

VII. STANDING COMMITTEE

B. Finance, Audit and Facilities Committee

Debt Management Update

See Attached.

University of Washington

Debt Management Update

Board of Regents

Finance, Audit, and Facilities Committee

November 16th, 2006

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

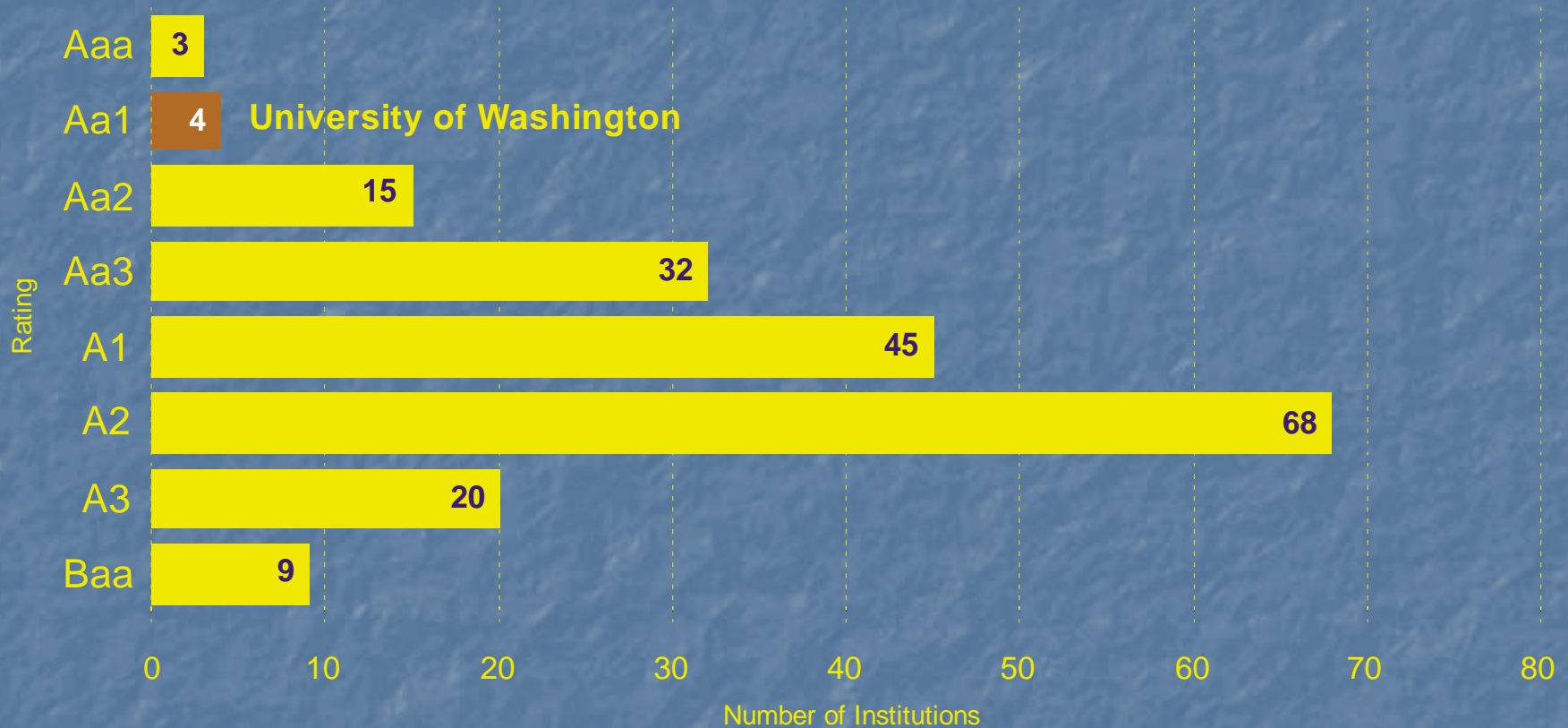
■ Debt Management

- 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

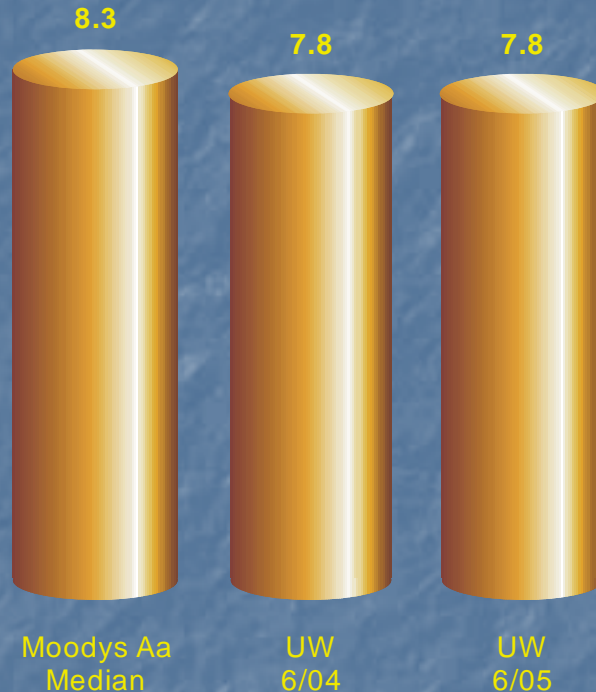
The University's Credit Rating



Source: Moody's Public Rating Distribution June 2006

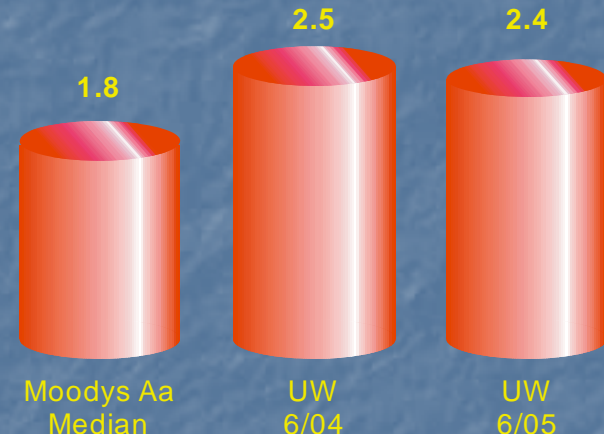
Key Financial Ratio Comparison

Expendable Resources to Operations



Expendable Resources to Operations:
UW has nearly 8 months of expendable resources on hand to fund operations

Expendable Resources to Debt



Expendable Resources to Debt :
UW's debt ratio is well above the median

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

Source: Moody's. Median data as of fiscal year 2005 published in June 2006 for Aa rated public institutions of higher education

