

UNIVERSITY OF
KENTUCKY®

**Presentation to the
University Senate**

President Eli Capilouto

December 10, 2012



Overall Context

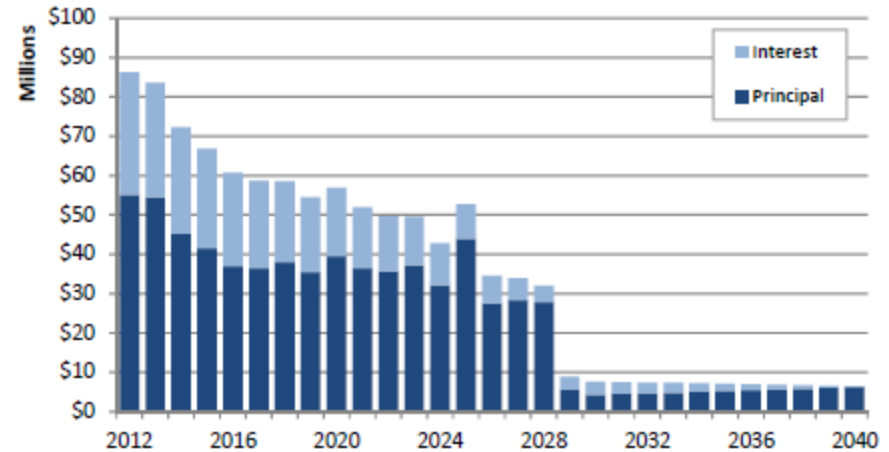
- **Debt Affordability**
- **Debt Capacity**
- **Internal/External Factors**
- **Three Ratios for Consideration**
 - **Expendable Resources to Debt**
 - **Debt to Revenues**
 - **Debt Service to Operations**

Debt Capacity Study

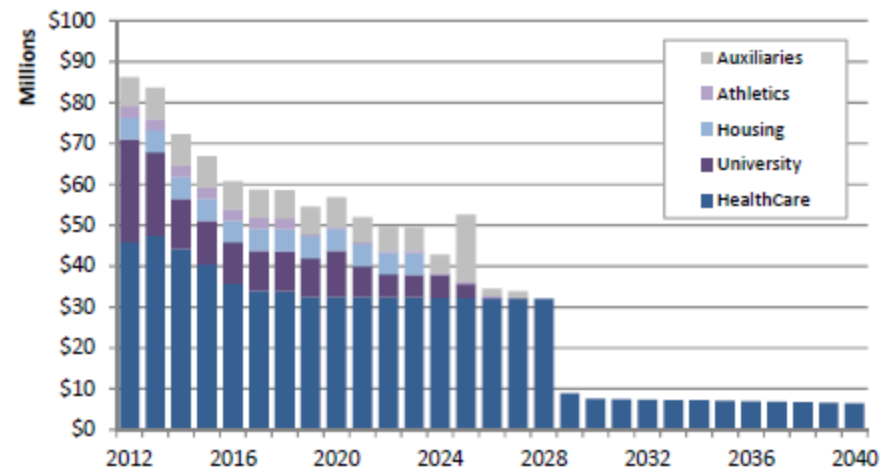
UK Debt Payments

- Debt is heavily front-loaded with \$262 million - or one-third - amortizing over the next 5 years.
- As debt amortizes, additional capacity is made available.
- 20 year vs. 30 year maturity

Projected Debt Service (By Principal and Interest)

