Current and Forecasted Debt Ratios (FY16- FY22)

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 business reasons, in 2014 the university elected to have Standard & Poor's withdraw its rating on our outstanding debt. The effect on the university's debt marketability as a result of this decision has proven to be positive, and the treasury will continue to closely monitor the market for any additional credit-positive opportunities.

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 FY16 and those in the Five-Year Capital Plan for the period from FY16 through FY21 (Table 2), Because the impacts of any financings with a first payment in FY21 would not be realized until FY22, this report offers FY22 ratio forecasts as well.

II. Methodology

Each fiscal year's debt ratio is calculated by dividing the current or future 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 the 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 FY16, with forecasts for average annualized growth rates through FY22 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 FY16 through FY21 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 and UCB campuses, 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:
    - FY16 4.5%
    - FY17 4.5%
    - FY18 5.0%
    - FY19 5.5%
    - FY20 5.5%
    - FY21 5.5%
2. Expected annualized growth rates in current fund expenditures for each campus through FY22 are 5.0%.
3. Amount financed on each project are as listed in Table 2.

IV. Results

- **System (Table 3):**

As of May 3[st], 2015, the university had approximately $1.6 billion in outstanding debt from directly issued revenue bonds, no COP's, and approximately $69.2 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 FY16 will be $132.5 million increasing to $132.9 million by FY22. The university's current debt ratio for "existing-only" debt is 5.2% as of FY16. If the university issues no new debt, the system-wide ratio would decrease to 3.8% by FY22.

If the university finances only the additional projects on Table 2, its debt capacity ratio is forecasted to be 4.4% in FY22 and would still be able to accommodate an additional $91 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. It can thus be said, that over the next five years, the university has roughly $1.2 billion more available debt capacity before running into the regent imposed limit.

- **UCB (Table 4):**

In FY16, payments for Boulder's outstanding long-term obligations will be approximately $72.7 million and reflect a FY16 debt service capacity ratio of 7.2%. With no change to currently outstanding debt structure, total debt service payments for the campus would increase to $73.2 million by FY22, and the debt ratio would decline to 5.2% by FY22 if no additional debt were issued.

If the campus finances only the additional projects on Table 2, its debt capacity ratio would be 7.2% in FY16 and would decrease to 5.5% by FY22. There would be $21.1 million in annual debt service coverage still available in FY22, 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 FY16, payments for Colorado Springs's long-term obligations will be approximately $15.5 million. Colorado Springs' current debt capacity ratio in FY16 is 9.9%. If no additional debt were issued, the campus debt capacity ratio would decrease to 7.4% by FY22.

If the campus finances only the additional projects on Table 2, its debt capacity ratio is expected to increase to 10.7% by FY22. The campus is not expected to have any additional debt service capacity available, within the 7% limit, through FY22.

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 FY16 long-term obligation payments for UC Denver and the Anschutz Medical Campus will be approximately $39.6 million. In FY16, the combined campus's debt capacity ratio is 3.3%. If no additional debt were issued, the ratio would decline to 2.4% by FY22.

If the campus finances only the additional projects on Table 2, its debt capacity ratio would be 3.3% in FY16 and would decrease to 2.8% by FY22. There would be $76.7 million in annual debt service coverage still available in FY22, 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.

