VII. STANDING COMMITTEES

B. Finance and Asset Management Committee

Semi-Annual Debt Report

INFORMATION ITEM

This item is being presented for information only.

BACKGROUND

The Board of Regents is charged with adopting the University’s Debt Management Policy, establishing the University’s credit standards, adopting the Annual Bond Resolution allowing for issuance of external debt, and approving the use of the Internal Lending Program to fund capital projects.

In addition, the Board is responsible for oversight of University debt outstanding, credit ratings, and compliance with bond covenants and IRS regulations. The Semi-Annual Debt Report (SADRe) provides the Board of Regents with up-to-date information about the University’s debt portfolio and the financial health of major borrowers. The SADRe combines information previously presented in the Internal Lending Program Quarterly Reports and the Semi-Annual Borrower Reports.

The SADRe does not require Regental action and is presented to provide the Board with information and context to allow the Board to make informed decisions about the University’s debt and internal lending activities.

Attachment
Semi-Annual Debt Report as of 6/30/15
Semi-Annual Debt Report
As of 6/30/15

Total External Debt Portfolio - $2,195 Million

- The external portfolio as of 12/31/14 was $2,202 million. The change in value is the result of $34 million in principal repayments, savings from restructured debt of $14 million and new debt of $41 million.
- Weighted average cost of capital: 3.41%
- Portfolio Composition: 93% fixed rate; 7% variable rate
- In September 2015 the University issued $196 million in general revenue bonds (GRBs) and $134 million in lease revenue bonds. The GRBs were issued to pay off commercial paper and to fund capital projects. The lease revenue bonds were issued to fund South Lake Union 3.2.
- $127 million in internal funding provided by the Capital Assets Pool (CAP) is excluded from the external debt portfolio.

Internal Lending Program (ILP) Debt - $1,707 Million

- The ILP provides capital and operating loans to campus borrowers at a fixed interest rate.
- 88% of ILP is subject to the ILP rate. The remainder (legacy debt) was issued prior to creation of the Internal Bank and pays an alternative rate.
- The ILP rate was reduced from 5.50% to 4.75% effective April 1, 2015.
- The internal financing charge of 1% was reduced 0.7% as of August 1, 2015.
- The balance in the rate stabilization account (RSA) is $48 million.

Non-ILP Debt - $615 Million

- Lease revenue bonds, equipment leases, lines of credit, and debt repaid from appropriated local funds are issued as non-ILP debt.
- Affiliated hospital debt includes obligations of Northwest Hospital (NWH) and Valley Medical Center (Valley) excluding Valley limited tax general obligation bonds (LTGO). These obligations are paid from the revenues of the affiliated hospitals but are treated as University debt.
- Financing Assets Short Term (FAST) has provided $6.2 million in short-term financing to internal borrowers.

Total Debt Service

ATTACHMENT
**Semi-Annual Debt Report**  
As of 6/30/15

### ILP Committed Capital Reserves*  
**(in millions)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balances at 6/30/14</td>
<td>$175</td>
</tr>
<tr>
<td>Internal Debt Service</td>
<td>128</td>
</tr>
<tr>
<td>External Debt Service</td>
<td>$(102)</td>
</tr>
<tr>
<td>Project Funding</td>
<td>3</td>
</tr>
<tr>
<td>Investment Income</td>
<td>4</td>
</tr>
<tr>
<td>ILP Expenses</td>
<td>$(3)</td>
</tr>
<tr>
<td><strong>Balance at 6/30/15</strong></td>
<td>$205</td>
</tr>
</tbody>
</table>

* Reflects $48M in RSA

### Capital Assets Pool (CAP)  
**(in millions)**

The Capital Assets Pool (CAP) may be invested in University capital projects with maturities up to thirty years. The CAP target allocation is 10% of the Invested Funds Pool, with range of 0-15% to allow for market fluctuations. CAP funds are borrowed though the Internal Lending Program.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested Funds Pool Balance</td>
<td>$2,333</td>
</tr>
<tr>
<td>Target Allocation (10%)</td>
<td>$233</td>
</tr>
<tr>
<td>Utilized to Date</td>
<td>$(127)</td>
</tr>
<tr>
<td><strong>Allocation Remaining</strong></td>
<td>$106</td>
</tr>
</tbody>
</table>

