
CAPITAL FINANCING AND DEBT MANAGEMENT



University of Minnesota
November 12, 2009

Long-Term Debt As of June 30, 2009

(000s omitted)

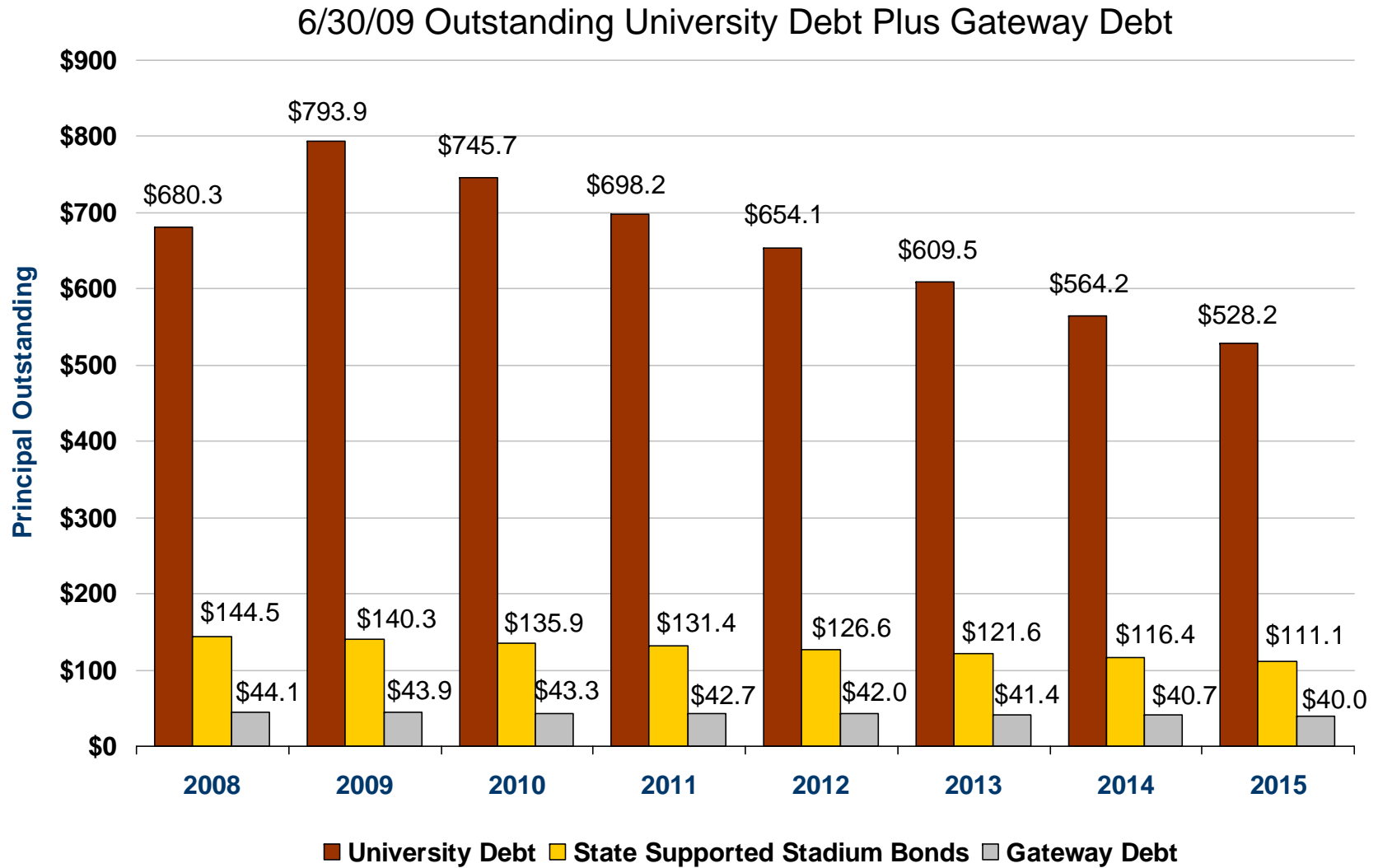
	Interest Rate	Due at various dates through	Beginning Balance	Additions	Reductions	Ending Balance (Unaudited)
General Obligation Bonds						
Series 2009D	6.3%	2028	\$ 0	\$ 37,330	\$ 0	\$ 37,330
Series 2009C	1.5%-5.0%	2021	-	49,056	55	49,001
Series 2009B	2.5%-6.0%	2029	-	17,035		17,035
Series 2009A	3.0%-5.25%	2034	-	42,528	23	42,505
Series 2004A	4.86%	2010	11,698		3,804	7,894
Series 2003A	4.39%	2031	65,750		1,650	64,100
Series 2001C	4.40%	2009	133,650		5,900	127,750
Series 2001B	4.33%	2009	1,620		375	1,245
Series 2001A	3.08%	2009	2,670		2,670	0
Series 1999A	4.16%	2009	136,900		10,600	126,300
Commercial paper notes, Series A	3.15%-3.65%	2009	142,100			142,100
Commercial paper notes, Series B	3.15%-3.65%	2009	55,000			55,000
Commercial paper notes, Series C	3.15%-3.65%	2009	66,500			66,500
Obligations to the State of Minnesota pursuant to infrastructure development bonds	3.55%-6.9%	2025	51,516		5,756	45,760
Auxiliary revenue bonds	3.0%	2013	5,530		1,080	4,450
Special purpose revenue bonds	4.00%-5.00%	2029	144,525		4,214	140,311
Capital leases and other	1.72%-8.0%	2015	7,294	1,204	1,554	6,944
TOTAL			\$824,753	\$147,153	\$ 37,681	\$934,225