Table 1

Outstanding Long-Term Obligations of the University
As of May 31, 2015

Long-Term Obligations	Final Maturity	Interest Rate	Original Amount Issued	Outstanding
Revenue Bonds				
University Enterprise Refunding and Improvement Revenue Bonds, Series 2005A	2033	3.5 to 5.25	230,025,000	8,645,000
University Enterprise Revenue Bonds, Series 2005B	2035	3.0 to 5.0	25,225,000	690,000
University Enterprise Revenue Bonds, Series 2006A	2039	4.0 to 5.0	101,425,000	6,335,000
University Enterprise Revenue Refunding Bonds, Series 2007A	2033	3.625 to 5.0	184,180,000	89,285,000
University Enterprise Revenue Bonds, Series 2007B	2027	4.25 to 5.0	63,875,000	5,925,000
University Enterprise Revenue Bonds, Series 2009A	2038	2.75 to 5.375	165,635,000	23,295,000
Tax-Exempt University Enterprise Revenue Bonds, Subseries 2009B-1	2018	2.0 to 5.0	76,725,000	29,640,000
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	19,665,000
Taxable University Enterprise Revenue Bonds, Series 2010A (BAB)	2035	0.755 to 5.601	35,510,000	31,635,000
Tax-Exempt University Enterprise Refunding Revenue Bonds, Series 2010B	2023	2.0 to 5.0	56,905,000	41,895,000
Taxable University Enterprise Revenue Bonds, Series 2010C (QECB)	2020	1.155 to 3.773	4,375,000	3,740,000
University Enterprise Revenue Bonds, Series 2011A	2041	2.0 to 5.0	203,425,000	200,070,000
University Enterprise Revenue Refunding Bonds, Series 2011B	2024	2.0 to 5.0	52,600,000	48,600,000
University Enterprise Revenue Refunding Bonds, Series 2012A-1	2029	1.5 to 5.0	121,850,000	120,540,000
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	46,010,000
University Enterprise Revenue Bonds, Series 2012B	2042	2.0 to 5.0	95,705,000	94,720,000
Tax-Exempt University Enterprise Revenue Bonds, Series 2013A	2043	2.0 to 5.0	142,460,000	141,770,000
Taxable University Enterprise Revenue Bonds, Series 2013B	2043	1.088 to 5.177	11,245,000	11,245,000
Tax-Exempt University Enterprise Revenue Bonds, Series 2014A	2046	0.550 to 3.440	203,485,000	203,485,000
Tax-Exempt University Enterprise Refunding Revenue Bonds, Series 2014B	2034	0.180 to 3.490	100,440,000	100,440,000
Tax-Exempt University Enterprise Refunding Revenue Bonds, Series 2015A	2038	0.17 to 3.29	102,450,000	102,450,000
Tax-Exempt University Enterprise Refunding Revenue Bonds, Series 2015B	2033	0.22 to 3.09	3,925,000	3,925,000
Taxable University Enterprise Refunding Revenue Bonds, Series 2015C	2038	0.299 to 3.039	71,325,000	71,325,000
Total Revenue Bonds			**$2,315,595,000**	**1,596,035,000**
Other Long-Term Obligations				
Fitzsimons Redevelopment Authority, Series 2002[1]		Variable	20,500,000	15,195,000
Colorado Educational & Cultural Facilities Authority Student Housing Revenue Refunding Bonds, Series 2008[2]	2037	4.0 to 5.5	54,055,000	54,035,000
Total Other Long-Term Obligations			**$74,555,000**	**$69,230,000**
Total Revenue Bonds & Other Obligations			**$2,390,150,000**	**$1,665,265,000**