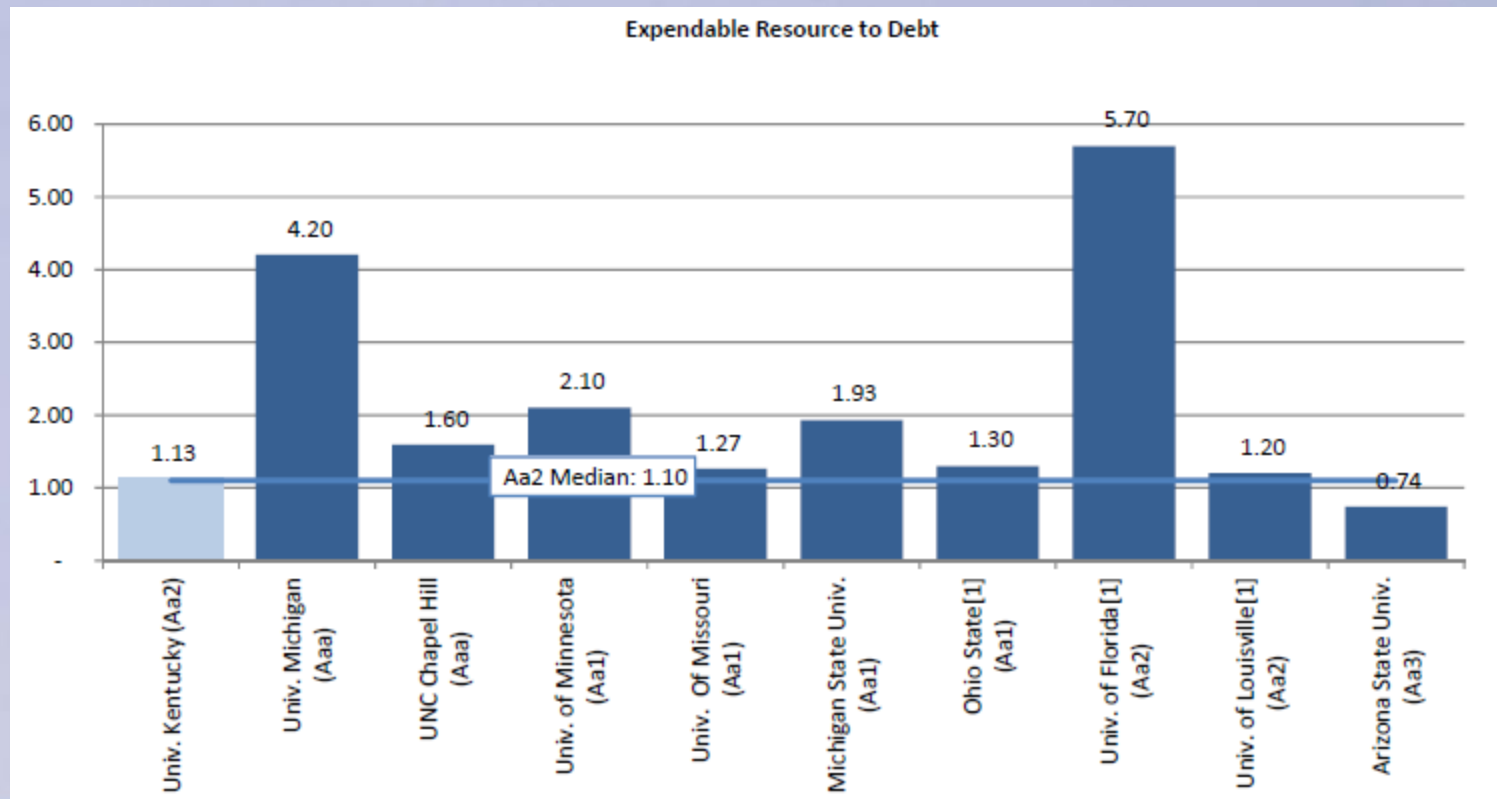


Projected Debt Service (By Use)



Debt Capacity Study

The University of Kentucky's balance sheet ratios are consistent with the peer group.



Debt Capacity Study

Determining UK's Capacity

University of Kentucky Scorecard Results - FY11	Sub-Factor Weights	Value	Score	Implied Rating	
Factor 1: Market Position: (35%)					Weighted Score: 3.10
Operating Revenue (\$000)	10%	2,274,799	2.00	Aa1	
Primary Selectivity (%)	5%	68.4	4.00	Aa3	
Primary Matriculation (%)	5%	40.0	4.00	Aa3	
Net Tuition per Student (\$)	10%	8,963	3.00	Aa2	
Average Gifts per Student (\$)	5%	3,193	2.00	Aa1	
Factor 2: Operating Performance: (30%)					Grid Rating: Aa2
Operating Cash Flow Margin (%)	10%	7.04	5.00	A1	Overall Rating: Aa2
Average Debt Service Coverage (x)	10%	2.69	4.00	Aa3	
Revenue Diversity (Max Single Contribution) (%)	10%	43.82	3.00	Aa2	
Factor 3: Balance Sheet and Capital Investment: (35%)					Weighted Score Legend:
Total Cash and Investments (\$000)	10%	1,555,615	2.00	Aa1	Aaa ≤ 1.5
Expendable Financial Resources to Direct Debt (x)	5%	1.13	3.00	Aa2	Aa1 > 1.5, ≤ 2.5
Expendable Financial Resources to Operations (x)	5%	0.38	4.00	Aa3	Aa2 > 2.5, ≤ 3.5
Debt to Operating Revenues (x)	5%	0.32	2.00	Aa1	Aa3 > 3.5, ≤ 4.5
Monthly Days Cash on Hand (x)	5%	127	4.00	Aa3	A1 > 4.5, ≤ 5.5
Monthly Liquidity to Demand Debt (%) ¹ (if no VRDO exposure, please indicate in value field, "No VRDOs")	5%	No VRDO	1.00	Aaa	A2 > 5.5, ≤ 6.5
					A3 > 6.5, ≤ 7.5
					Baa1 > 7.5, ≤ 8.5
					Baa2 > 8.5, ≤ 9.5
					Baa3 > 9.5, ≤ 10.5
					SG > 10.5

Debt Capacity Study

“The University has substantial debt capacity barring any material deterioration in the non-debt related drivers of credit strength. Based on our analysis, we (Prager) estimate that there is an additional \$450-\$650 million of debt capacity at the current rating level.”