Long Term Debt Analysis

	<u>6/30/2008</u>	<u>6/30/2009</u>
Total Outstanding	\$824.8 million	\$934.2 million
University Bonds	\$ 673.0 million	\$ 787.0 million
State Supported Stadium Bonds	\$ 144.5 million	\$ 140.3 million
Capital leases and other	7.3 million	\$ 6.9 million
Fixed Rate* / Variable Rate	85% / 15%	87% / 13%
University Issued* / State Issued	94% / 6%	95% / 5%
Weighted Average Fixed Rate *	4.92%	4.53%
Weighted Average Variable Rate	1.59%	0.99%
Weighted Average University Issued *	4.20%	4.02%
State Issued Fixed Rate	5.06%	5.01%
Total Weighted Average University Debt	4.26%	4.06%
Average Life of Debt	9.4 years	9.4 years

*Includes State Supported 2006 Special Purpose Revenue Bonds

Current Amortization Structure (in millions)

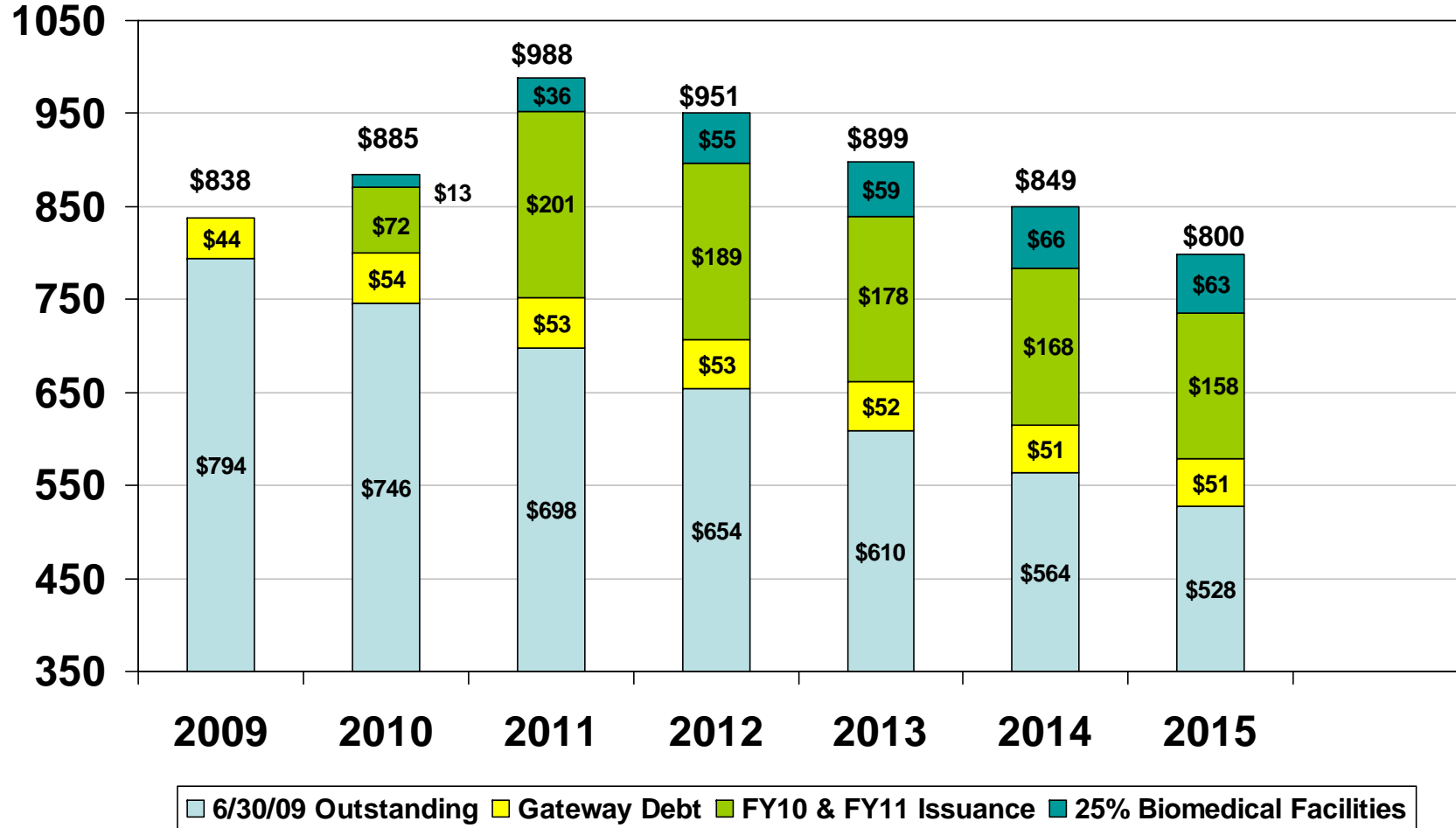


Recognize Current Extraordinary Financial Realities

- Advancing an overall capital plan that maintains current debt ratings (Moody's Aa2/S&P AA)
- Limiting long term leverage/reliance on endowment assets for increased debt capacity
- Honoring projects that have an identified source of payment for debt costs
- Limiting new capital projects that place increased operating cost burdens on units that are in financial stress
- Leveraging state capital funding opportunities in conjunction with University resources to complete critical projects that serve to improve infrastructure and benefit the common good

Projected Amortization Structure (in millions)

Comprehensive Debt Supported by University Resources