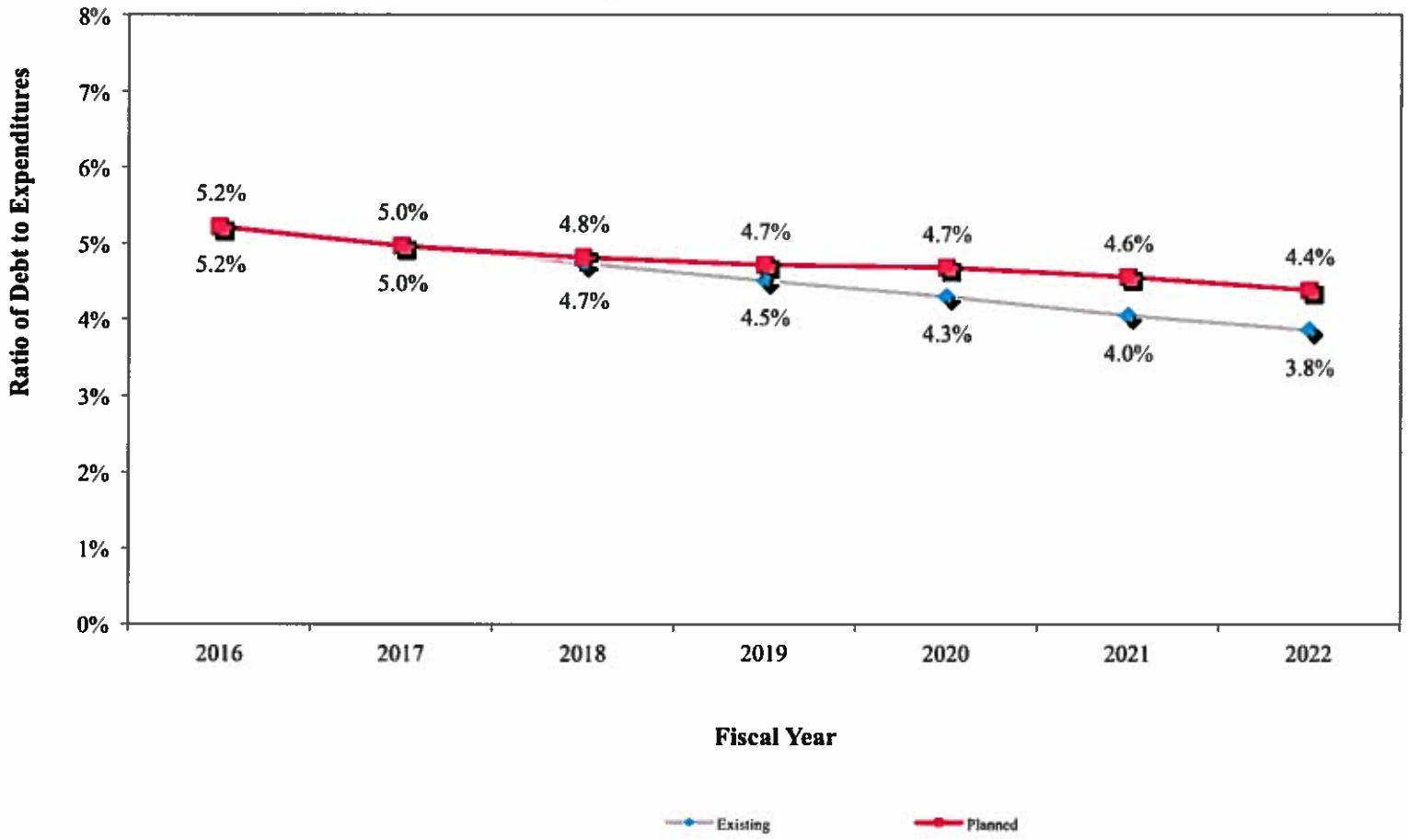
[1] Issued to finance the University Physicians Inc. (UPI) building.

[2] 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.

