in excess of requirement available to offset cash flow deficiencies.

Audited actuals through Fiscal Year 2012. Proforma numbers reflect most recent Regents' action as of that fiscal year end.







University of Washington Medical Center

Semi-Annual Borrower Report - May 2013

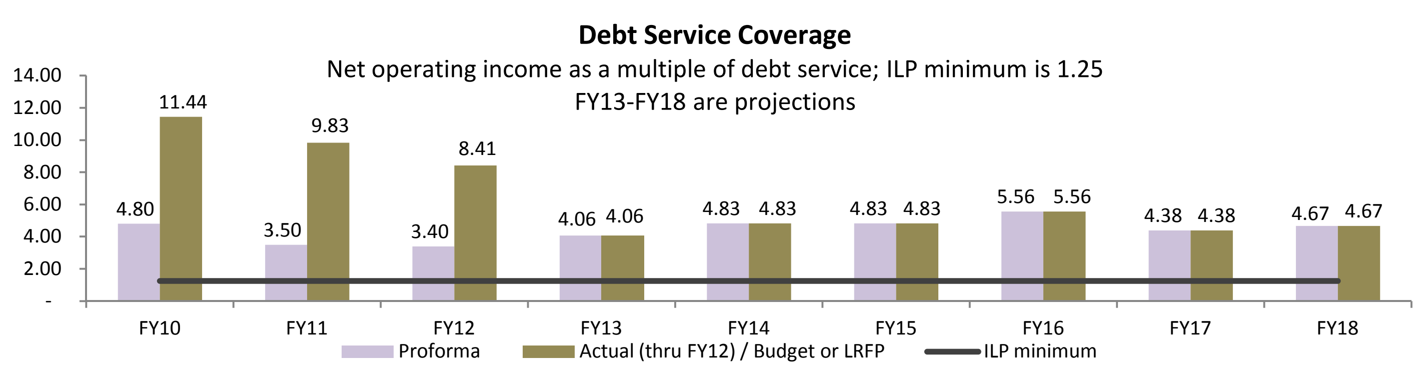
Summary

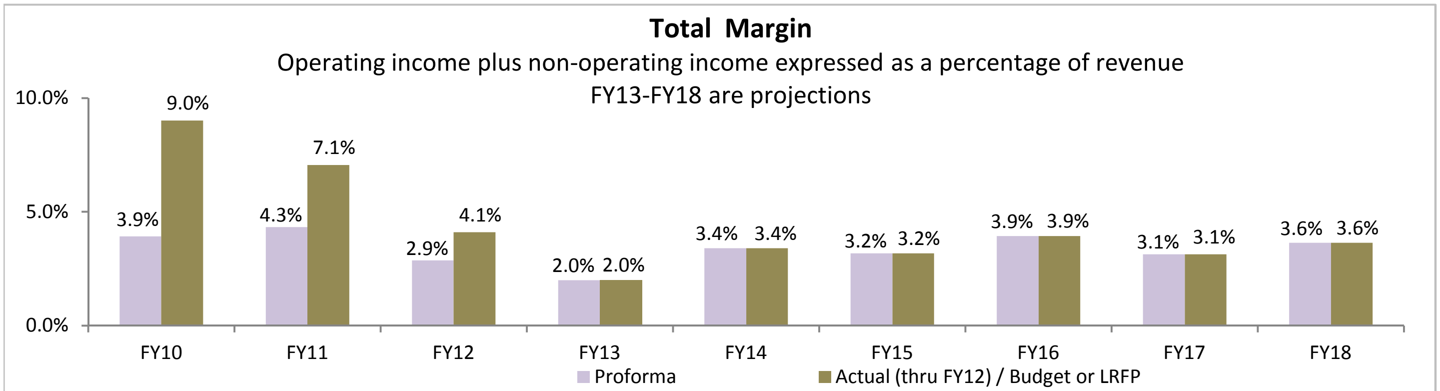
- UW Medical Center exceeded proforma projections in all categories for FY12 audited results.
  - Debt service coverage exceeds the 1.25 minimum by a significant margin. With the addition of approved Phase 2 debt, debt service coverage remains well above the minimum.
  - Days cash on hand exceeds the current Internal Lending Program (ILP) minimum of 75 days.
- Financial ratios for FY13 through FY18 are from the Long Range Financial Plan (LFRP) prepared in the fall of 2012 that supported the Phase 2 expansion approved by the Board of Regents on November 8, 2012. There have been no updates since then.
- UW Medical Center is currently reporting operating results significantly below budgeted levels in FY13. Action plans to improve performance have been developed and are being implemented, but it is likely that FY13 results will be unfavorable compared to budget at year end. Action plans are in place and capital spending levels have been revisited to mitigate the impact on cash levels.