Letter Ratings to Designate University Credit Quality

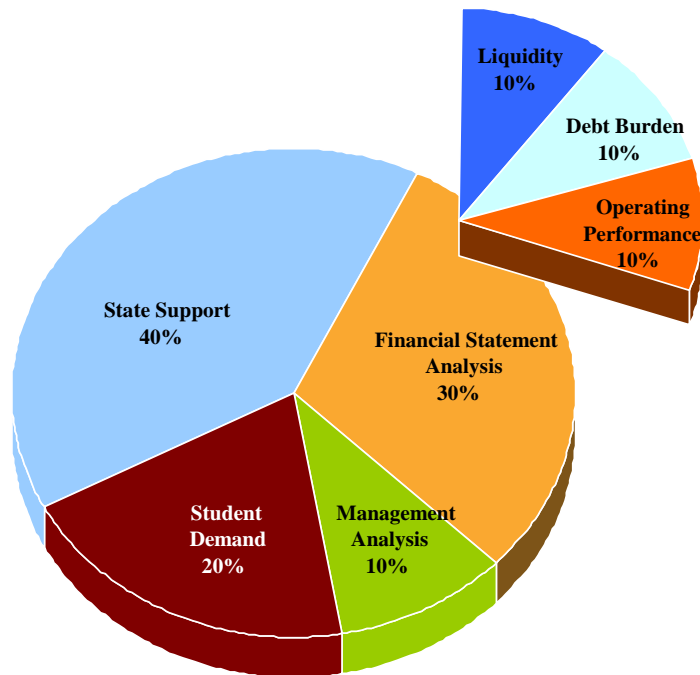
Moody's Investors Service Rating
Aaa
Aa1, Aa2 , Aa3
A1, A2, A3
Baa1, Baa2, Baa3
Ba1, Ba2, Ba3
B1, B2, B3
Caa to C

Financial Security Evaluation
Exceptional
Excellent
Good
Adequate
Moderate
Weak
Default

Standard and Poor's Rating
AAA
AA+, AA , AA-
A+, A, A-
BBB+, BBB, BBB-
BB+, BB, BB-
B+, B, B-
CCC to D

The University of Minnesota is currently rated Aa2 by Moody's, and AA by Standard and Poor's.

Credit Rating and Debt Capacity Determinants



Student Demand- Strong “Aa”

- Solid student market position

Financial Statement Analysis- Strong “Aa”

- Strength of General Obligation pledge
- Superior financial resources—especially Total Resources per student
- Debt per student in line with peers
- Debt service as a percentage of budget is moderate

State Support- State of Minnesota “Aa1/AAA”

- History of strong appropriations, but budget pressures continue

Management Analysis- Strong “Aa”

- Analyst’s assessment of University management strength
- Research position and strategy

An analysis of student demand, market position and financial indicators places the University of Minnesota solidly in the strong “Aa” category. Debt capacity and credit ratings are not a function of ratios alone, but are highly dependent on other factors such as debt strategy, essentiality of debt, future fundraising, revenue producing capability and debt structure.