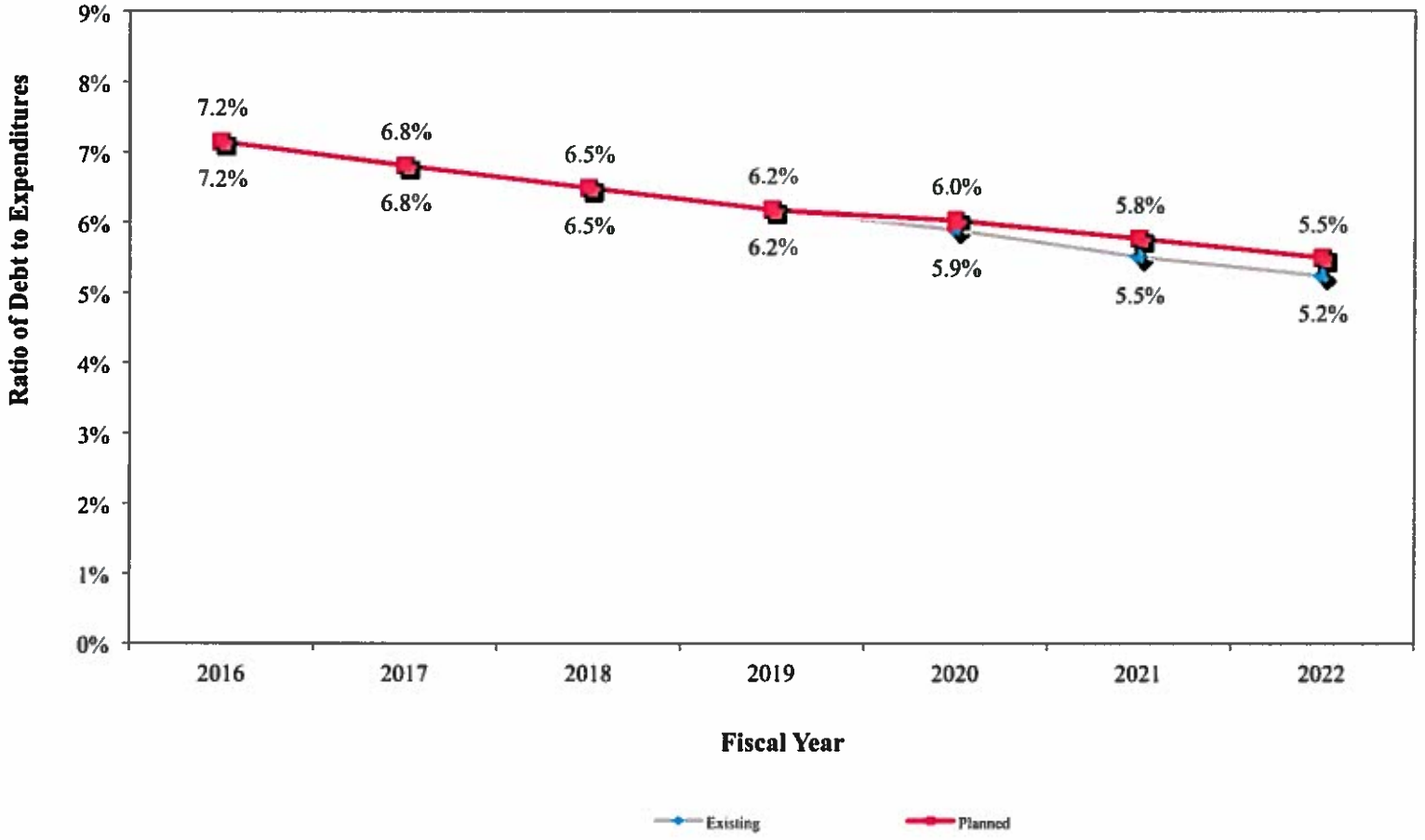
Table 2

		FY16	FY17	FY18	FY19	FY20	FY21
Boulder							
	Aerospace		$27,109,284				
Colorado Springs							
	Parking	$4,000,000					
	N. Nevada		$10,000,000				
	VaPA I		$4,000,000				
	VaPA II		$7,265,445				
	Health II			$23,800,000			
	Family Development Center			$3,000,000			
	Coffee Shop				$3,000,000		
Denver							
	Wellness Center		$33,400,000				
	Engineering			$10,814,430			
	Pre-Health				$5,398,387		
	Architecture					$11,309,473	