### ILP Borrowers  
**(in millions)**

<table>
<thead>
<tr>
<th>Department</th>
<th>Loan Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing and Food Services</td>
<td>$546</td>
</tr>
<tr>
<td>UW Medicine</td>
<td>356</td>
</tr>
<tr>
<td>Central Administration</td>
<td>309</td>
</tr>
<tr>
<td>Intercollegiate Athletics</td>
<td>256</td>
</tr>
<tr>
<td>Student Life</td>
<td>149</td>
</tr>
<tr>
<td>Real Estate</td>
<td>31</td>
</tr>
<tr>
<td>UW Bothell</td>
<td>29</td>
</tr>
<tr>
<td>UW Tacoma</td>
<td>18</td>
</tr>
<tr>
<td>Transportation Services</td>
<td>13</td>
</tr>
<tr>
<td>School of Dentistry (2)</td>
<td>11</td>
</tr>
<tr>
<td>Department of Global Health</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total at 6/30/15</strong></td>
<td>$1,719</td>
</tr>
</tbody>
</table>

(1) Based on preliminary unaudited numbers

(2) A Business Improvement Plan for the School of Dentistry, Center of Pediatric Dentistry will be presented at the November meeting.

Based on projects approved by Board of Regents as of 6/30/15.
Summary

- Occupancy demand remains robust throughout the HFS system, driving solid FY15 financial performance with $8.8 million contributed to reserves and debt service coverage of 1.55x. Demand is expected to exceed as-built capacity until the completion of the Housing Master Plan (HMP). In Autumn 2015, Terry and Maple Halls opened completing Phase 3 of the HMP. Phase 4a of the HMP will likely come to the Board of Regents in FY16 for approval.

- Projected negative cash flow for FY16 relates to significant cash funded FF&E expenditures originally slated to be charged in FY15 and the onset of Phase 3 debt service.

- The need for a room and board rate increase was offset by a decrease in the Internal Lending Program interest rate. Therefore, housing and dining rates remain unchanged from FY15 to FY16. Continued increases in minimum wage and employment benefits may require significant increases in housing and dining rates for FY17.

Risks and Mitigations

- A significant decline in student occupancy is the primary risk to the system. Private market competition, price sensitivity, and reductions in long-range UW enrollment impact student occupancy. These risks are monitored by HFS and, if necessary, mitigated by strategic occupancy planning.

- The projections below assume that no additional phases of the HMP take place. Thus, extensive renovations would be required throughout the HFS system resulting in negative cash flow FY17-19. This risk is mitigated by reserves in excess of cash flow deficits.

Selected Indicators (1)

System wide as-built occupancy indicates the overall health of residence hall and dining operations and measures demand for the system.

<table>
<thead>
<tr>
<th></th>
<th>2012-13</th>
<th>2013-14</th>
<th>2014-15</th>
<th>2015-16 (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>110.2%</td>
<td>106.9%</td>
<td>110.9%</td>
<td>110.1%</td>
</tr>
</tbody>
</table>

(1) Numbers reflect as-built capacity
(2) Reflects projected annual occupancy

Debt Service Coverage

Net operating income as a multiple of debt service; ILP minimum is 1.25x ratio

<table>
<thead>
<tr>
<th></th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proforma</td>
<td>1.34</td>
<td>1.37</td>
<td>1.70</td>
<td>1.55</td>
<td>1.24</td>
<td>1.26</td>
<td>1.20</td>
<td>1.33</td>
<td>1.25</td>
</tr>
<tr>
<td>Actual (thru FY15)/Projected</td>
<td>1.30</td>
<td>1.40</td>
<td>1.35</td>
<td>1.44</td>
<td>1.48</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ILP Minimum</td>
<td>1.40</td>
<td>1.48</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Cash Flow

Net operating income less debt service and capital expenses

<table>
<thead>
<tr>
<th></th>
<th>FY13 ($Millions)</th>
<th>FY14 ($Millions)</th>
<th>FY15 ($Millions)</th>
<th>FY16 ($Millions)</th>
<th>FY17 ($Millions)</th>
<th>FY18 ($Millions)</th>
<th>FY19 ($Millions)</th>
<th>FY20 ($Millions)</th>
<th>FY21 ($Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pro forma</td>
<td>(4.7)</td>
<td>3.1</td>
<td>7.7</td>
<td>3.3</td>
<td>8.8</td>
<td>5.2</td>
<td>(1.8)</td>
<td>(4.8)</td>
<td>(3.9)</td>
</tr>
<tr>
<td>Actual (thru FY15)/Projected</td>
<td>(10)</td>
<td>0.1</td>
<td>0.1</td>
<td>2.0</td>
<td>0.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Reserve Balance

Unrestricted net assets; ILP minimum is 4 months of adjusted HFS operating expenses