Financial Metrics, Debt Capacity Assumptions FY2009 – FY2015

- Previous Methodology
 - Focused primarily on prior trend line for future growth assumptions
 - Projected only needed components of 3 ratios (a) operating expenses, (b) outstanding debt/interest expense and (c) net assets as a whole – did not project discreet components within those categories
- New Methodology
 - Model built to project discreet components of University's Annual Financial Statements (Operating and non-operating revenues, operating expenses, grants, gifts, investment income, increase/decrease in investments, liabilities, accounts payable, cash, etc.)
 - Incorporates both historical trend lines and year over year financial assumptions
 - Model is flexible to accommodate different assumptions
 - Model creates traditional financial statements
 - Model automatically creates key financial metrics from data inputs
 - Debt capacity calculated with and without influence of UMF & MMF net assets

Financial Metrics, Debt Capacity Assumptions FY2010 – FY2015 Key Assumptions – Forecast Highlights

- **Operating Revenue**
 - Student Tuition & Fee Revenue: average annual growth of 5.5%
 - Federal Appropriations: flat to slight decline
 - Federal Grant & Contracts: jump for FY10/11 Stimulus, then 2.0% per year thereafter
 - Non governmental grants: average annual growth of 3.8%
 - State & Other Grants & Contracts: flat
 - Sales & Services Income/Auxiliary Enterprises: average annual growth of 3.0%

- **Operating Expenses**
 - Education and General Expenditures: average annual growth of 2.1%
 - Scholarships & Fellowships: average annual growth of 5.6%
 - Auxiliary Enterprises: average annual growth of 2.5%

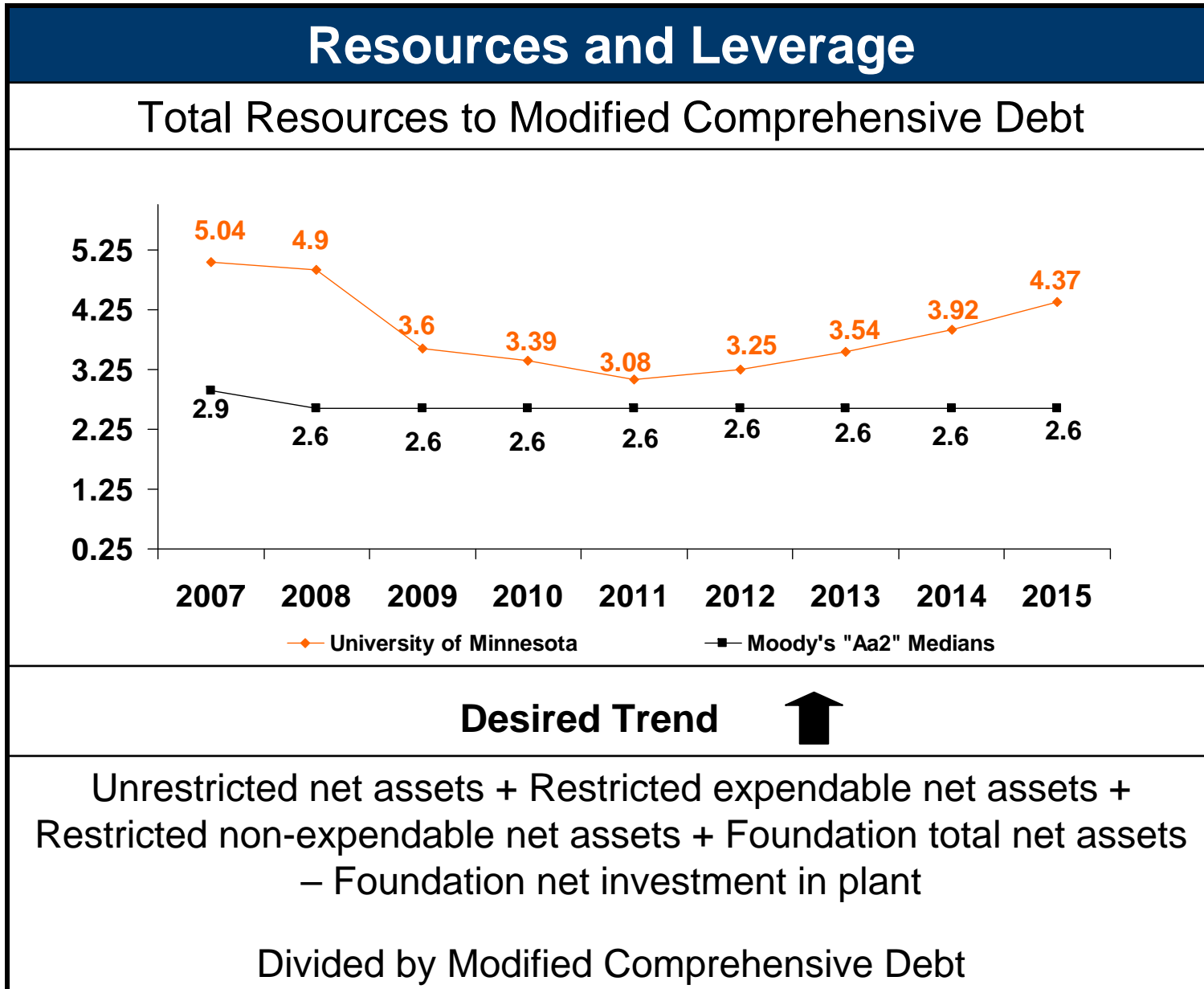
- **Non Operating Revenues**
 - State Appropriations: actual for 2010 & 2011; 10% decline in FY2012 and additional 5.0% decline in FY2013; then 2.5% annual growth for 2014 & 2015
 - Grants: average annual growth of 6.0%
 - Gifts: average annual growth of 6.0%
 - Net increase/(decrease) fair market value investments; large loss 2009; modest loss 2010; growth returns in 2011(all net of distributions)

