

**Current and Forecasted Debt Ratios (FY15- FY21)**

*Annual Report*

## ***I. Purpose***

The purpose of this annual report on Current and Forecasted Debt Ratios is to assist the regents with their evaluation of the University of Colorado's long-term borrowing obligations and its ability to make future debt service payments. Debt ratio analyses can also be used to assess how debt might constrain the university's future attempts to implement new strategies or programs. A variation of this ratio is used by the credit rating agencies for the purposes of assessing an institution's ability to meet *future* debt service obligations with *current* unrestricted resources.

Fitch and Moody's Investor Services view the university's moderate debt ratio and deliberative fiscal planning process as evidence of prudent financial practices and effective debt management modeling. As of the most recent debt issue, the university's credit ratings from Fitch and Moody's are AA+/Aa2, with a stable continuing outlook from both agencies. For various reasons, in 2014 the university elected to have Standard & Poor's withdraw its rating on our outstanding debt.

Under C.R.S. §23-20-129.5(2)(d) the university is required to maintain a debt ratio of 10% or below. Historically, regent policy has been more conservative than these statutory requirements, limiting the ratio to 7%.

An analysis of the university's and each campus's debt ratios is summarized below. The analysis contemplates outstanding long-term obligations of the university (Table 1) and significant internal lines of credit/supplemental credit facilities that have been extended to the campuses for capital projects pending permanent financing through new debt issuance, if applicable. The analysis includes all projects to be financed through the issuance of external obligations, including those planned for FY 15 and those in the Five-Year Capital Plan for the period from FY 15 through FY 20 (Table 2). Because the impacts of any financings with a first payment in FY 20 would not be realized until FY 21, this report offers FY 21 ratio forecasts as well.

## ***II. Methodology***

Each fiscal year's debt ratio is calculated by dividing the maximum annual debt service (MADS) payment, including contingent liabilities for which the university's committed participation could be viewed as a credit enhancement, by the sum of that current fiscal year's forecasted combined unrestricted current fund expenditures and mandatory transfers.

This analysis relies upon the following data:

1. The base year, upon which unrestricted current fund expenditures plus mandatory transfers are calculated, is FY 15, with forecasts for average annualized growth rates through FY 21 provided for each campus by the Office of Budget and Finance; and
2. The amount financed is as reported by the campuses in their capital plans only for those projects to be financed from FY 15 through FY 20 as shown in Table 2; and
3. The MADS are in accordance with current and planned financed amounts, payment dates, interest rates and term assumptions; and
4. All projects will provide revenue coverage to ensure a minimum of 125% of annual debt service.

It is important to note that on those projects for which there is expected to be an increase in revenue generated as a result of the expenditure, there is typically a lag of one to two years between when the increase in revenue is realized, and when there is a resultant increase in current fund expenditures. Thus, auxiliary projects would be expected to have a larger impact upon debt capacity for a campus for a period of one to three years, before the increased revenue generated would become an offset to the increased debt service. This is particularly noticeable for auxiliary projects on the UCCS campus, where the pace of recent expansion (particularly in auxiliary projects) has created what is expected to be a short-term lag in budgeting offsetting expenses for the new revenues that should result from those projects becoming operational.

### ***III. Assumptions***

Forecasting the debt ratios takes into account many variables for which educated guesses are necessary. These variables include the expected interest rates for which debt can be issued as determined by the treasurer, the expected rates of increase in growth of current fund expenditures for each of the campuses as presented by the VP and Chief Financial Officer, the project cost and actual amounts financed, as presented by the campuses.

1. Based on current municipal rate expectations, the conservative interest rate assumptions used for this report are:
  - FY15 4.5%
  - FY16 4.5%
  - FY17 5.0%
  - FY18 5.5%
  - FY19 5.5%
  - FY20 5.5%
2. Expected annualized growth rates in current fund expenditures for each campus through FY21 are 5.0%.
3. Amount financed on each project are as listed in Table 2.