<table>
<thead>
<tr>
<th></th>
<th>FY13 ($Millions)</th>
<th>FY14 ($Millions)</th>
<th>FY15 ($Millions)</th>
<th>FY16 ($Millions)</th>
<th>FY17 ($Millions)</th>
<th>FY18 ($Millions)</th>
<th>FY19 ($Millions)</th>
<th>FY20 ($Millions)</th>
<th>FY21 ($Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pro forma</td>
<td>25.9</td>
<td>35.1</td>
<td>42.7</td>
<td>33.3</td>
<td>51.6</td>
<td>49.8</td>
<td>43.4</td>
<td>42.7</td>
<td>43.7</td>
</tr>
<tr>
<td>Actual (thru FY15)/Projected</td>
<td>29.0</td>
<td>29.1</td>
<td>31.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ILP minimum</td>
<td>43.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Summary

- ILP debt covenants were met for FY15, based on unaudited financials. Covenants were met (and FY15 actuals were higher than budget revenues) because of a one-time signing bonus for Pac-12 Multimedia Rights.
- Future revenue includes potential Pac-12 Networks media distributions and media rights. Meeting future debt service coverage requirements relies on revenues materializing.
- Football, Men's Basketball and Title IX tuition waiver revenue has decreased.
- Costs related to changing NCAA governance and liberalization of student athlete support and aid continue to increase.
- New naming rights agreement with Alaska Airlines is reflected in projections starting FY17.
- A financial plan will be presented to the Board of Regents in January.

Risks and Mitigation

- Changing NCAA regulatory/governing landscape will impact projections in subsequent reports.
- Lower ticket sales, seat-related contributions, and premium seating revenues reduce available resources.
- Increasing Pac-12 distributions and reducing operating expenditures would help mitigate these risks.

Selected Indicators

<table>
<thead>
<tr>
<th></th>
<th>FY2015</th>
<th>% of prior year</th>
<th>% of budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Full Season (number of seats)</td>
<td>40,000 (est)</td>
<td>&gt;90%</td>
<td>&gt;90%</td>
</tr>
<tr>
<td>Seat Donations ($ '000)</td>
<td>13,066</td>
<td>&gt;96%</td>
<td>&gt;96%</td>
</tr>
</tbody>
</table>

Debt Service Coverage

Net operating income as a multiple of debt service; ILP minimum is 1.1x ratio beginning in FY15

Cash Flow

Net operating income plus gifts less debt service and capital expenses

Reserve Balance

ILP minimum is one year's ICA debt service

* Subject to increase if debt service coverage is below 1.25
Summary

- Required School of Medicine (SoM) support for SLU Phases 1 and 2 was $3.2 million for FY15. For FY16 and future years, operating costs capture an estimated ground rent market increase of $2M per year. Required support peaks in FY16 at $7.3M and declines to $4.1M in FY20.
- Required SoM support for SLU Phase 3.1 (occupied in May 2013) was $8.5 million for FY15, and over future years declines slightly to $8.3M in FY20.
- Required support is higher than proforma as research density and federal research (based on expenditures) are lagging proforma. The proforma projected federal research grants at 90% of total research. FY15 actual federally funded research for SLU Phases 1 and 2 is 80% and for SLU Phase 3.1 is 89%.
- SoM has sufficient reserves and overall operating funds to fund additional required support in fiscal year 2016. The SoM required support is $2M over the FY15 proforma budget which represents 0.2% of SoM FY15 revenue base and 0.9% of SoM FY15 reserves.
- The SoM has set aside SLU designated reserves to fund required SoM support beyond SLU 3.1 proforma levels though FY17.
- Required SoM support for SLU Phase 3.1 (occupied in May 2013) was $8.5 million for FY15, and over future years declines slightly to $8.3M in FY20.
- There is a potential revenue increase due to the Facilities & Administration rate renegotiation. The new rate is expected to be approved in calendar year 2016.
- UW expects to re-submit a state request for Operations and Maintenance support for SLU 3.1 in the range of $2.7M per year.
- Potential federal research funding cutbacks, similar to 2013 sequestration, could result in delayed awards and reduced funding.
- Potential shift from federal research to non-federal research at South Lake Union could result in lower indirect cost recovery.
- In spite of the challenging grant environment, the SoM remains highly competitive for federal research funding.
- SoM has the opportunity to increase research density at South Lake Union with ongoing recruitments which will reduce the projected additional funding support required.
- Over 4 years, grant activity has grown at SLU by an average of 5% compared to 1% at non-SLU locations. The decrease in FY15 over FY14 is a combination of factors including; awards funded in FY14 instead of FY13 due to sequestration; faculty departures; and competitive renewals requiring multiple submissions for approval.
- SLU 3.2 was approved on September 10, 2015. Projections will appear in the March SABRE.

