Strategic Financial Plan Update
Board of Trustees

November 10, 2006
Strategic Financial Plan – Version 5.0

• Creation of Version 5.0

• Debt Ratios

• Guide posts - Range of options

• Implications and next steps
Strategic Financial Plan – Version 5.0

Planning Assumptions:

• Full review of capital requirements associated with strategic vision from 2006 – 2016

• Version 5.0 - reevaluated capital requirements based on realistic assessments of the campus physical plant; built from results of the Strategic Capital Plan

• As presented, scale and timeframe are more aggressive than is sustainable financially, but failing to make additional investment is not sustainable programmatically.

• Conclusion: Appropriate to understand the full implication of the real needs and work to determine how to fit/modify the gap. Solution has to be found between these outside guide posts

• Further work now required from this comprehensive starting point
Strategic Financial Plan – Version 5.0

Major Assumptions

Updated based on:

– Incorporation of FY 2006 audited financials, added FY 2016

– Actual results show $30.6M increase in net assets

– Revised strong undergraduate enrollment, built from Fall 2006 results

– Tuition increase of 6% for FY 2008 – FY 2010; 4% thereafter

– Graduate enrollment consistent with Version 4.0

– Sponsored Activity moderated for lower current growth

– Continued addition of faculty – 47 more positions beyond the 38 already added; 46 research positions
Strategic Financial Plan – Version 5.0

Major Assumptions

Updated based on (cont’d):

– Incorporation of $152.3M bond issue, and $50M of already authorized projects, increasing total debt (current and long term) to $353.6M, through FY 2006

– $495M in additional debt (versus $276M in 4.0) through FY 2016

– Long term debt forecast at 5.0%; internal repayment at 5.5%

– Continued expectation of strong fundraising results

– Average return on endowment of 8.0%

– Continuation of general revenue and expense assumptions with general inflation increased from 2.0% to 3.5%
The updating of and changes in assumptions result in:

- Continued strong financial results through FY 2010, with weakening results beginning in FY 2011

- By FY 2011, as currently projected, enrollment growth is substantially complete and project growth results in a doubling of debt

- Taken together, these two factors erode the steady growth in net assets that occurs up until that time

- Without mitigating actions, yet to be finalized, results in the Viability Ratio being out of compliance with policy by the end of FY 2007 and the Debt Burden ratio being out of compliance by the end of FY 2009
Strategic Financial Plan – Version 5.0
Major Assumptions – Undergraduate Enrollment

Comparison of SFP Version 4.0 to 5.0 Undergraduate Headcount Enrollment

- Ver. 4.0
- Ver. 5.0

Fiscal Year

FY05 FY06 FY07 FY08 FY09 FY10 FY11 FY12 FY13 FY14 FY15 FY16

7,923 8,535 8,755 8,980 9,110 9,270 9,430 9,485 9,485 9,485 9,485 9,485

8,528 8,755 8,960 9,140 9,270 9,460 9,485 9,485 9,485 9,485 9,485 9,485

9,430 9,460 9,485 9,485 9,485 9,485 9,485 9,485 9,485 9,485 9,485 9,485

7,922 8,535 8,755 8,980 9,110 9,270 9,430 9,485 9,485 9,485 9,485 9,485
Strategic Financial Plan – Version 5.0
Major Assumptions – Undergraduate Enrollment

- Successful 2005 and Fall 2006 enrollment means that growth continues on track from Version 4.0 to Version 5.0.

- Actual enrollment has met or exceeded forecast for three years.

- The incremental revenue associated with assuming 6% tuition increases for three years, is reflected in overall revenue growth.
## Strategic Financial Plan – Version 5.0
### Capital Spending Plan

<table>
<thead>
<tr>
<th>Project Cost</th>
<th>Borrowed to Date</th>
<th>Remaining to Borrow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approved Projects (on CP vs LT borrowing)</td>
<td>49,580,000</td>
<td>24,035,000</td>
</tr>
<tr>
<td>Unapproved Projects - Strategic Capital Plan (forecasted borrowing)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>College of Engineering and Mathematical Sciences Projects</td>
<td>34,850,000</td>
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<tr>
<td>College of Arts &amp; Sciences Projects</td>
<td>62,300,000</td>
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</tr>
<tr>
<td>Rubensteins School of Environment and Natural Resources Projects</td>
<td>13,000,000</td>
<td>5,000,000</td>
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<tr>
<td>College of Agriculture and Life Sciences (CALS) Projects</td>
<td>61,000,000</td>
<td>15,300,000</td>
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<tr>
<td>College of Education and Social Services (CESS) Projects</td>
<td>12,450,000</td>
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</tr>
<tr>
<td>College of Nursing and Health Sciences Projects</td>
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</tr>
<tr>
<td>University Libraries Projects</td>
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<td>5,000,000</td>
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<tr>
<td>School of Business Administration Projects</td>
<td>5,000,000</td>
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</tr>
<tr>
<td>College of Medicine (COM) Projects</td>
<td>20,900,000</td>
<td>-</td>
</tr>
<tr>
<td>Infrastructure Projects</td>
<td>57,600,000</td>
<td>2,000,000</td>
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<tr>
<td>Student Life Projects</td>
<td>97,135,000</td>
<td>12,000,000</td>
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<tr>
<td>Institutional Projects</td>
<td>107,200,000</td>
<td>16,000,000</td>
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<tr>
<td><strong>Subtotal Unapproved Projects</strong></td>
<td>487,935,000</td>
<td>55,300,000</td>
</tr>
<tr>
<td>Contingency for Unapproved Projects</td>
<td>37,120,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Unapproved Project Costs (includes Contingency)</strong></td>
<td>525,055,000</td>
<td></td>
</tr>
<tr>
<td><strong>Borrowing - Unapproved Projects</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total New Borrowing (Approved and Unapproved) reflected in SFP 5.0</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*CP balance FY 2006 year end
Figures do not include Cost of Issuance
Strategic Financial Plan – Version 5.0
Capital Spending Plan