- **Outstanding Debt/Interest Expense**
 - Current amortization schedule plus:
 - Fall 2009 issuance of \$36.7M for various projects and \$5.1M CREBs
 - Fall 2009 issuance of remaining \$33.0 million for stadium
 - Fall 2010 issuance of 1/3 U of M Share of 2010 State Capital Request of \$42.4M net of fundraising
 - Fall 2010 issuance of TC Recreations Center Expansion (\$59.0 million) and Northrup renovation (\$35.0 million)
 - U of MN 25% share of Biomedical Facilities debt of \$73.0M

Key Financial Metrics

RATIO	KEY COMPONENT	DEFINITION
Total Resources to Modified Comprehensive Debt	Total resources	Unrestricted net assets + restricted expendable net assets + restricted nonexpendable net assets + foundations' total net assets less foundations' net investment in plant
Total Expendable Resources to Modified Comprehensive Debt	Total expendable resources	Unrestricted net assets + restricted expendable net assets + foundations' unrestricted/temporarily restricted net assets less foundations' net investment in plant
	Modified comprehensive debt	The sum of direct and indirect debt, i.e., the University's debt plus Gateway debt, less the state-supported stadium debt and 75% of the biomedical facilities bonds (i.e., special purpose debt)
Debt Service to Operations	Debt service	Sum of the principal and principal paid on capital debt less principal and interest on the special purpose debt
Total Expendable Resources to Operations	Operations	University operating expenses plus interest on capital asset-related debt less depreciation less interest on the special purpose debt
University Unrestricted Resources to Operations	University unrestricted resources	Unrestricted net assets of the University