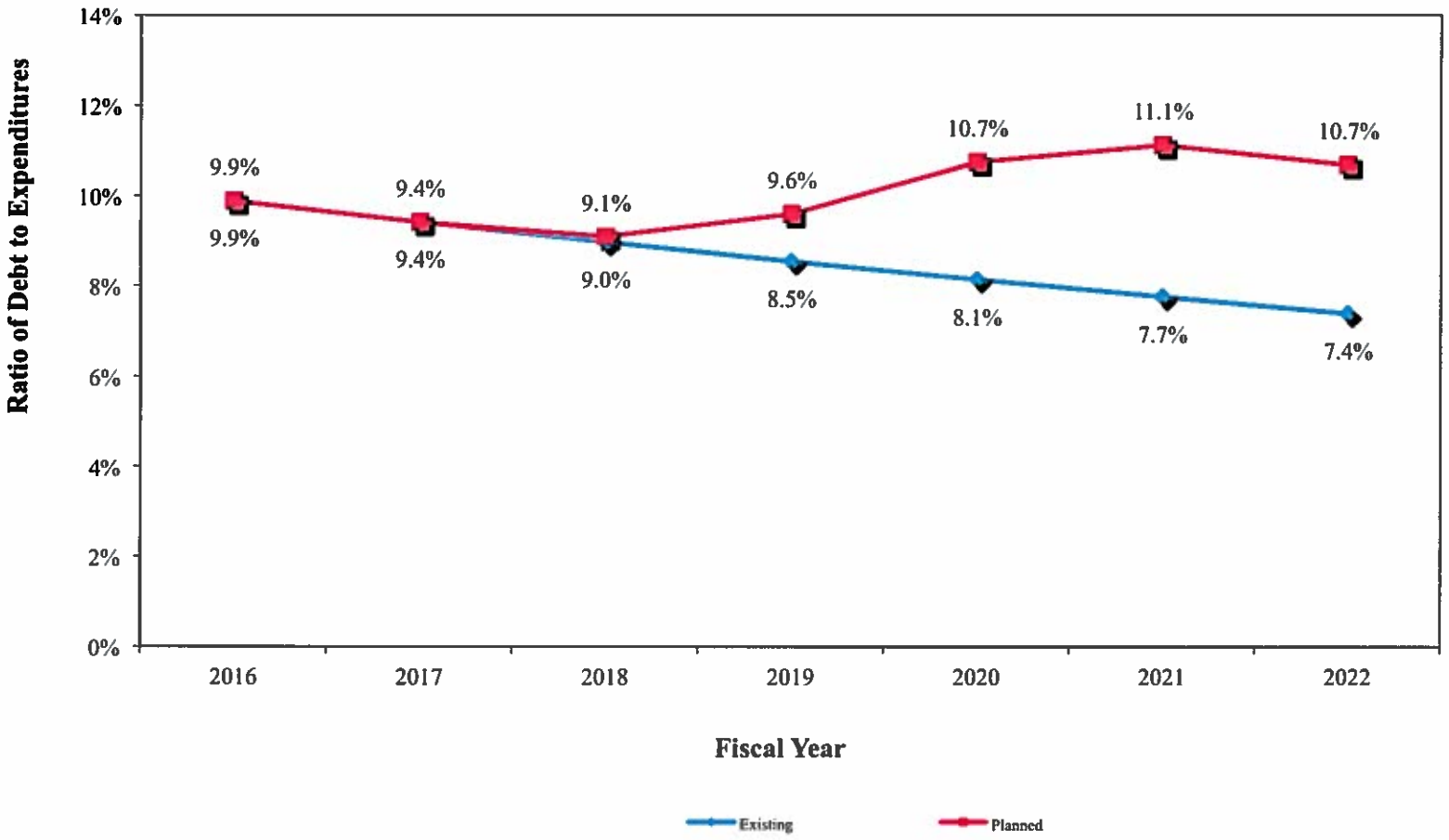
System
(Table 3)