- Projection of full capital requirements based on comprehensive Strategic Capital Plan

- Forecast includes $525M of additional projects (including a $37.1M contingency), and assumes $55.3M of public and private support.

- Approved, but not yet financed projects ($26M), debt associated with the additional projects ($432.6M), and the contingency ($37.1M) result in a full forecast of $495M of additional debt added in Version 5.0

- Projections include updated cost of construction

- As currently framed, capital spending still focused more heavily in the next four years
Strategic Financial Plan – Version 5.0
Capital Spending Plan

Strategic Financial Plan 5.0
Projected Capital Spending $525m - Unapproved Projects

Fiscal Year
Includes Project Costs and Contingency
Adoption of the debt policy in September 2004 defined two ways to measure the impact of debt in relation to two aspects of fiscal strength of the University

- **Debt Burden Ratio** - defines a ceiling for the proportion of current debt expenses to operating expenses (including interest payments). Policy = 5.0%

- **Viability Ratio** - defines a floor for the relationship between expendable assets (unrestricted net assets and restricted expendable net assets) and total debt. Policy = 1.0
Strategic Financial Plan – Version 5.0
Debt Ratios: Debt Burden Ratio

![Debt Burden Ratio Chart]

- **Debt Burden Ratio**
- **Debt Service as a Percent of Operating Expense**
- **Fiscal Year**
- **Debt Burden Target**
Strategic Financial Plan – Version 5.0
Debt Ratios: Viability Ratio

![Viability Ratio Graph]

**Strategic Financial Plan 5.0**

**Viability Ratio**

- **Expendable Net Assets as a Percent of Aggregate Debt**
- **Fiscal Year**
- **Viability Ratio**
- **Viability Target**

**Graph Details:**
- Data points for fiscal years 2005 to 2016.
Strategic Financial Plan – Version 5.0
Guide posts - Range of options

• Framed Baseline option – “Scenario 5.1”

  – Same growth, income and expense operating assumptions

  – Incorporates current debt ($353.6M) and approved but not yet financed ($26M) projects

  – Assumes no additional debt

  – Recalculates growth of assets and net expendable assets – adds $276M of net expendable assets an addition of $100+M compared to Version 5.0

  – Recalculated debt ratios from this scenario
Strategic Financial Plan – Version 5.0 & Baseline
Debt Ratios: Debt Burden Ratio

![Graph showing debt burden ratios over fiscal years 2005 to 2016.](image)
Strategic Financial Plan – Version 5.0 & Baseline

Debt Ratios: Viability Ratio

Expendable Net Assets as a Percent of Aggregate Debt
Strategic Financial Plan – Version 5.0
Implications and Next Steps

Over coming months:

• Critical assessment of Strategic Capital Plan – Educational Policy and Institutional Resources Committee
  – Highest priorities based on programmatic and physical needs
  – Practical opportunities to amend or defer projects

• Alternate SFP views – Budget, Finance and Investment Committee
  – Assessment of financing options/implications
  – Reduced capital spending – increases net expendable assets
  – 6% tuition assumption – increases net expendable assets
  – Assess other options
Strategic Financial Plan – Version 5.0
Implications and Next Steps

• Over coming months:

  • Examine and assess:
    – Increase net expendable assets – improve bottom line
      • Tuition levels
      • Enrollment targets
      • Expense structure
    – Scale and timing of projects – reduce totals, spread over more than 10 years
    – Opportunities to increase capital gifts and grants (as a substitution for debt)
Strategic Financial Plan – Version 5.0
Implications and Next Steps

• Frame working plan within which to bring capital requests for action at the February meeting – consistent with project timing, available net expendable assets and longer term adjustment of overall capital plan

• Integrate results of these efforts to guide decision making about investment decisions as may be required in February and May

• The President and Provost will continue to work with Trustee leadership to broaden basis to secure capital from public and private sources