### ***IV. Results***

- **System (Table 3):**

As of May 30<sup>th</sup>, 2014, the university had approximately \$1.42 billion in outstanding debt from directly issued revenue bonds, no COP's, and approximately \$70.7 million in other long-term obligations from contingent liabilities outstanding (Table 1). With no change to currently outstanding debt structure, total debt service payments for the university in FY15 will be \$116.8 million decreasing to \$116.1 million by FY21. The university's current debt ratio for "existing-only" debt is 5.6% as of FY15. If the university issues no new debt, the system-wide ratio would decrease to 4.1% by FY21.

If the university finances only the additional projects on Table 2, its debt capacity ratio is forecasted to be 4.7% in FY21 and would still be able to accommodate an additional \$55.9 million in annual debt service while remaining below 7% debt service capacity. For comparison, on every \$12.5 million financed for 25 years at 6%, the annual debt service payment would be \$1 million.

- **UCB (Table 4):**

In FY15, payments for Boulder's outstanding long-term obligations will be approximately \$63.5 million and reflect a FY15 debt service capacity ratio of 6.5%. With no change to currently

outstanding debt structure, total debt service payments for the campus would decrease to \$59.1 million by FY21, and the debt ratio would decline to 4.5% by FY21 if no additional debt were issued.

If the campus finances only the additional projects on Table 2, its debt capacity ratio would be 6.5% in FY15 and would decrease to 5.6% by FY21. There would be \$14.4 million in annual debt service coverage still available in FY21, while remaining below the 7% debt ratio threshold. For comparison, on every \$12.5 million financed for 25 years at 6%, the annual debt service payment would be \$1million.

- **UCCS (Table 5):**

In FY15, payments for Colorado Springs's long-term obligations will be approximately \$12.5 million. Colorado Springs' current debt capacity ratio in FY15 is 10.5%. If no additional debt were issued, the campus debt capacity ratio would decrease to 7.8% by FY21.

If the campus finances only the additional projects on Table 2, its debt capacity ratio is expected to increase to a high of 11.1% in FY18, before reducing as existing obligations matured and current fund expenditures plus mandatory transfers increased. The campus is not expected to have any additional debt service capacity available, within the 7% limit, through FY21.

The treasurer has been working with the UCCS campus on issuing debt with more creative structures to help the campus to minimize and/or level impacts to debt capacity as a result of recent expansion. Ultimately, increases in current fund expenditures as a result of revenue generating projects for which the campus has borrowed, and which are still under construction, are expected to have a significant and favorable impact on the campus' overall debt capacity.

- **UCD (Tables 6, 7, 8):**

The combined FY15 long-term obligation payments for UC Denver and the Anschutz Medical Campus will be approximately \$40.8million. In FY15, the combined campus's debt capacity ratio is 3.3%. If no additional debt were issued, the ratio would decline to 2.4% by FY21.

Since the campus does not currently anticipate debt financing any projects over the next five years, the campus will have unused debt service payment capacity of \$60.9 million in FY21. For comparison, on every \$12.5 million financed for 25 years at 6%, the annual debt service payment would be \$1million.