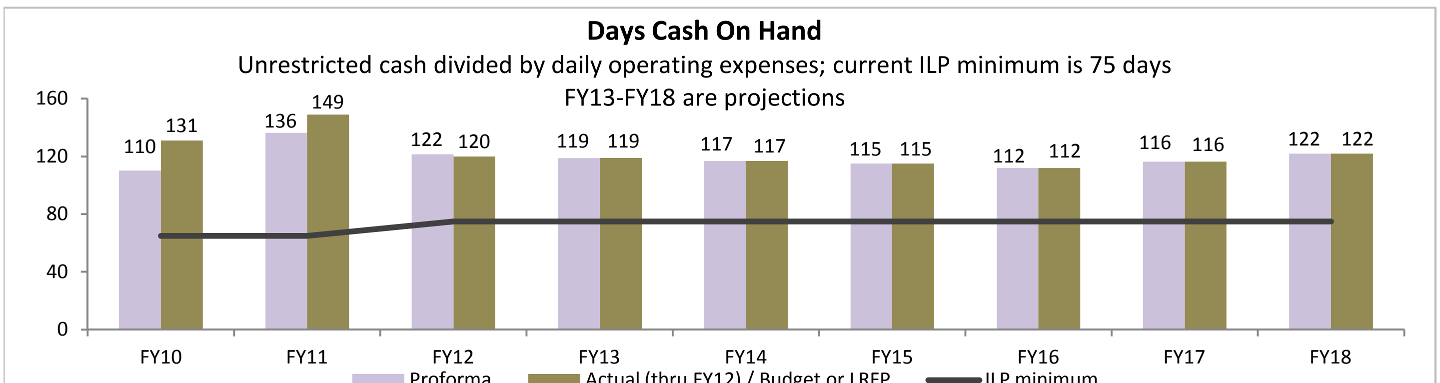
Risks and Mitigations

- Potential negative impacts on net revenue from health care reform and State and Federal budget issues continue to be incorporated into financial planning for the Medical Center. UW Medicine is working with State and Federal officials to identify opportunities to mitigate potential reductions.
- Continued success in executing performance improvement initiatives is key to the achievement of financial objectives going forward. Standardized infrastructure has been developed and implemented across the healthcare system and is supported by leadership, faculty and staff.

Audited actuals through Fiscal Year 2012. Proforma numbers reflect most recent Regents' action as of that fiscal year end.