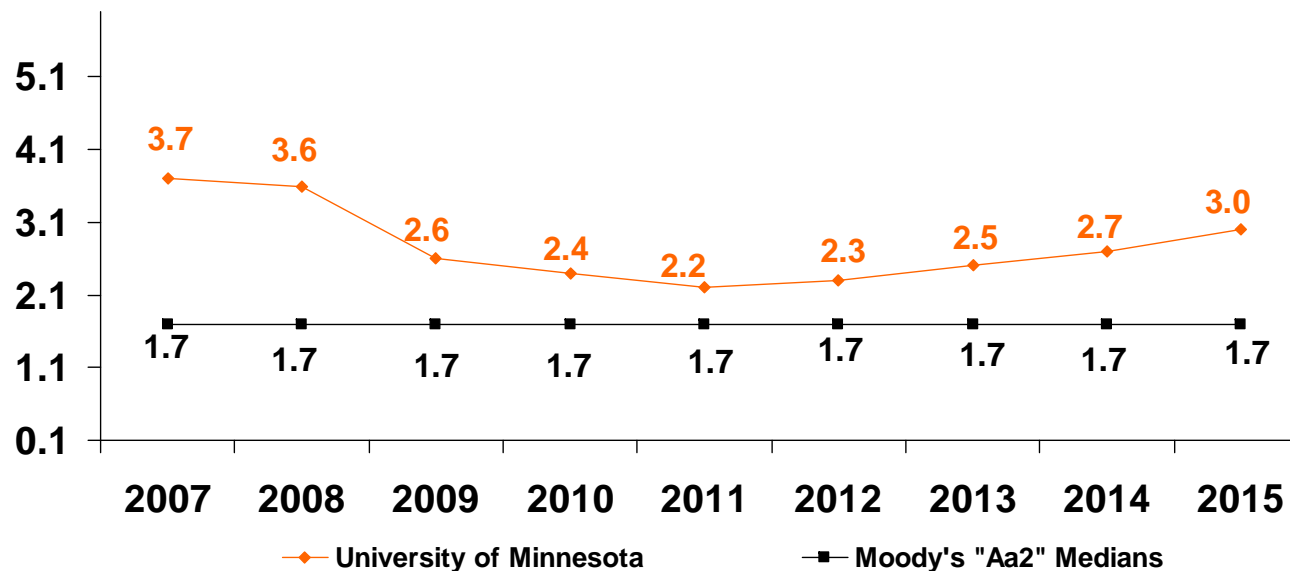
Analysis of Key Credit Ratios - A



Analysis of Key Credit Ratios - B

Resources and Leverage

Total Expendable Resources to Modified Comprehensive Debt



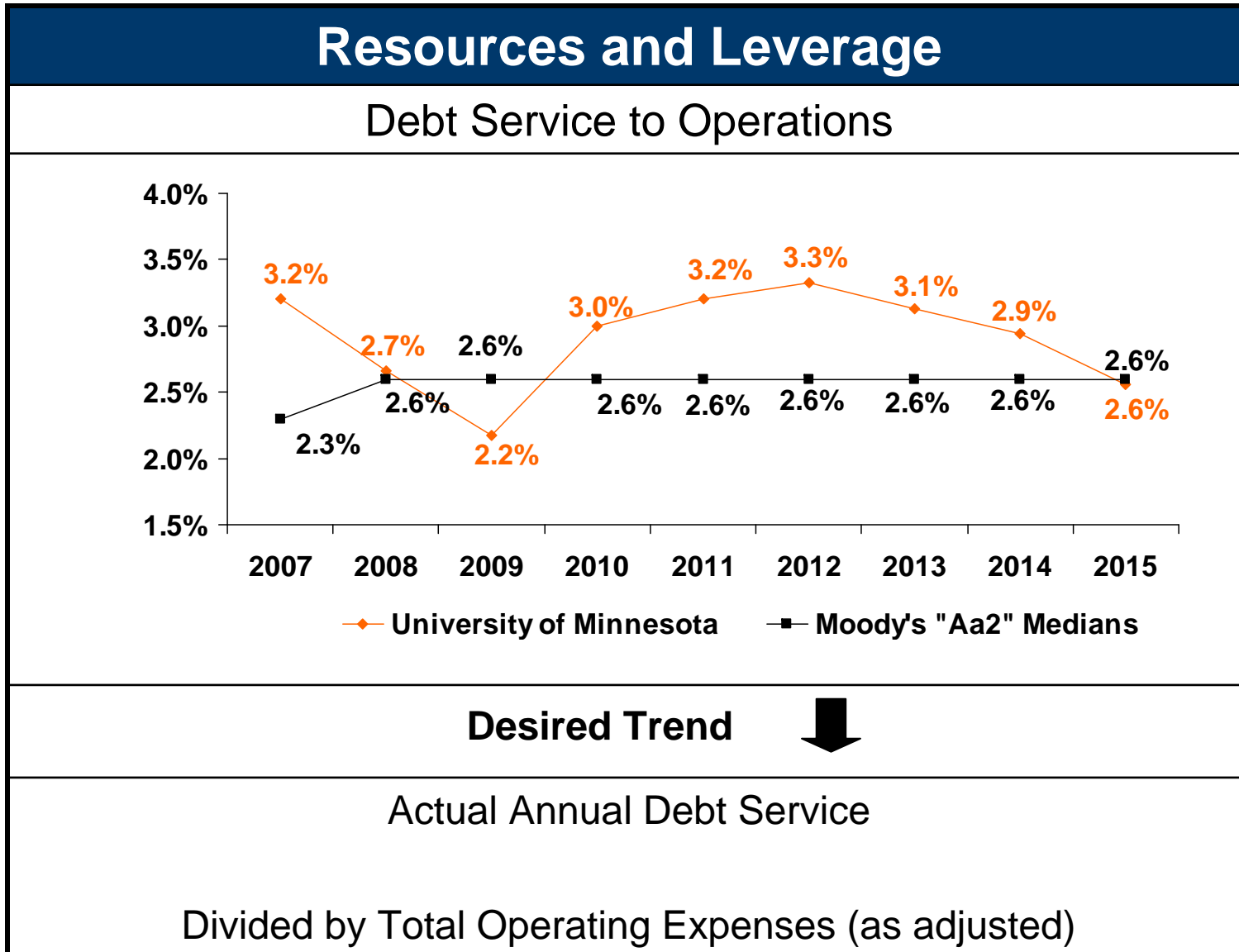
Desired Trend



Unrestricted net assets + Restricted expendable net assets +
 Foundation unrestricted net assets + Foundation temporarily
 restricted net assets – Foundation net investment in plant