**Table 1****Outstanding Long-Term Obligations of the University  
As of May 30, 2014**

<b>Long-Term Obligations</b>	<b>Final Maturity</b>	<b>Interest Rate</b>	<b>Original Amount Issued</b>	<b>Outstanding</b>
<b>Revenue Bonds</b>				
Enterprise System Revenue Bonds, Series 2004 <sup>(1)</sup>	2035	2.25 to 5.0	24,360,000	1,045,000
University Enterprise Refunding and Improvement Revenue Bonds, Series 2005A	2033	3.5 to 5.25	230,025,000	18,930,000
University Enterprise Revenue Bonds, Series 2005B	2035	3.0 to 5.0	25,225,000	13,845,000
University Enterprise Revenue Bonds, Series 2006A	2039	4.0 to 5.0	101,425,000	37,480,000
University Enterprise Revenue Refunding Bonds, Series 2007A	2033	3.625 to 5.0	184,180,000	158,325,000
University Enterprise Revenue Bonds, Series 2007B	2027	4.25 to 5.0	63,875,000	44,330,000
University Enterprise Revenue Bonds, Series 2009A	2038	2.75 to 5.375	165,635,000	151,405,000
Tax-Exempt University Enterprise Revenue Bonds, Subseries 2009B-1	2018	2.0 to 5.0	76,725,000	37,215,000
Taxable University Enterprise Revenue Bonds, Series 2009B-2 (BAB)	2036	4.579 to 6.264	138,130,000	138,130,000
Tax-Exempt University Enterprise Refunding Revenue Bonds, Series 2009C	2026	2.0 to 5.0	24,510,000	23,485,000
Taxable University Enterprise Revenue Bonds, Series 2010A (BAB)	2035	0.755 to 5.601	35,510,000	32,885,000
Tax-Exempt University Enterprise Refunding Revenue Bonds, Series 2010B	2023	2.0 to 5.0	56,905,000	44,630,000
Taxable University Enterprise Revenue Bonds, Series 2010C (QECB)	2020	1.155 to 3.773	4,375,000	3,990,000
University Enterprise Revenue Bonds, Series 2011A	2041	2.0 to 5.0	203,425,000	203,135,000
University Enterprise Revenue Refunding Bonds, Series 2011B	2024	2.0 to 5.0	52,600,000	52,385,000
University Enterprise Revenue Refunding Bonds, Series 2012A-1	2029	1.5 to 5.0	121,850,000	120,615,000
University Enterprise Revenue Refunding Bonds, Series 2012A-2	2035	2.0 to 5.0	53,000,000	52,575,000
University Enterprise Revenue Refunding Bonds, Series 2012A-3	2030	2.0 to 5.0	47,165,000	46,185,000
University Enterprise Revenue Bonds, Series 2012B	2042	2.0 to 5.0	95,705,000	95,550,000
Tax-Exempt University Enterprise Revenue Bonds, Series 2013A	2043	2.0 to 5.0	142,460,000	142,460,000
Taxable University Enterprise Revenue Bonds, Series 2013B	2043	1.088 to 5.177	11,245,000	11,245,000
<b>Total Revenue Bonds</b>			<b>\$1,858,330,000</b>	<b>1,429,845,000</b>
<b>Other Long-Term Obligations</b>				
Fitzsimons Redevelopment Authority, Series 2002 <sup>(2)</sup>		Variable	20,500,000	16,700,000
Colorado Educational & Cultural Facilities Authority Student Housing Revenue Refunding Bonds, Series 2008 <sup>(3)</sup>	2037	4.0 to 5.5	54,055,000	54,055,000
<b>Total Other Long-Term Obligations</b>			<b>\$74,555,000</b>	<b>\$70,755,000</b>
<b>Total Revenue Bonds &amp; Other Obligations</b>			<b>\$1,932,885,000</b>	<b>\$1,500,600,000</b>

<sup>1</sup> Represent the remaining Outstanding Closed Lien Bonds.

<sup>2</sup> Issued to finance the University Physicians Inc. (UPI) building.