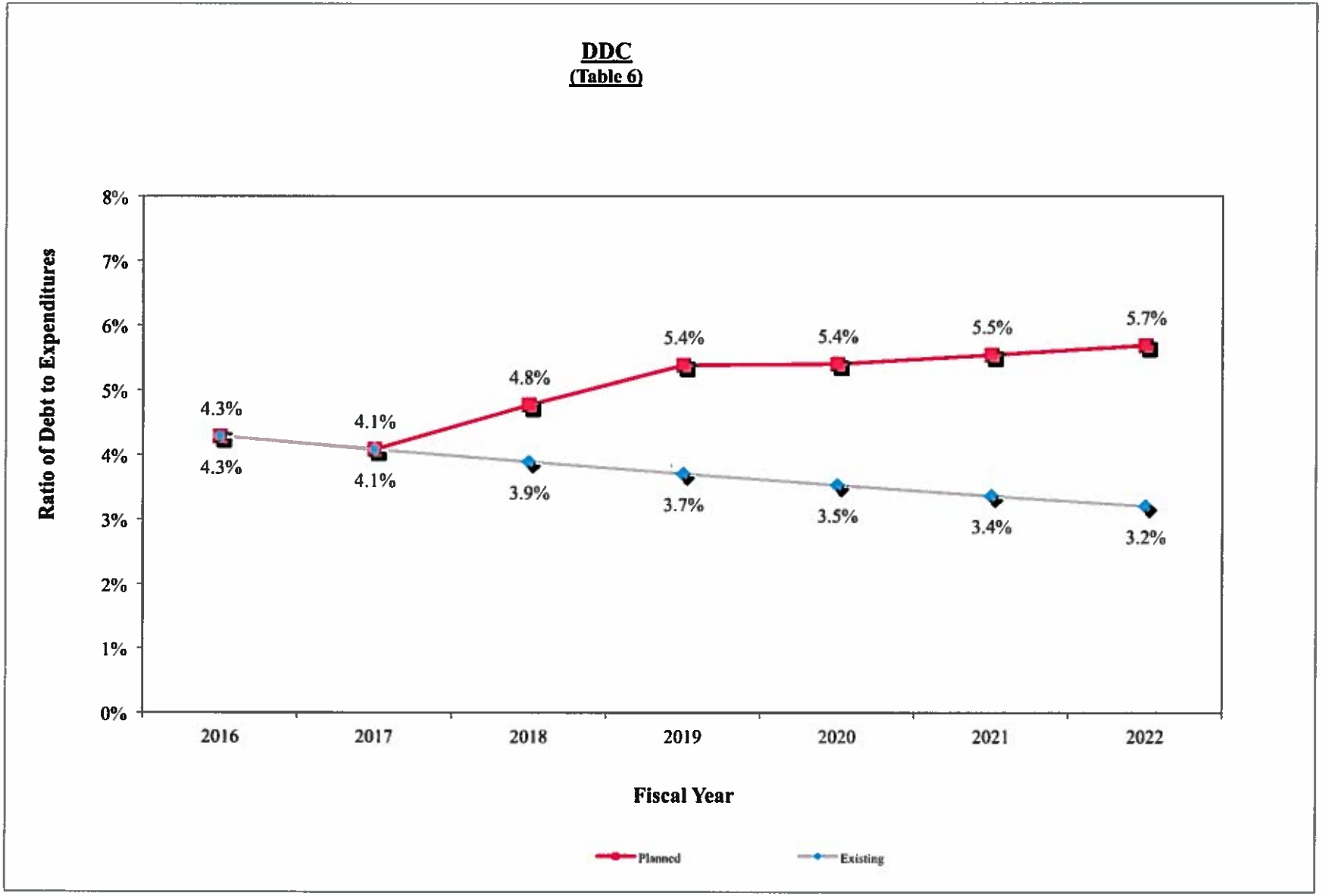
UCB
(Table 4)


Ratio of Debt to Expenditures
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
7.2%
6.8%
6.5%
6.2%
6.0%
5.8%
5.5%
7.2%
6.8%
6.5%
6.2%
5.9%
5.5%
5.2%
2016
2017
2018
2019
2020
2021
2022
Fiscal Year
Existing
Planned