Debt Capacity Based on FY2010 Moody's Public University Medians					
	2012	2013	2014	2015	2016
Balance Sheet Leverage – Expendable Resources to Debt					
UK Ratio Assuming No New Debt Issuance	1.34x	1.45x	1.63x	1.86x	2.15x
Aa2 Median	1.10x	1.10x	1.10x	1.10x	1.10x
Debt Capacity (\$MM)	147	196	265	357	459
Income Statement Leverage – Debt to Revenues					
UK Ratio Assuming No New Debt Issuance	0.29x	0.27x	0.23x	0.21x	0.18x
Aa2 Median	0.40x	0.40x	0.40x	0.40x	0.40x
Debt Capacity (\$MM)	244	308	414	489	560
Affordability – Debt Service to Operations					
UK Ratio Assuming No New Debt Issuance	3.92%	3.55%	3.77%	2.61%	2.30%
Ratio Threshold ¹ (≤4%)	4.00%	4.00%	4.00%	4.00%	4.00%
Debt Capacity (\$MM)	29	161	85	533	669

Overall Workgroup Map

- New Housing
- New Academic
- Proposed Demolitions & Replacements
- Academic Medical Plan
- Renovations across campus



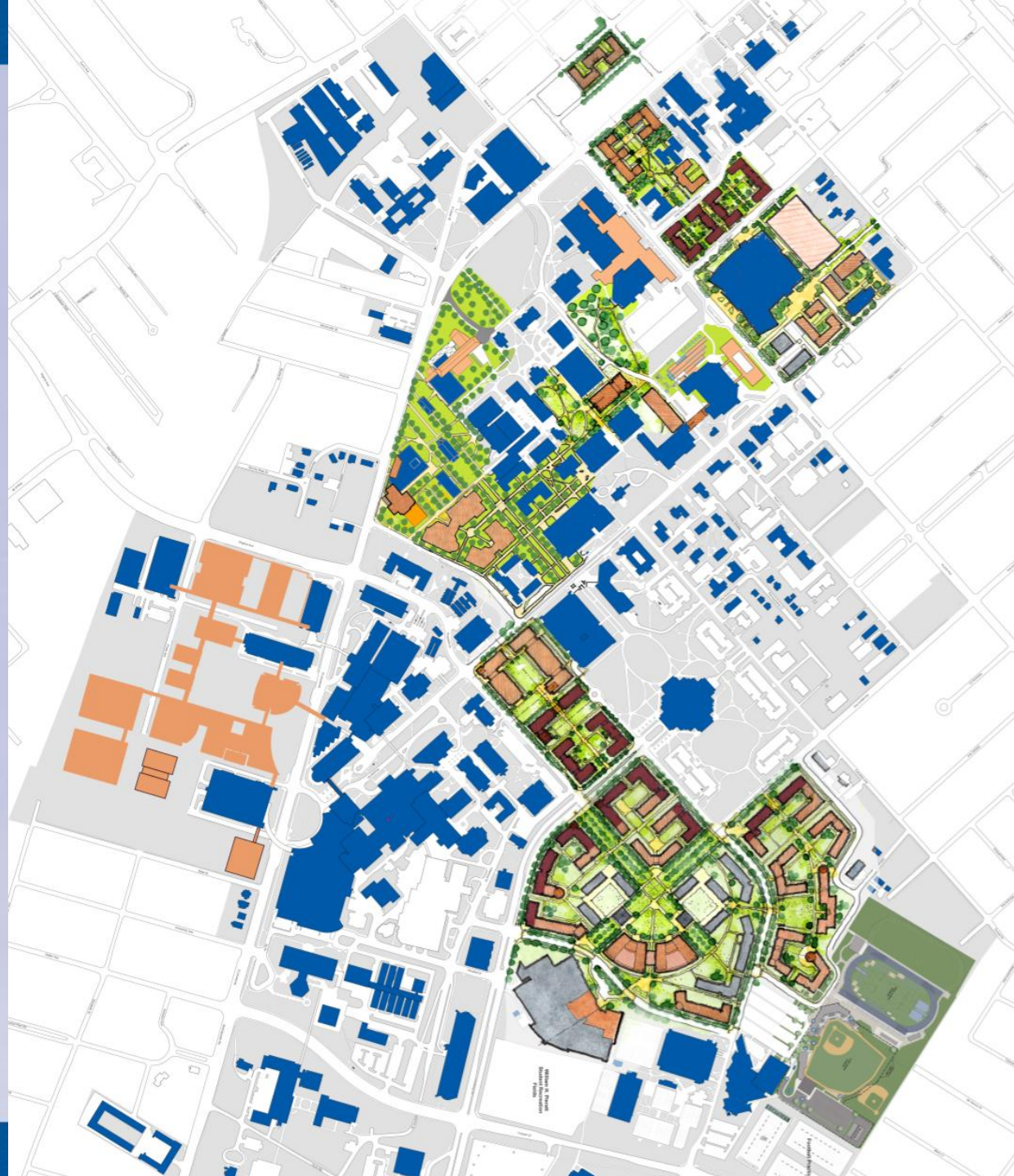
Existing Buildings



Potential New Buildings



Planning Areas



The committee was organized and charged on December 13th 2011 tasked with:

- 1) Creating a detailed financial and physical blueprint for transforming the overall facilities of our campus.