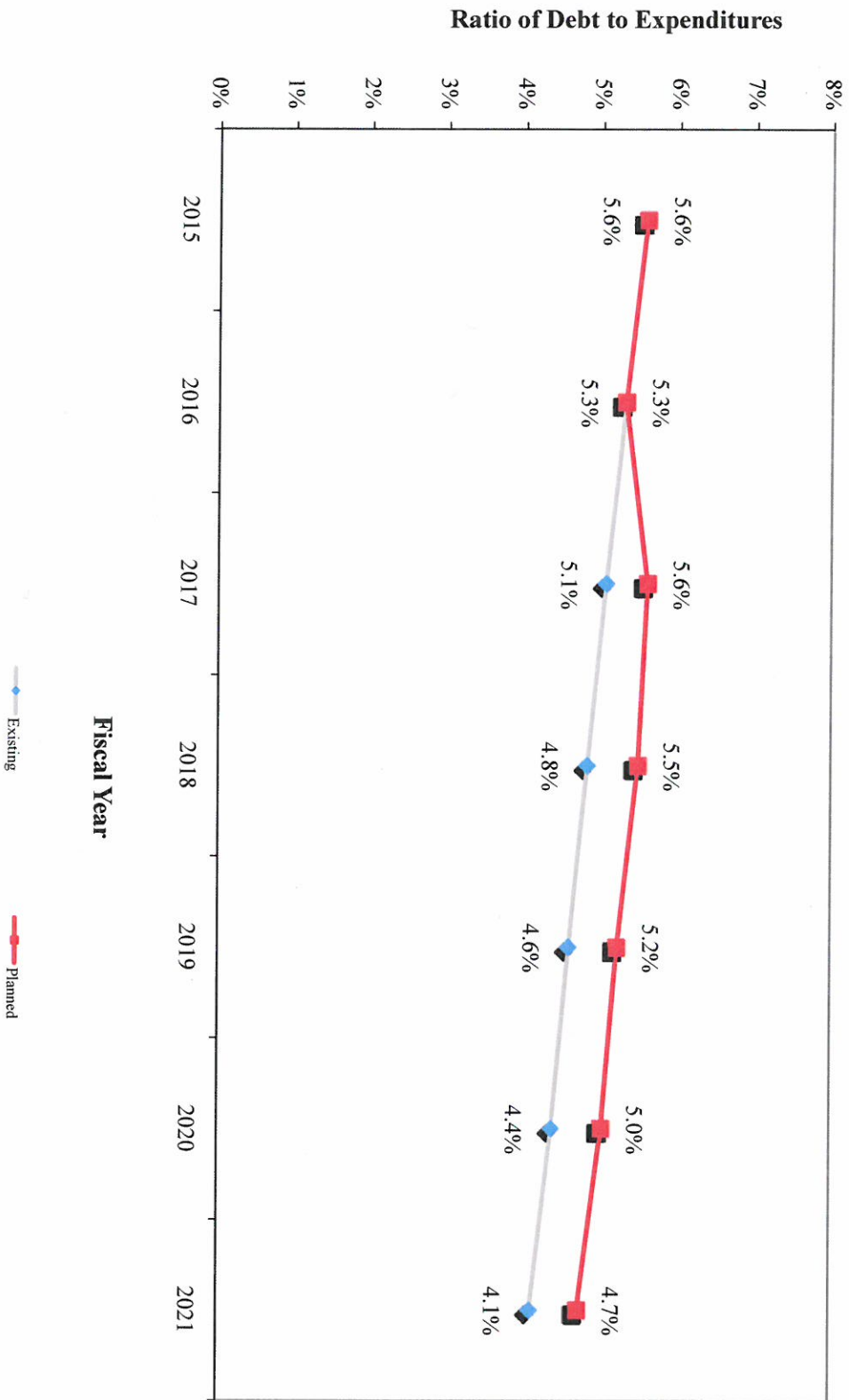
<sup>3</sup> These bonds were issued on behalf of an affiliate of the University of Colorado Real Estate Foundation to refinance a new student housing facility. The University has no payment obligations with regard to these bonds.