Divided by Modified Comprehensive Debt

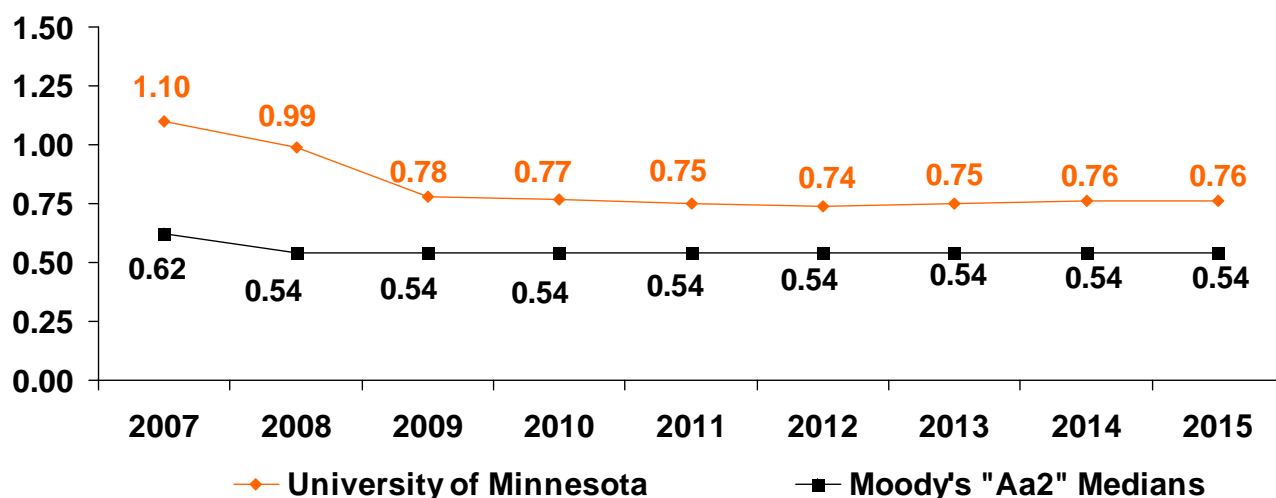
Analysis of Key Credit Ratios - C



Analysis of Key Credit Ratios - D

Liquidity and Operating Cushion

Total Expendable Resources to Operations



Desired Trend



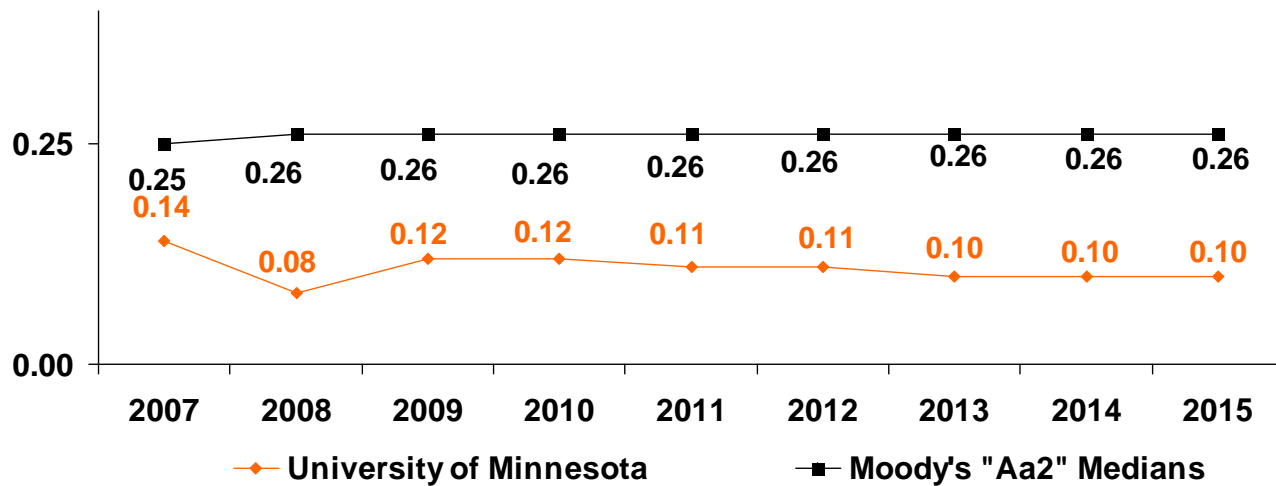
Unrestricted net assets + Restricted expendable net assets +
 Foundation unrestricted net assets + Foundation temporarily
 restricted net assets – Foundation net investment in plant