Risks and Mitigations

- Potential federal research funding cutbacks, similar to 2013 sequestration, could result in delayed awards and reduced funding.
- Potential shift from federal research to non-federal research at South Lake Union could result in lower indirect cost recovery.
- In spite of the challenging grant environment, the SoM remains highly competitive for federal research funding.
- SoM has the opportunity to increase research density at South Lake Union with ongoing recruitments which will reduce the projected additional funding support required.
- There is a potential revenue increase due to the Facilities & Administration rate renegotiation. The new rate is expected to be approved in calendar year 2016.
- UW expects to re-submit a state request for Operations and Maintenance support for SLU 3.1 in the range of $2.7M per year.

Proforma Support Required: FY13 shows pro-forma for SLU I and II. FY14 shows proforma for SLU I, II and 3.1 (first full year of occupancy). FY15-20 shows actual/projection for SLU I and II which are out of the 10 year proforma period in FY15, and proforma for SLU 3.1.


Total SoM Reserves (excluding grants/contracts)

Note: FY13-14 balances have been restated from prior SABRE report for consistent methodology with UW Medicine reports.

SoM Direct Research Expenditures/Activity

Excluding ARRA

Note: FY13-14 balances have been restated from prior SABRE report for consistent methodology with UW Medicine reports.
Summary

- UWMC’s preliminary unaudited Total Margin YTD through June FY15 was 2.4%. Debt Service Coverage and Days Cash on Hand remain above Internal Lending Program (ILP) minimums.
  - Debt service coverage of 4.04x exceeds the 1.25x minimum by a significant margin. Debt service coverage is projected to remain well above the minimum over the projection period.
  - Days cash on hand of 95 exceeds the current UWMC Internal Lending Program (ILP) minimum of 75 days.
- Financial ratios for FY13- FY14 represent audited actuals. FY15 represents preliminary unaudited YTD Actuals through June and FY16 - FY20 are from the most recent Long Range Financial Plan (LRFP) that was presented to the UW Medicine Board Finance and Audit Committee in January of 2015.

Risks and Mitigations

- Volume, revenue and expense assumptions associated with Montlake Tower Phase 2 are significant and key to the financial success of UWMC going forward. Continued monitoring of related metrics will inform decision making throughout the year.
- Success at executing priorities in the strategic plan and implementing performance improvement initiatives is key to the achievement of financial objectives going forward.
- Potential negative impacts on net revenue from health care reform and activities of commercial and government payers continue to be incorporated into financial planning for the Medical Center. Transformation of care and strong expense management continue to be high priorities.

Selected Indicators

<table>
<thead>
<tr>
<th></th>
<th>FY13 Actuals</th>
<th>FY14 Actuals</th>
<th>FY15 Actuals</th>
<th>FY16 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admissions</td>
<td>17,728</td>
<td>18,033</td>
<td>18,092</td>
<td>18,675</td>
</tr>
<tr>
<td>Total surgeries</td>
<td>14,271</td>
<td>14,538</td>
<td>15,313</td>
<td>15,839</td>
</tr>
<tr>
<td>Occupancy</td>
<td>80%</td>
<td>81%</td>
<td>80%</td>
<td>79%</td>
</tr>
<tr>
<td>ICU Occupancy</td>
<td>84%</td>
<td>84%</td>
<td>85%</td>
<td>77%</td>
</tr>
</tbody>
</table>

Debt Service Coverage

Net operating income as a multiple of debt service; ILP minimum is 1.25x
FY16-FY20 are projections

Total Margin

Operating income plus non-operating income expressed as a percentage of revenue
FY16-FY20 are projections

Days Cash On Hand

Unrestricted cash divided by daily operating expenses; current ILP minimum is 75 days
FY16-FY20 are projections

Note: The ILP rate decreased from 5.5% to 4.75% effective 4/1/15. This change will decrease annual debt service by ~$1M. Rate change announcement was after the development of the LRFP.

FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20
Admissions 17,728 18,033 18,092 18,675
Total surgeries 14,271 14,538 15,313 15,839
Occupancy 80% 81% 80% 79%
ICU Occupancy 84% 84% 85% 77%

Debt Service Coverage

FY16-FY20 are projections

Total Margin

FY16-FY20 are projections

Days Cash On Hand

FY16-FY20 are projections

Note: The ILP rate decreased from 5.5% to 4.75% effective 4/1/15. This change will decrease annual debt service by ~$1M. Rate change announcement was after the development of the LRFP.

F-1.1/210-15
10/8/15