Table 2

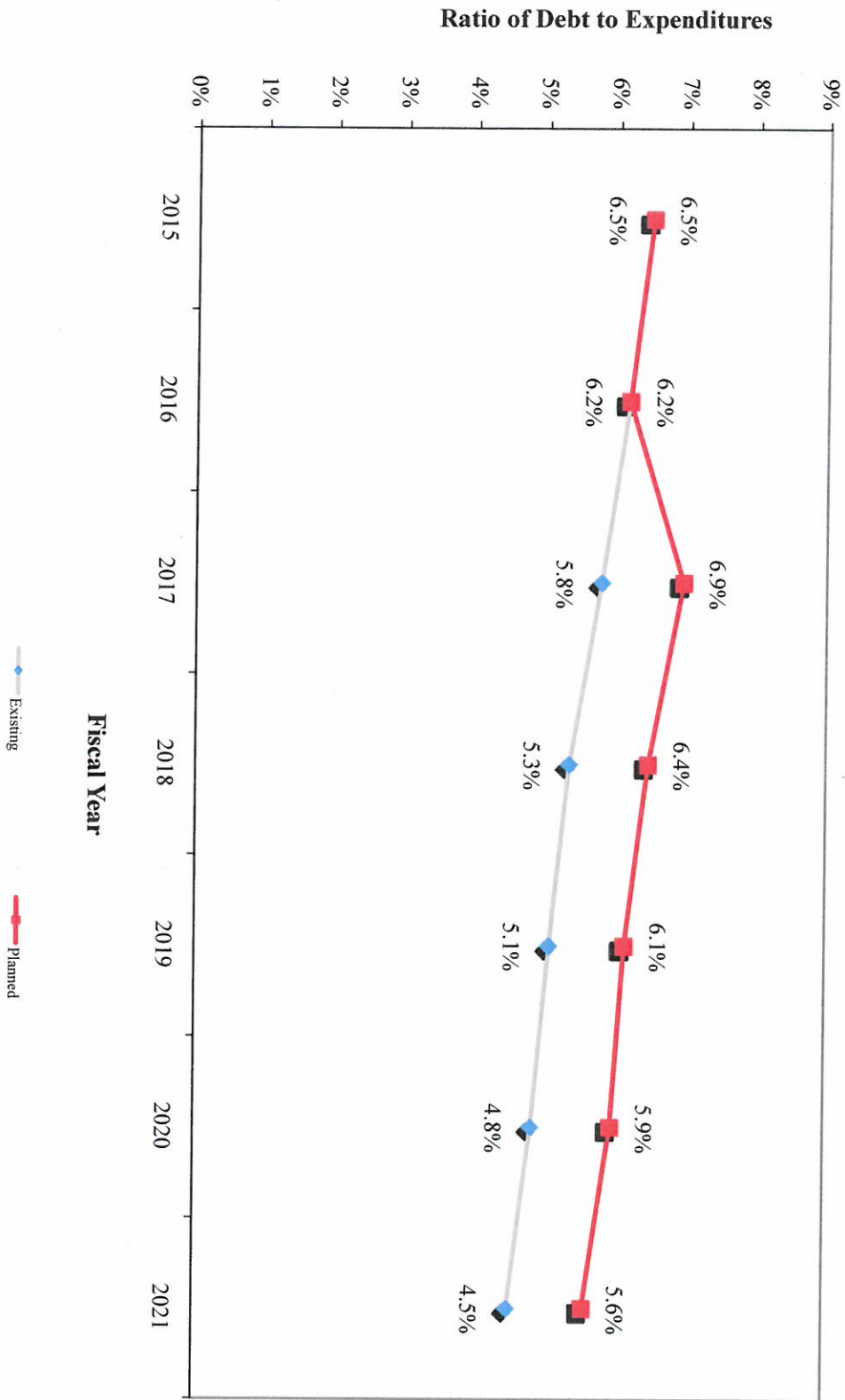
**Planned Capital Projects**

	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>
<b>Boulder</b>						
Euclid Autopark	\$33,000,000					
Athletics	\$94,799,073					
Athletics Parking	\$24,825,000					
Williams Village	\$34,800,000					
Aerospace				\$18,860,476		
<b>Colorado Springs</b>						
VAPA	\$28,000,000					
N. Nevada	\$10,000,000					
Health II	\$21,000,000					
<b>Denver and AMC</b>						
None						

System  
(Table 3)

