VII. STANDING COMMITTEE

B. Finance, Audit and Facilities Committee

Debt Management Update

See Attached.
Discussion Outline

- Mission 3
- Role of Board of Regents 4
- Credit Ratings and Debt Capacity 5
- University Debt Profile 8
- 2007 Initiatives 11
- Conclusions 12
- Background Materials 13
The Mission of Debt Management

- Maintain cost effective access to the debt markets by:
  - Seeking opportunities to reduce borrowing costs
  - Ensuring quality underwriting and monitoring of new and outstanding obligations
The Role of the Board of Regents

- **Debt Management**
  - Approve debt management guidelines
  - Establish university credit standards ("A" category rating or better)
  - Oversight of debt outstanding, credit ratings, and compliance with bond covenants and IRS regulations

- **Debt Issuance**
  - Approve financing plans and adopt bond resolutions
  - Authorize issuance of bonds and other debt instruments
  - Appoint financial advisor and investment bankers
  - Approve changes to bond resolutions
The University’s Credit Rating

University of Washington

Source: Moody’s Public Rating Distribution June 2006
**Key Financial Ratio Comparison**

**Expendable Resources to Operations**

- **UW** has nearly 8 months of expendable resources on hand to fund operations.

**Expendable Resources to Debt**

- UW’s debt ratio is well above the median.

**Conclusion:** Key ratios are in line with or better than peers.

## Estimated Debt Capacity

### At Current Level Of Expendable Resources

<table>
<thead>
<tr>
<th></th>
<th>“Aa” Category</th>
<th>“A” Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>**Expendable Resources to Debt ***</td>
<td>1.8x</td>
<td>1.0x</td>
</tr>
<tr>
<td><strong>Total Debt Capacity</strong></td>
<td>$1 Billion</td>
<td>$1.7 Billion</td>
</tr>
<tr>
<td><strong>Outstanding Debt at 6/30/06</strong></td>
<td>$809M</td>
<td>$809M</td>
</tr>
<tr>
<td><strong>Capacity for ADDED debt as of 6/30/06</strong></td>
<td>$200M–$400M</td>
<td>$500M–$800M</td>
</tr>
</tbody>
</table>


Sources of Repayment for UW Debt

Fiscal Year 2005: All UW Revenues $3.1 Billion

- State Appropriated Local Funds—$19M
  - State issued COP’s
  - Capital Leases
  - Research and Ed GO bonds
  - Research revenue bonds and financing contracts
- State Appropriations $380M
- UWMC $784M
  - Higher Ed GO bonds
  - Law School GO bonds
- Grant Direct Costs $767M
- Restricted Gifts / Other $347M
- General Revenues (GRB) $627M
- All Other Auxiliaries $136M
- Grant Direct Costs $767M
- Restricted Gifts / Other $347M
- General Revenues (GRB) $627M
- State Appropriations $380M
- UWMC $784M
- All Other Auxiliaries $136M
2007 Initiatives

**Lower Borrowing Costs**

- Obtain legislative authority to issue debt for all purposes
- Broaden use of General Revenue platform to all University borrowing
- Reduce borrowing costs by using commercial paper to fund projects on a just-in-time basis and finance completed projects with General Revenue Bonds on an aggregate basis
- Expand campus conversations on establishing an internal cost of funds for GRB debt

**Quality Underwriting and Monitoring**

- Finalize internal financial standards, reporting requirements, and ongoing due diligence reviews for all borrowers
- Continue compliance efforts (private use, rebatable arbitrage, continuing disclosure)
Conclusions

- **Strengths**
  - Strong Market Position
  - Excellent Financial Flexibility
  - Positive operating performance, debt service coverage, and bondholder security
  - Strong fundraising

- **Challenges**
  - Large increases in debt over the past two years
  - Flat research revenue growth
  - Exposure to Health Care sector
  - State support for higher education
Debt Management Presentation
Background Materials
## Recent Debt Transactions

<table>
<thead>
<tr>
<th>Debt Issued Fiscal 2006</th>
<th>Date Issued</th>
<th>Rate</th>
<th>Par Value ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UWT Parking Project Loan</td>
<td>Sep-05</td>
<td>4.7%</td>
<td>4.1</td>
</tr>
<tr>
<td>South Lake Union Phase 2 (1st tranche)</td>
<td>Nov-05</td>
<td>4.8%</td>
<td>99.5</td>
</tr>
<tr>
<td>TSB Lease Revenue Bonds (4545)</td>
<td>Feb-06</td>
<td>4.8%</td>
<td>17.5</td>
</tr>
<tr>
<td>Capital Leases for Equipment</td>
<td>various</td>
<td>3.3%</td>
<td>5.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>127.0</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Debt Issued Fiscal Year 2007 to Date</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Safeco (UW) Tower Purchase</td>
<td>Sep-06</td>
<td>5.4%</td>
<td>130.5</td>
</tr>
<tr>
<td>Global Health Lab Tenant Improvements</td>
<td>Sep-06</td>
<td>3.5%</td>
<td>5.9</td>
</tr>
<tr>
<td>Capital Lease for Equipment</td>
<td>Oct-06</td>
<td>3.6%</td>
<td>3.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>139.6</strong></td>
</tr>
</tbody>
</table>
# University Debt—Forward Calendar

<table>
<thead>
<tr>
<th>Project</th>
<th>Date of Issue</th>
<th>Par Value ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Lake Union Phase (2nd tranche)</td>
<td>December 2006</td>
<td>63.0 (1)</td>
</tr>
<tr>
<td>Global Health Tenant Improvements</td>
<td>2007</td>
<td>5.9 (2)</td>
</tr>
<tr>
<td>Safeco (UW) Tower</td>
<td>2007</td>
<td>140.0 (2)</td>
</tr>
<tr>
<td>UW Medical Center Expansion</td>
<td>2007-2008</td>
<td>50.0 (3)</td>
</tr>
<tr>
<td>Sand Point Building 25 - Pediatric Dentistry</td>
<td>2007-2008</td>
<td>12.0 (3)</td>
</tr>
<tr>
<td>Equipment Leases</td>
<td>2007-2008</td>
<td>10.0 (3)</td>
</tr>
<tr>
<td>Business School</td>
<td>2008</td>
<td>20.0 (3)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>300.9</strong></td>
</tr>
</tbody>
</table>

**Notes**

(1) Includes tenant improvements and equipment
(2) Long term financing
(3) Estimated