- 2) Developing a specific proposal including the cost of construction, maintenance, and renovation for a campus wide transformation.
- 3) Determine the level and source of financial support for these projects. (State Appropriation; UK Bonds; Philanthropy)
- 4) Determine a location for specific facilities and draft prioritization.

Committee Membership

Co-Chairs: Bob Wiseman
Angie Martin

Members: Mike Adams
Phil Harling
Robert Mock
Russ Pear
Jim Tracy

Steve Byars
Sergio Melgar
Beth Patrick
Mike Richey
Tim Tracy

General Findings

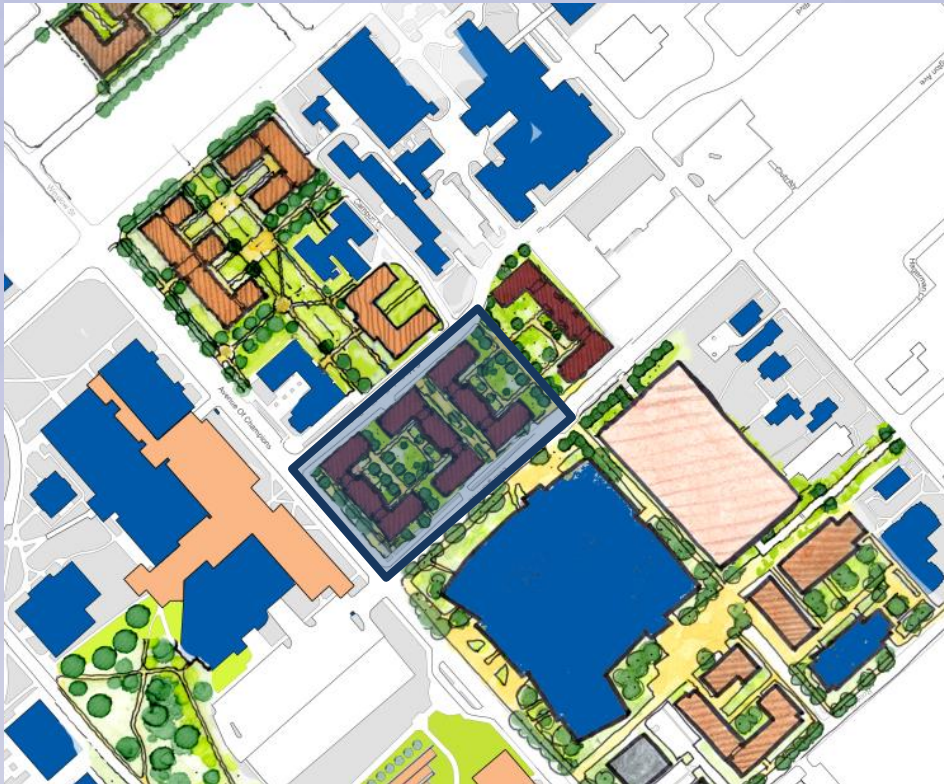
- 1) The committee assessed in a very broad brush manner what it would take financially to dramatically transform the campus over a ten to fifteen year timeline.
- 2) Units and colleges own project cost estimates and studies were utilized where they existed and the committee staff produced high level estimates for specific facilities where they did not exist.
- 3) A campus map setting out and locating the possible transformative changes was prepared.
- 4) A financial model containing project funding and timing was created utilizing financial capacity information contained within a separate Huron Consultants report.