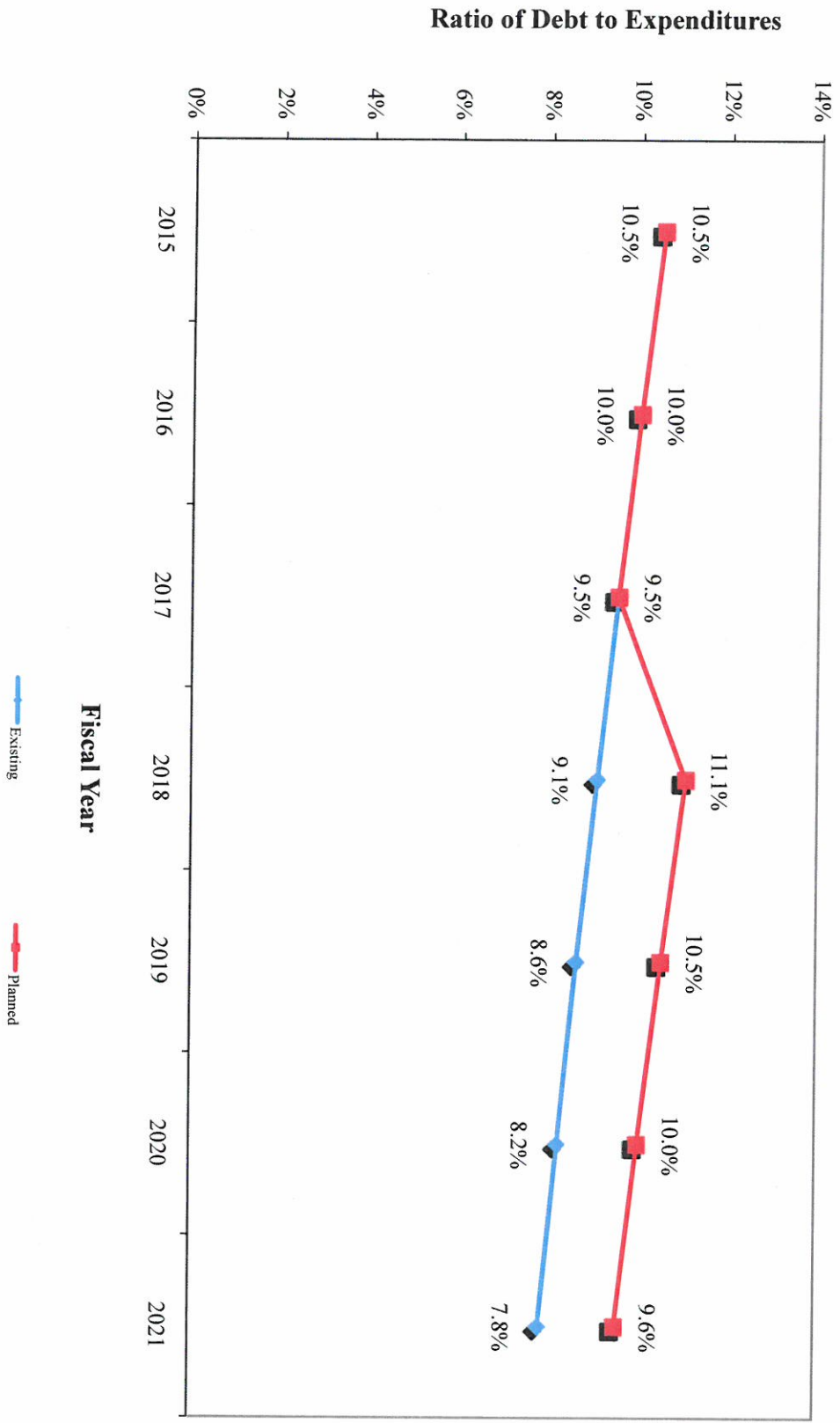


UCB  
(Table 4)