Estimated Debt Capacity At Current Level Of Expendable Resources

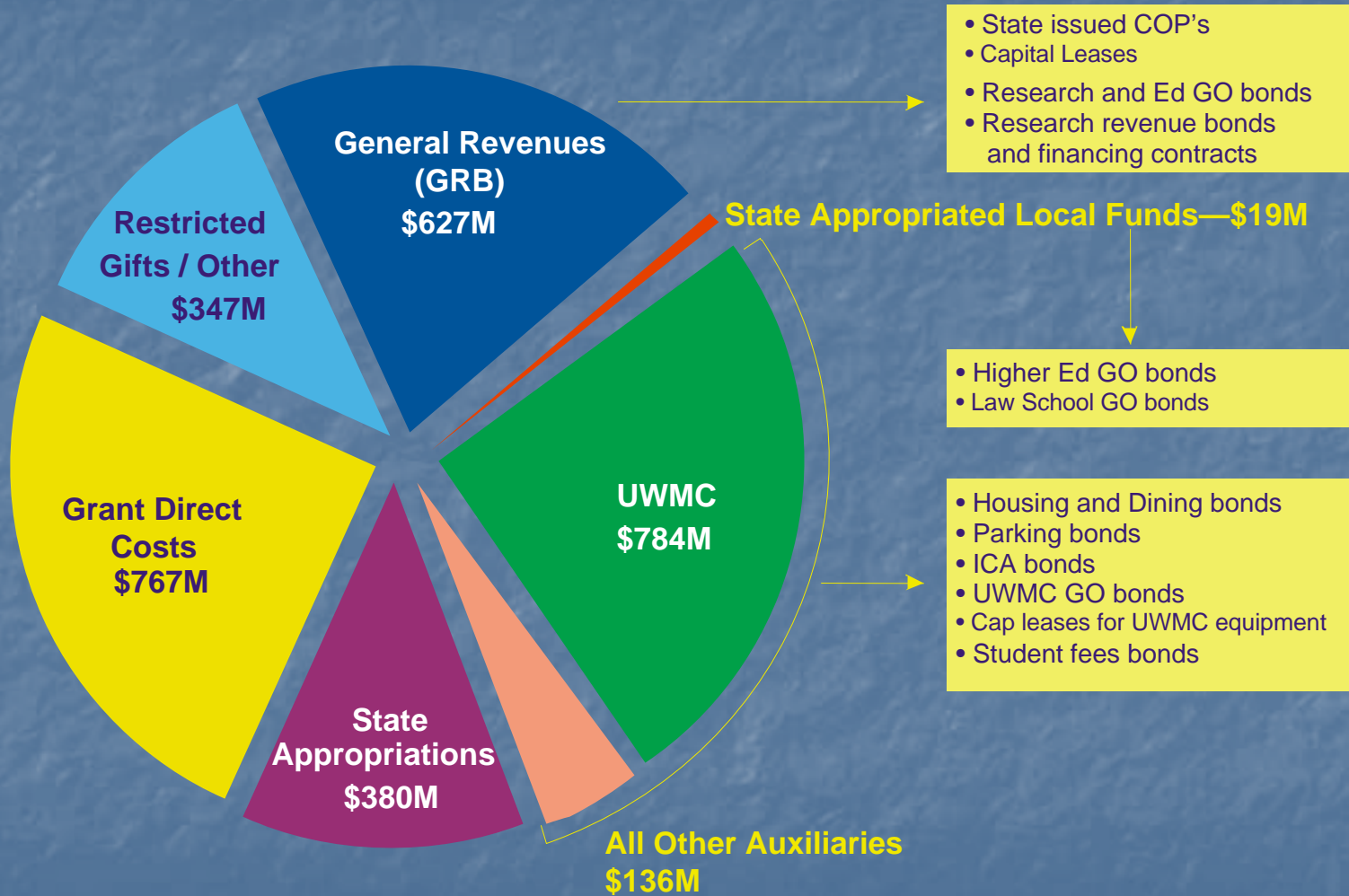
	<u>"Aa" Category</u>	<u>"A" Category</u>
Expendable Resources to Debt *	1.8x	1.0x
Total Debt Capacity	\$1 Billion	\$1.7 Billion
Outstanding Debt at 6/30/06	\$809M	\$809M
Capacity for ADDED debt as of 6/30/06	\$200M–\$400M	\$500M–\$800M

NOTE: \$130M in commercial paper issued for Safeco (UW) Tower purchase reduces capacity at current level of expendable resources. Debt issued in September 2006.