Recommendations were issued on August 13, 2012

- 1) A map of ten to fifteen years of building demolitions, expansion sites, recommendations and locations was prepared and recommended.
- 2) A listing of buildings that should be considered for ultimate demolition and replacement was developed. (Washington Ave.)
- 3) Expansions and renovations to specific facilities was studied and proposed. (All Buildings across campus)
- 4) Additional program and facility needs for expanding programs and operations was reviewed, estimated and detailed.
- 5) A financial model (one scenario) was prepared as a “proof of concept” which could be achieved over a ten to fifteen year period meeting recommendations 1-4 above.

Campus Housing

North Zone

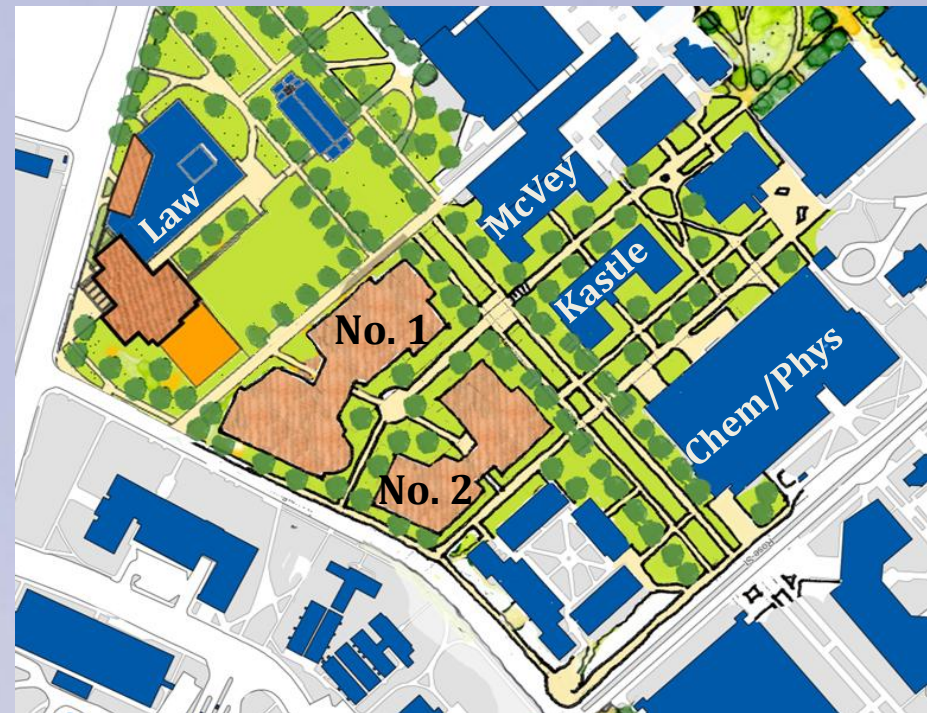
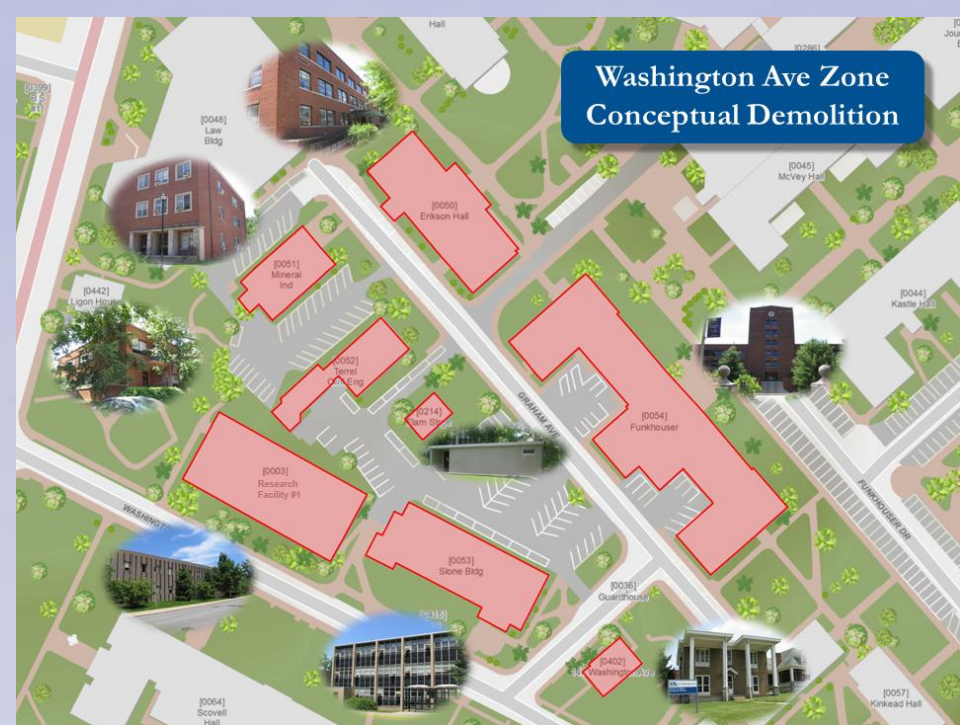