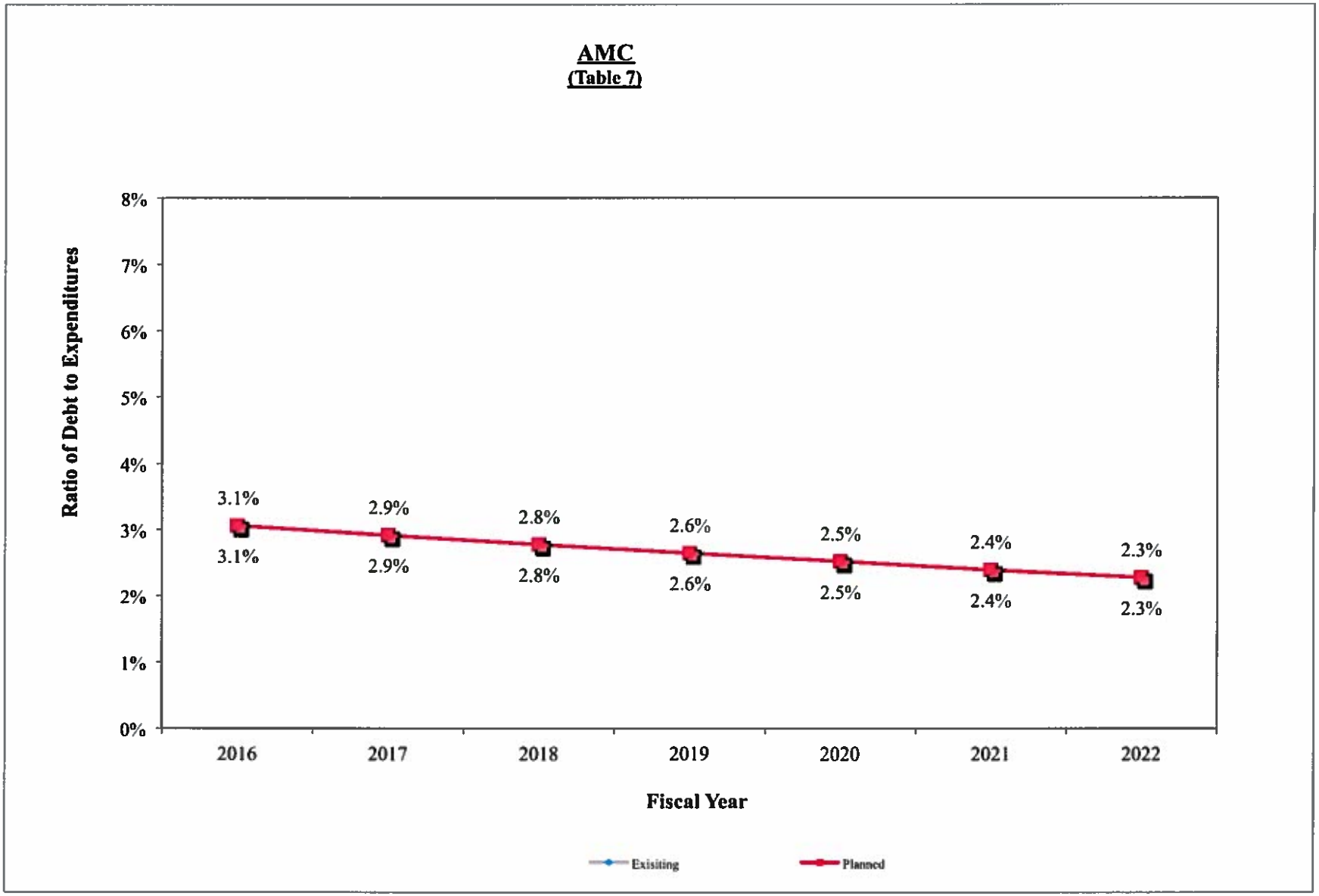
UCCS
(Table 5)


Ratio of Debt to Expenditures
14%
12%
10%
8%
6%
4%
2%
0%
9.9%
9.4%
9.1%
9.6%
10.7%
11.1%
10.7%
9.9%
9.4%
9.0%
8.5%
8.1%
7.7%
7.4%
2016
2017
2018
2019
2020
2021
2022
Fiscal Year
Existing
Planned