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ATTACHMENT 3

South Lake Union

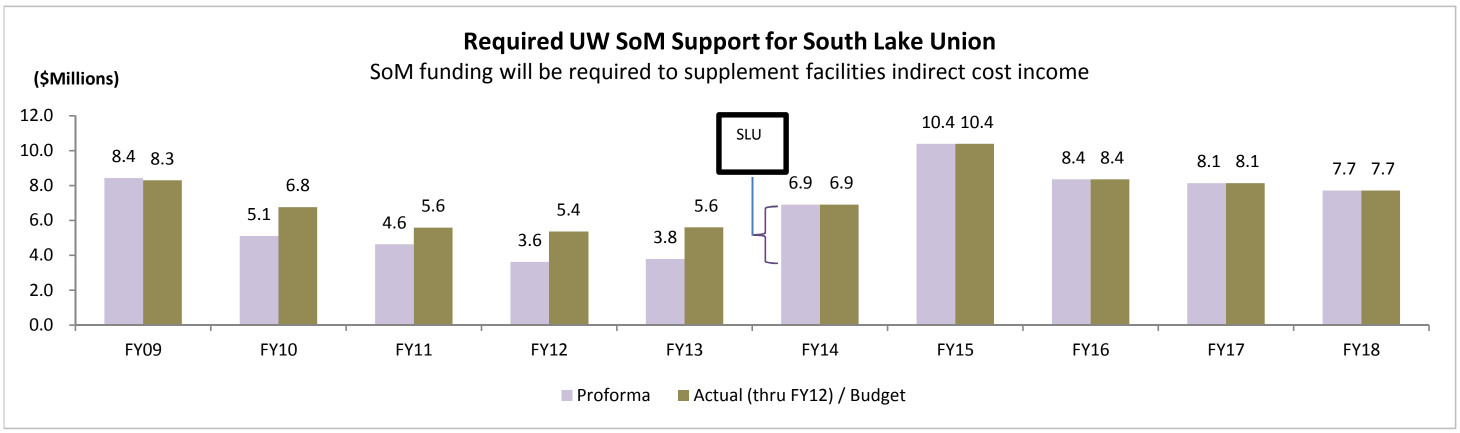
Semi-Annual Borrower Report - May 2013

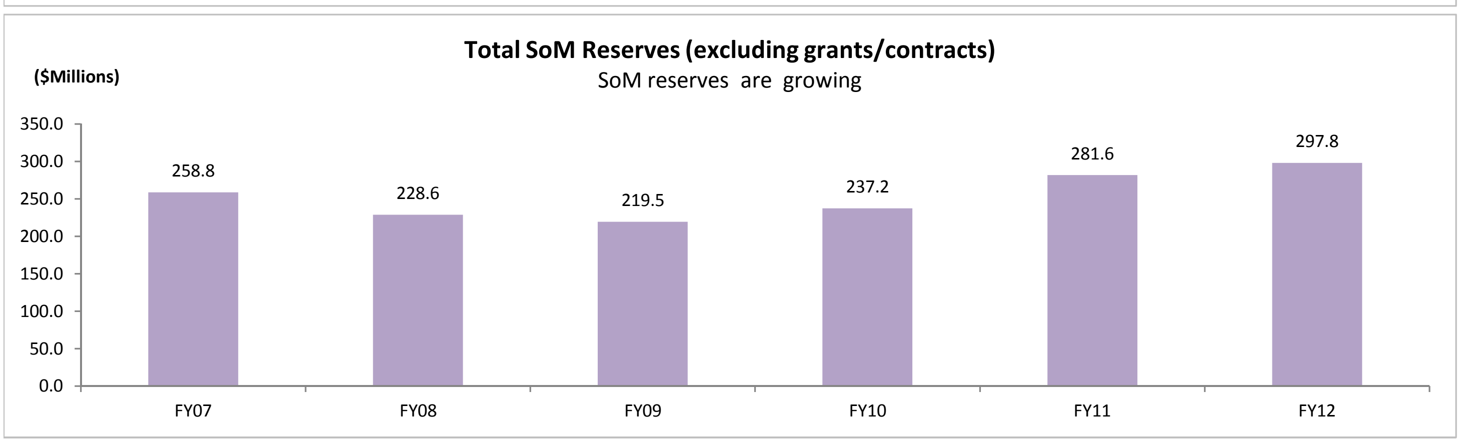
Summary

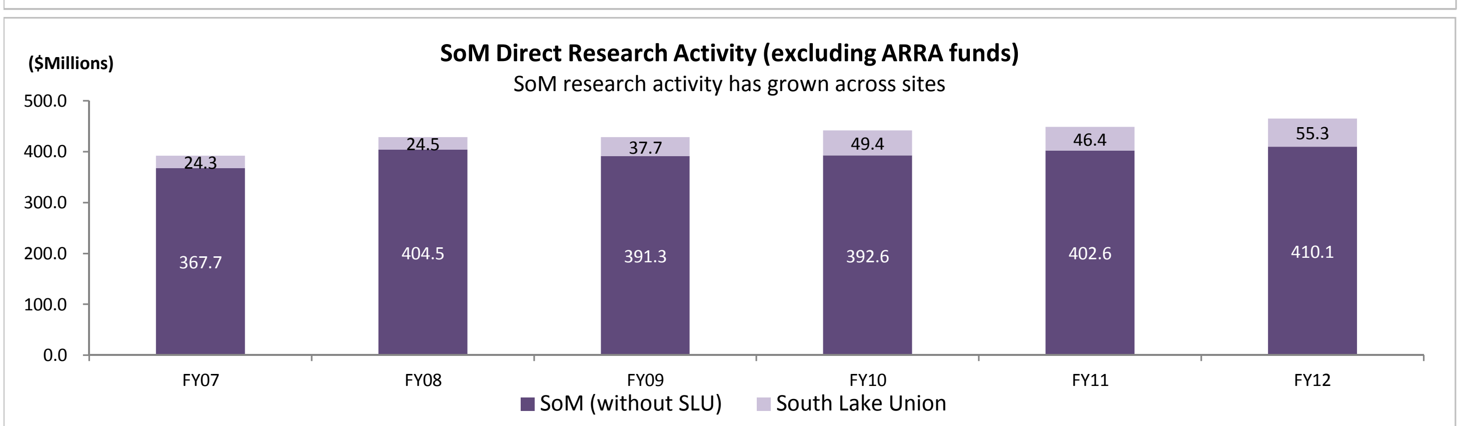
- Required School of Medicine (SoM) support for South Lake Union Phases 1 and 2 is higher than proforma projections in fiscal years 2010 to 2012 due to research density lagging proforma projections.
- SoM had sufficient reserves and overall operating budget to fund additional required support in fiscal year 2012. The SoM required support is $1.75M over the FY12 proforma budget which represents 0.15% of SoM FY12 revenue base and 0.6% of SoM UW reserves at the end of FY12.
- Fiscal year 2012 projected federal research to be 90% of total SLU research, actual results were 83%. Non-federal research was higher than projected.
- SoM has opportunity to increase research density at South Lake Union with ongoing recruitments.
- Greater research space capacity at SLU has allowed SoM to sucessfully expand research activity at other locations as well.
- SoM has received its substantial completion and occupancy certificate for Phase 3.1 as of February 13, 2013 and is on schedule to fully occupy the facility by June 30, 2013.

Risks and Mitigations

- Potential federal research funding cutbacks from debt reduction efforts including the impact from the sequester which went into effect March 1, 2013.
- Potential shift from federal research to non-federal research at South Lake Union which could result in lower indirect cost recovery.
- UW remains highly competitive both for reallocated federal research funding and recruiting faculty wih federal research funding.







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ATTACHMENT 4