Divided by Total Operating Expenses (as adjusted)

Analysis of Key Credit Ratios - E

Liquidity and Operating Cushion

Total University Unrestricted Resources to Operations



Desired Trend



Unrestricted net assets

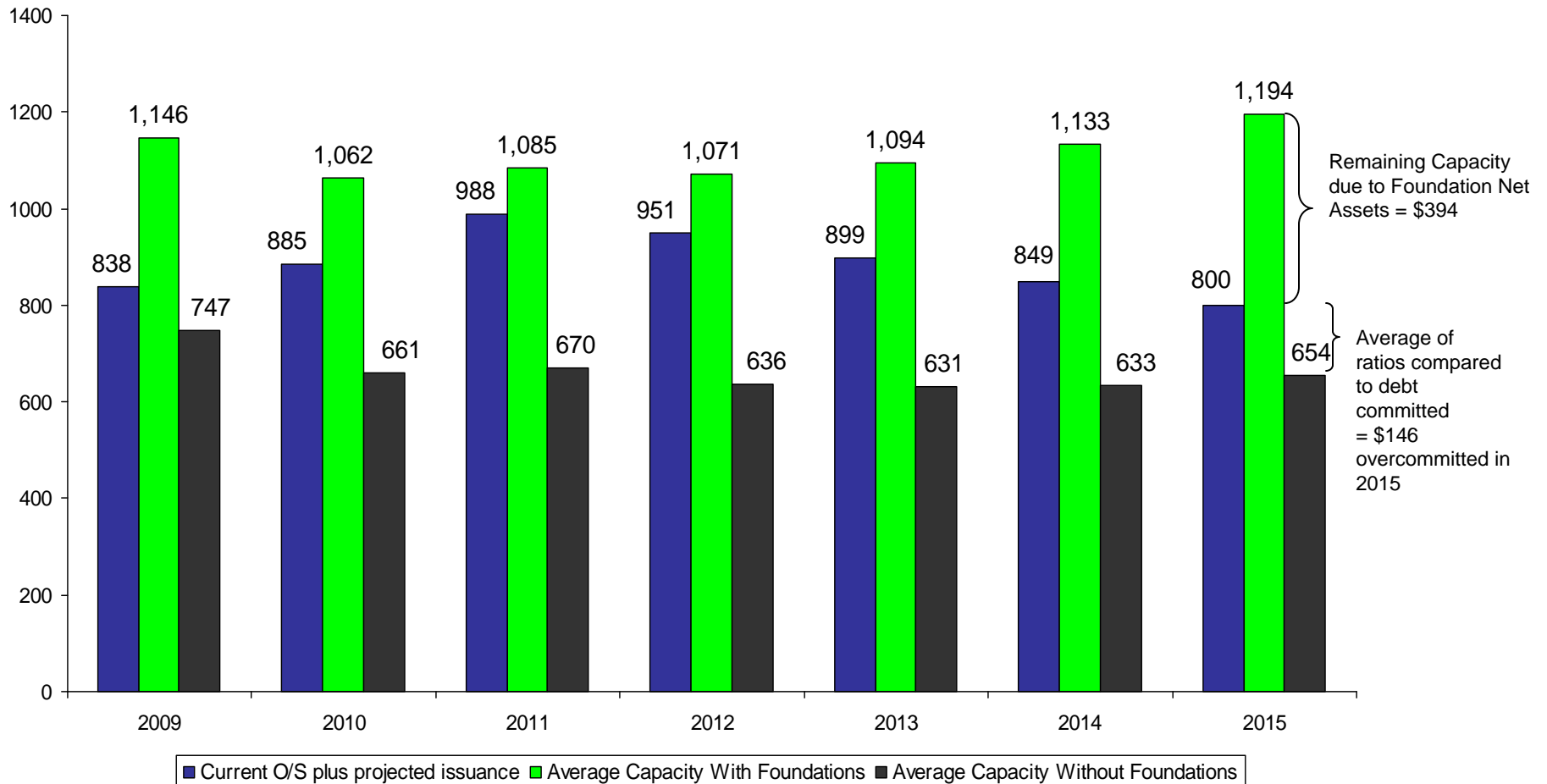
Divided by Total Operating Expenses (as adjusted)

Theoretical Projected Debt Capacity

Impact of Foundations' Net Assets

Based on Moodys Aa2 Medians

(in millions)



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