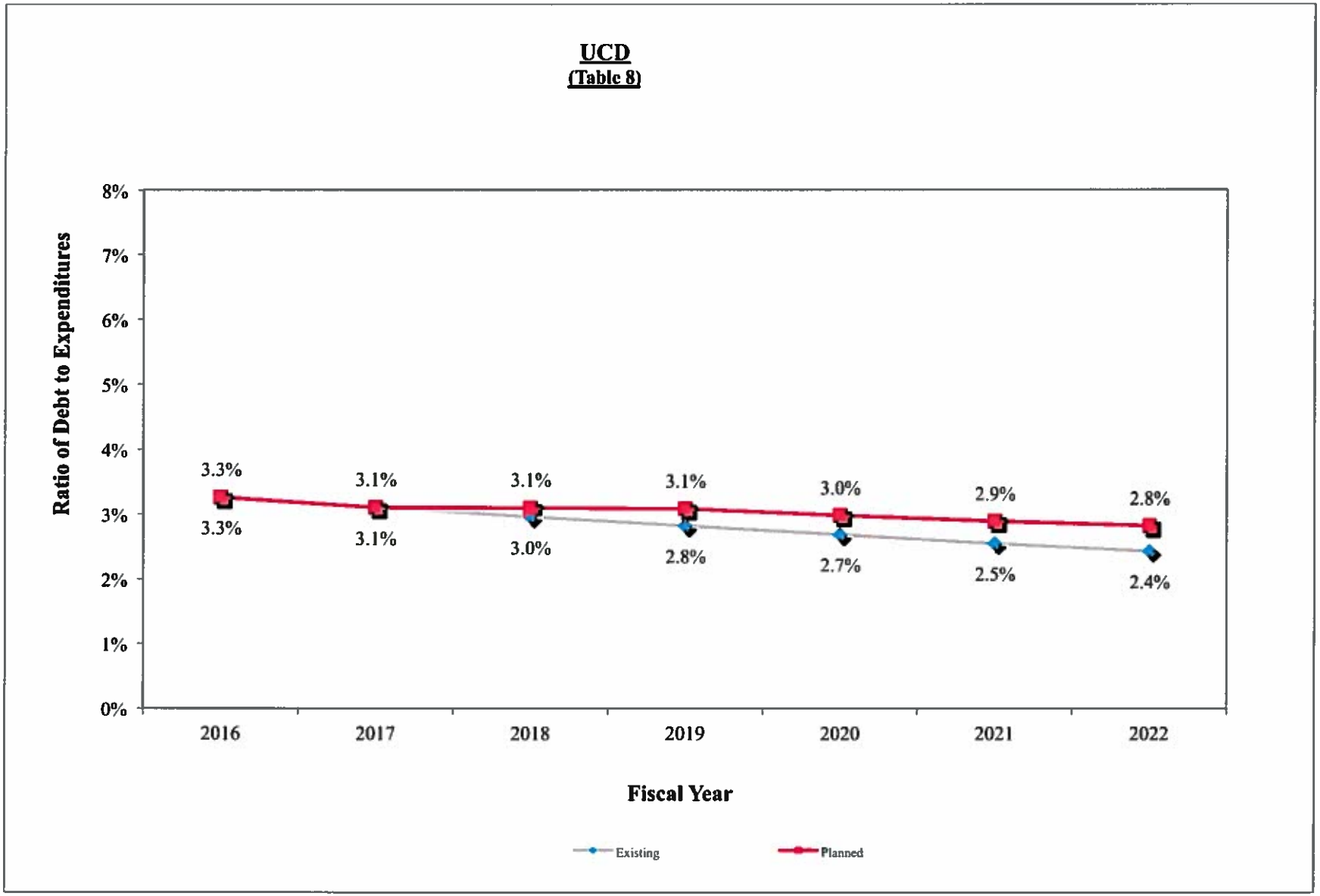
DDC
(Table 6)


Ratio of Debt to Expenditures
8%
7%
6%
5%
4%
3%
2%
1%
0%
4.3%
4.1%
4.8%
5.4%
5.4%
5.5%
5.7%
4.3%
4.1%
3.9%
3.7%
3.5%
3.4%
3.2%
2016
2017
2018
2019
2020
2021
2022
Fiscal Year
Planned
Existing

AMC
(Table 7)


Ratio of Debt to Expenditures
8%
7%
6%
5%
4%
3%
2%
1%
0%
3.1%
2.9%
2.8%
2.6%
2.5%
2.4%
2.3%
3.1%
2.9%
2.8%
2.6%
2.5%
2.4%
2.3%
2016
2017
2018
2019
2020
2021
2022
Fiscal Year
Exisiting
Planned

UCD
(Table 8)


Ratio of Debt to Expenditures
8%
7%
6%
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3.3%
3.1%
3.1%
3.1%
3.0%
2.9%
2.8%
3.3%
3.1%
3.0%
2.8%
2.7%
2.5%
2.4%
2016
2017
2018
2019
2020
2021
2022
Fiscal Year
Existing
Planned