Central Campus/ Cooperstown Zone

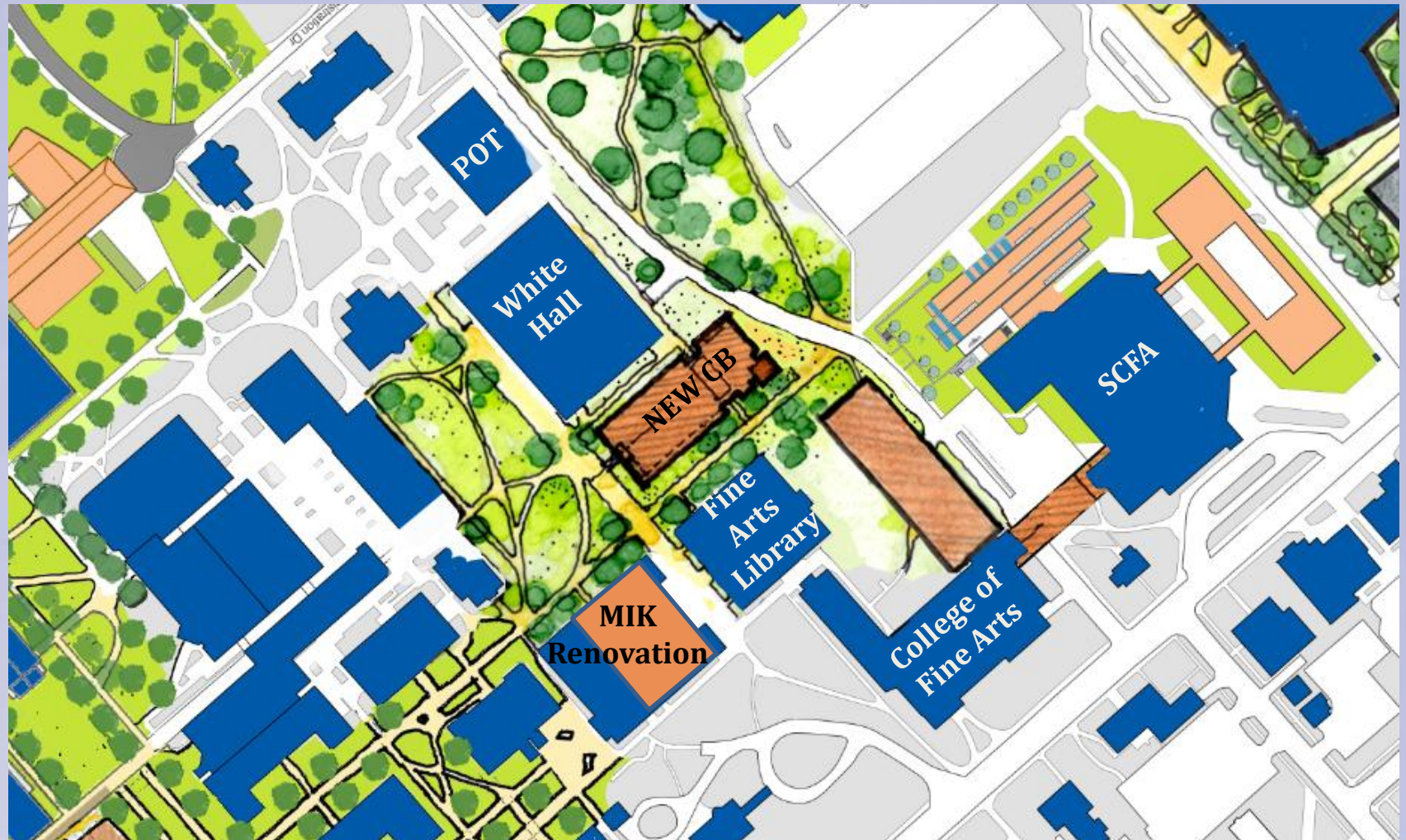


Washington Ave Zone

New Construction



Central Campus Zone



Suggested Additional Actions

- 1) Capital renewal funding should be carefully and seriously evaluated before being expended in those buildings suggested for demolition in the future.
- 2) Planning efforts to program a new classroom building and a science hall should be undertaken soon. Along with a new Science Hall comes the need for additional study of the future use for the current Chemistry/Physics Building.
- 3) Long term issues of dining capital needs combined with affordability should be undertaken soon.
- 4) An action plan on a Student Center must be more clearly developed to include locations, costs and strategies
- 5) Specific detailed planning efforts should be considered and undertaken in the near term for the Colleges of Fine Arts and Education.
- 6) Parking will soon require being addressed in more detail as to timing and financing strategies.
- 7) The Academic Medical Campus plan (2006) should be revisited as to how to phase and/or reduce costs of design and construction.
- 8) Additional review and study of a “Student Success Center”.
- 9) The university should continue efforts to move administrative functions, when feasible, away from key center areas of campus. The university should also consider for the future a potential need to construct and/or purchase an administrative office building.
- 10) The university as part of any major renovation will require convenient available “surge space” for temporary relocations. The university should undertake review of where and when such space can be obtained.