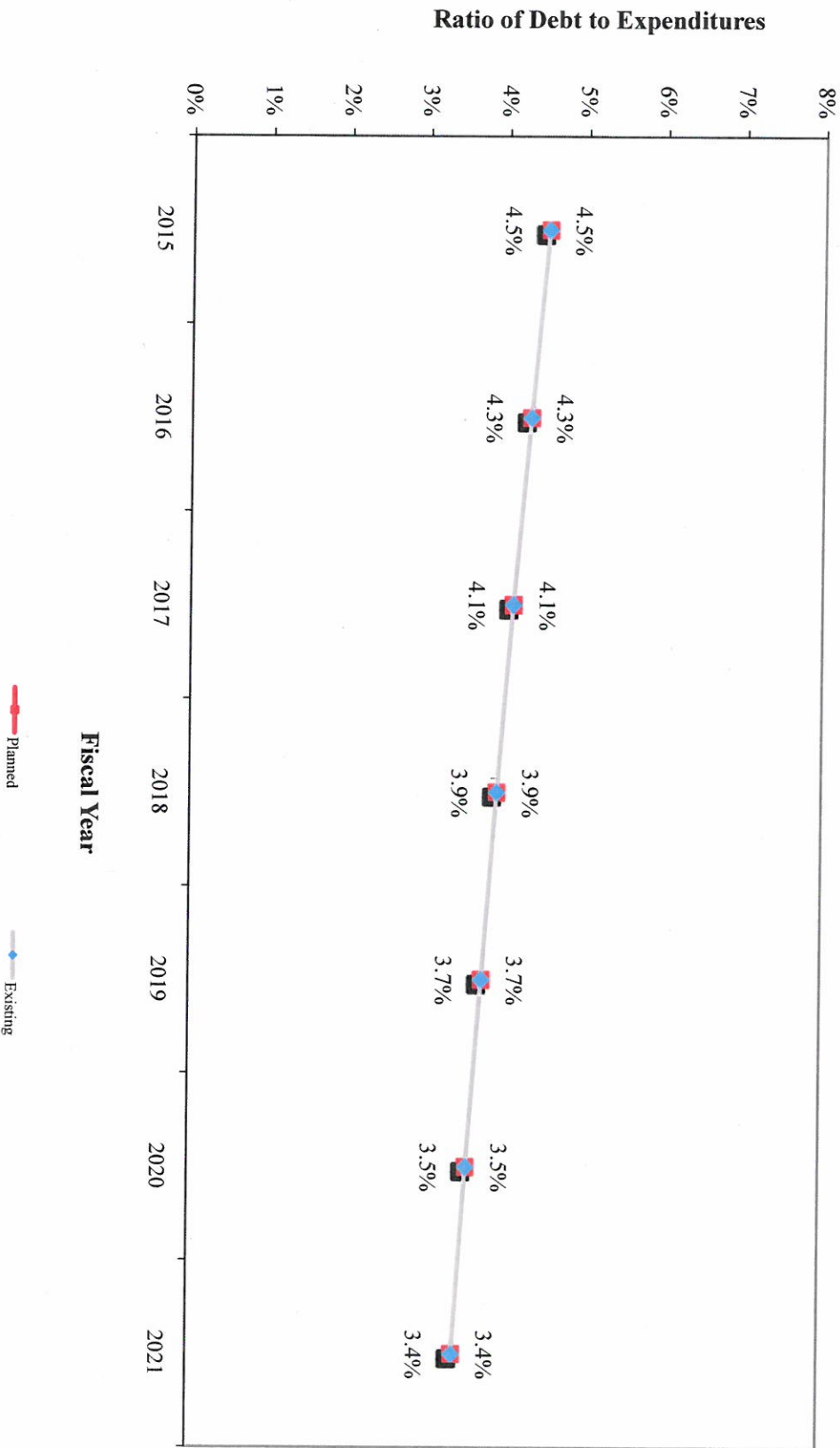




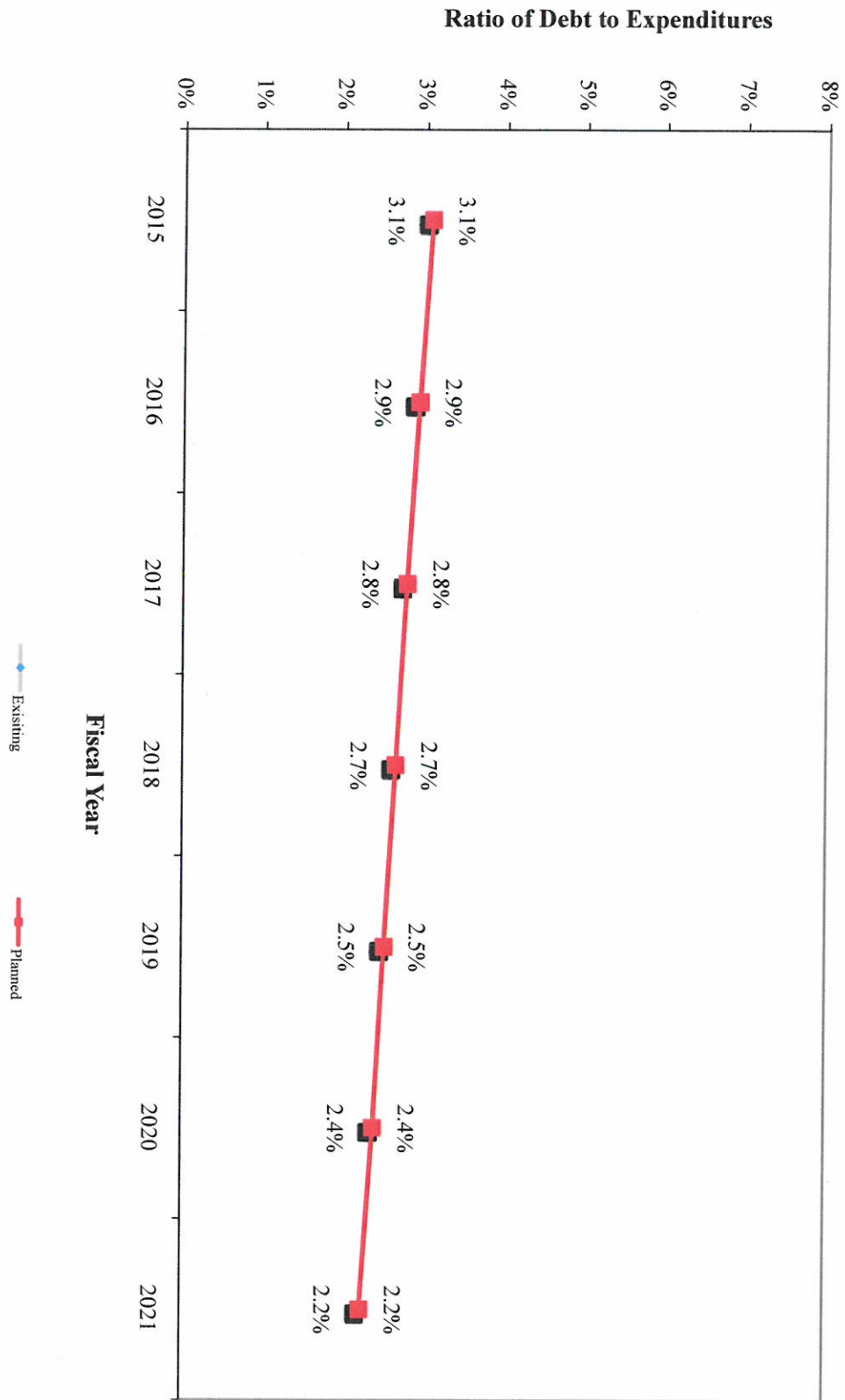
UCCS  
(Table 5)



**DDC**  
**(Table 6)**



AMC  
(Table 7)



UCD  
(Table 8)