* Source: Moody's. Median data as of fiscal year 2005, published June 2006

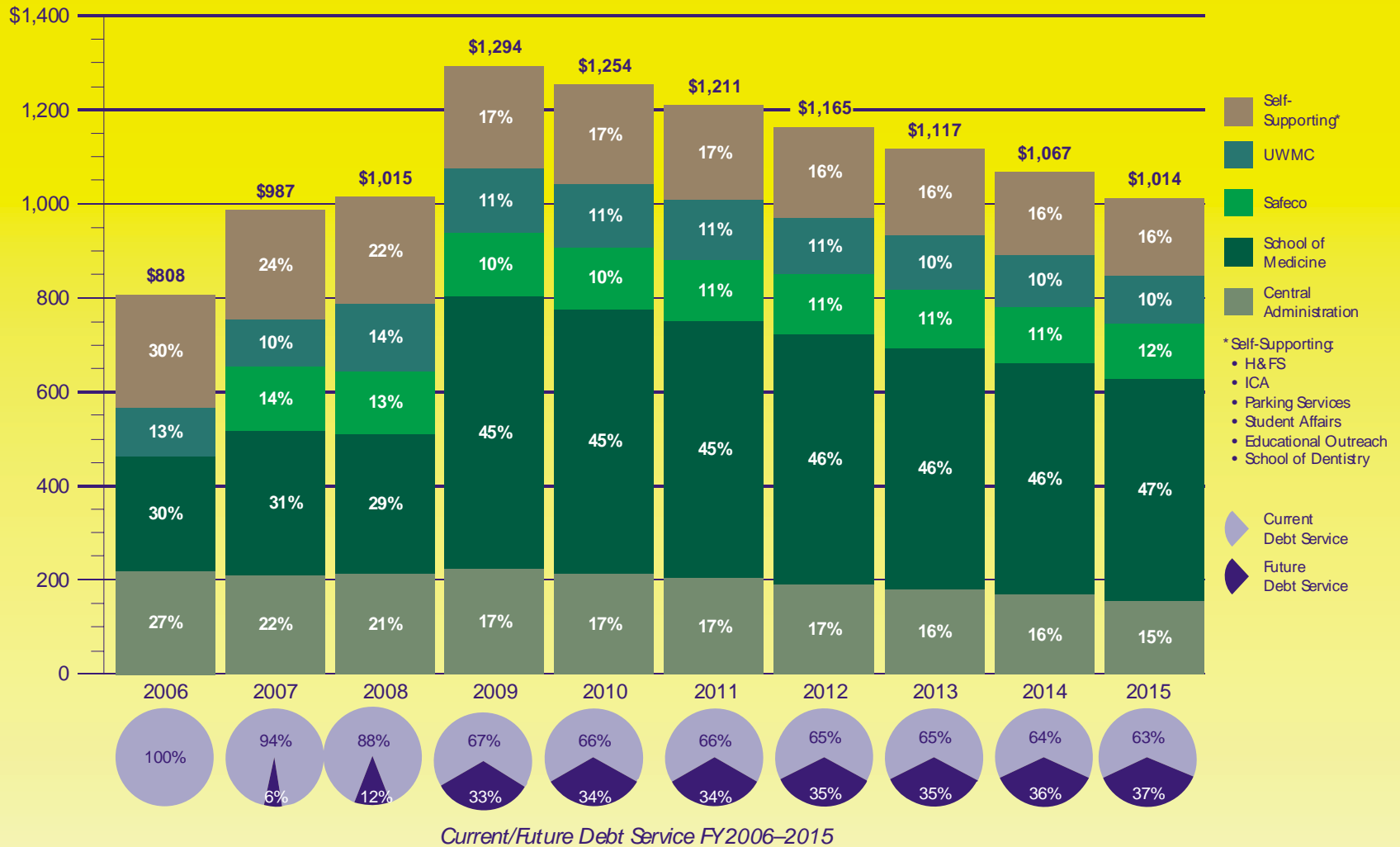
Sources of Repayment for UW Debt

Fiscal Year 2005: All UW Revenues \$3.1 Billion



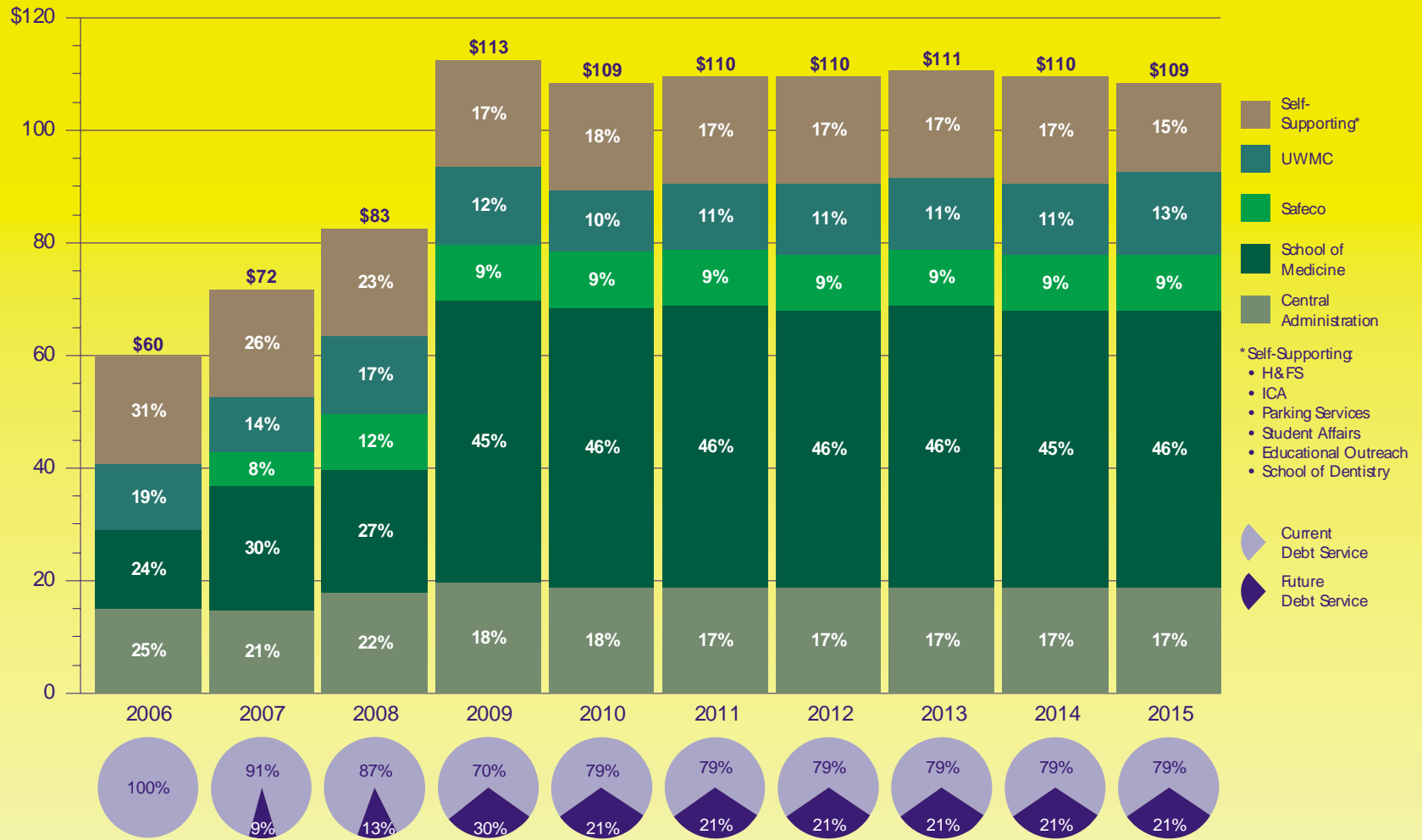
UW Outstanding Debt FY 2006–2015

(\$=MM)



UW Debt Service FY 2006–2015

(\$=MM)



Current/Future Debt Service FY2006–2015

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

<u>Debt Issued Fiscal 2006</u>	<u>Date Issued</u>	<u>Rate</u>	<u>Par Value (\$M)</u>
UWT Parking Project Loan	Sep-05	4.7%	4.1
South Lake Union Phase 2 (1st tranche)	Nov-05	4.8%	99.5
TSB Lease Revenue Bonds (4545)	Feb-06	4.8%	17.5
Capital Leases for Equipment	various	3.3%	<u>5.9</u>
Total			<u>127.0</u>
<u>Debt Issued Fiscal Year 2007 to Date</u>			
Safeco (UW) Tower Purchase	Sep-06	5.4%	130.5
Global Health Lab Tenant Improvements	Sep-06	3.5%	5.9
Capital Lease for Equipment	Oct-06	3.6%	<u>3.2</u>
Total			<u>139.6</u>

University Debt—Forward Calendar

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

Notes

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