Campus Needs Summary Sheet

Note: The full Academic Medical Campus (\$500M) is an addition to this summary. The table on the right only includes a smaller College of Medicine facility and renovation to Dentistry.

Central Campus

Washington Avenue & Funkhouser Walk	
Total Demolition	\$ 4,450,000
Total New	\$117,000,000
Total Renovation	<u>\$ 51,900,000</u>
Sub Total	\$173,350,000

Renovation of Old Quadrangle	\$ 29,000,000
MIK Renovation	\$ 25,000,000
Book Depository	\$ 9,000,000
Chem/Physics (includes new facades)	\$ 45,600,000
Fine Arts/Singletary (place holder)	\$ 60,000,000
Student Center Expansion	\$ 100,000,000
College of Law Expansion	\$ 50,000,000
Gatton College Expansion (Demo Mathews Bldg)	\$ 65,000,000 \$ 400,000
New Science Hall	\$ 90,000,000
(Demo Wenner Grenn & Donovan)	\$ 3,100,000
Taylor Education Renovation	\$ 16,000,000
Renewal of Remaining Campus (based on VFA Study)	<u>\$ 212,531,836</u>
Sub Total	\$ 676,631,836

Total Central Campus \$849,981,836

Academic Medical Campus

COM Education and Administration Bldg	\$ 50,000,000
Renovate Dentistry Facilities	<u>\$ 16,200,000</u>
Sub Total	\$ 66,200,000

Other Facilities

Research (Modified Plan)	\$ 145,500,000
Chandler Hospital Facilities (preferred Plan)	\$ 264,000,000
Athletics (Baseball, Football, Soccer, Tennis)	\$ 104,000,000
Dining	\$ 15,000,000
Greek Housing	\$ 0
Parking Structures	\$ 30,000,000
Campus Recreation	\$ 29,000,000
Utility Plant Upgrades	<u>\$ 20,000,000</u>
Sub Total	\$ 607,500,000

Campus Transformation Grand Total \$1,523,681,836

Financial Model

The plan recommends about \$1.5 billion from various sources over a ten to fifteen year period. The following scenario is to show how the projects identified to date could work financially for the University but it is only one scenario as a proof-of-concept and the project scopes, timelines, fund sources, etc. could change as additional information regarding needs is gathered through future actions listed and is not a final plan.

Financial Model: Biennia 1-2

				Total Agency Debt Obligation		Total Annual DS Payment		Service paid from gifts		Service paid from general fund		Service paid from other agency	
				\$ 715,314,461		\$ 83,757,497		\$ -		\$ 83,757,497		\$ -	
				Cumulative Outstanding Debt Obligation - Prior 2012									
				Current budgeted debt service for new projects						\$ 15,457,300			
Biennium 1	Project Scope (in 2012 dollars)			Fund Source(s) for Project Debt				Agency Debt Obligation					
	Facility	Cash on Hand at Project Start		Total Project Debt	State	Private	General Fund		Total Agency Debt Obligation	Total Annual Debt Service Payment	Service paid from gifts	Service paid from general fund	Service paid from other agency
Total Project Scope		Hand at Project Start	Total Project Debt				Agency	Other Agency					
Gatton Expansion	\$ 65,000,000	\$ 35,000,000	\$ 30,000,000	\$ -	\$ 30,000,000		\$ -	\$ 30,000,000	\$ 2,399,000	\$ 2,399,000	\$ -	\$ -	
Athletics (baseball)	\$ 15,000,000	\$ 15,000,000	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Boliver (Lofts)	\$ 8,000,000	\$ 8,000,000	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Commonwealth Stadium	\$ 75,000,000	\$ -	\$ 75,000,000	\$ -	\$ -	\$ -	\$ 75,000,000	\$ 75,000,000	\$ 5,997,600	\$ -	\$ -	\$ 5,997,600	Athletic Revenues
Science Hall	\$ 90,000,000	\$ 20,000,000	\$ 70,000,000	\$ -	\$ 10,000,000	\$ 60,000,000	\$ -	\$ 70,000,000	\$ 5,597,800	\$ 799,686	\$ 4,798,114	\$ -	
MIK Renovation (classrooms)	\$ 25,000,000	\$ -	\$ 25,000,000	\$ -	\$ -	\$ 25,000,000	\$ -	\$ 25,000,000	\$ 1,999,200	\$ -	\$ 1,999,200	\$ -	
Book Depository	\$ 9,000,000	\$ -	\$ 9,000,000	\$ -	\$ -	\$ 9,000,000	\$ -	\$ 9,000,000	\$ 719,700	\$ -	\$ 719,700	\$ -	
Property Acquisition	\$ 20,000,000	\$ -	\$ 20,000,000	\$ -	\$ -	\$ 20,000,000	\$ -	\$ 20,000,000	\$ 1,599,400	\$ -	\$ 1,599,400	\$ -	
Renovation/Projects Pool	\$ 6,340,886	\$ 6,340,886	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Biennium 1 Total	\$ 313,340,886	\$ 84,340,886	\$ 229,000,000	\$ -	\$ 40,000,000	\$ 114,000,000	\$ 75,000,000	\$ 229,000,000	\$ 18,312,700	\$ 3,198,686	\$ 9,116,414	\$ 5,997,600	
				New Revenue Needed for General Fund Debt Service									
				Cumulative Outstanding Debt Obligation - Prior 2012				\$ 605,673,825		\$ 69,752,492		\$ -	
				Cumulative Additional Debt from Biennium 1 Projects				\$ 229,000,000		\$ 18,312,700		\$ 3,198,686	
				Cumulative Outstanding Debt Obligation				\$ 834,673,825		\$ 88,065,192		\$ 3,198,686	

Biennium 2	Project Scope (in 2012 dollars)			Fund Source(s) for Project Debt				Agency Debt Obligation					
	Facility	Cash on Hand at Project Start		Total Project Debt	State	Private	General Fund		Total Agency Debt Obligation	Total Annual Debt Service Payment	Service paid from gifts	Service paid from general fund	Service paid from other agency
Total Project Scope		Hand at Project Start	Total Project Debt				Agency	Other Agency					
Law	\$ 55,000,000	\$ -	\$ 55,000,000	\$ 35,000,000	\$ 20,000,000		\$ -	\$ 20,000,000	\$ 1,599,400	\$ 581,600	\$ -	\$ -	
Student Center Expansion	\$ 100,000,000	\$ 20,000,000	\$ 80,000,000	\$ -	\$ -		\$ 80,000,000	\$ 80,000,000	\$ 6,397,400	\$ -	\$ -	\$ 6,397,400	Dedicated Fees
Dining	\$ 15,000,000	\$ 15,000,000	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Utility Plant Upgrades	\$ 20,000,000	\$ -	\$ 20,000,000	\$ -	\$ -	\$ 20,000,000	\$ -	\$ 20,000,000	\$ 1,599,400	\$ -	\$ 1,599,400	\$ -	
Athletics (soccer and tennis)	\$ 15,000,000	\$ 15,000,000	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Washington Ave Building #1	\$ 46,800,000	\$ -	\$ 46,800,000	\$ 46,800,000	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Parking	\$ 30,000,000	\$ -	\$ 30,000,000	\$ -	\$ -		\$ 30,000,000	\$ 30,000,000	\$ 2,399,000	\$ -	\$ -	\$ 2,399,000	Dedicated Fees
Fine Arts / Singletary	\$ 60,000,000	\$ 30,000,000	\$ 30,000,000	\$ -	\$ -	\$ 30,000,000	\$ -	\$ 30,000,000	\$ 2,399,000	\$ -	\$ 2,399,000	\$ -	
Renovation/Projects Pool	\$ 2,342,486	\$ 2,342,486	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Biennium 2 Total	\$344,142,486	\$82,342,486	\$261,800,000	\$81,800,000	\$20,000,000	\$50,000,000	\$110,000,000	\$180,000,000	\$14,394,200	\$581,600	\$3,998,400	\$8,796,400	
				New Revenue Needed for General Fund Debt Service									
				Existing Outstanding Debt Obligation				\$ 518,975,805		\$ 58,265,391		\$ -	
				Cumulative Additional Debt from Biennium 1 & 2 Projects				\$ 409,000,000		\$ 32,706,900		\$ 3,780,286	
				Cumulative Outstanding Debt Obligation				\$ 927,975,805		\$ 90,972,291		\$ 3,780,286	

Revitalizing the Academic Core

CAPITAL PROJECTS: NEXT STEPS

Gatton College of Business & Economics

- Financing
- Student impact
- Community engagement

Academic & Science Building

- Student impact
- Teaching and research space
- “What is Science?”





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