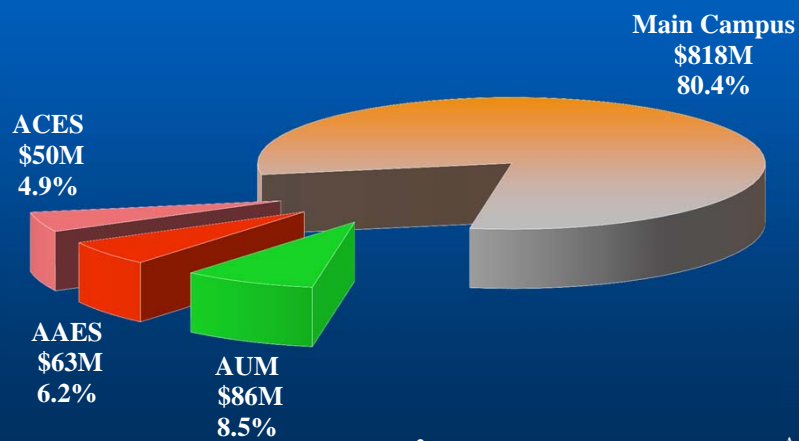


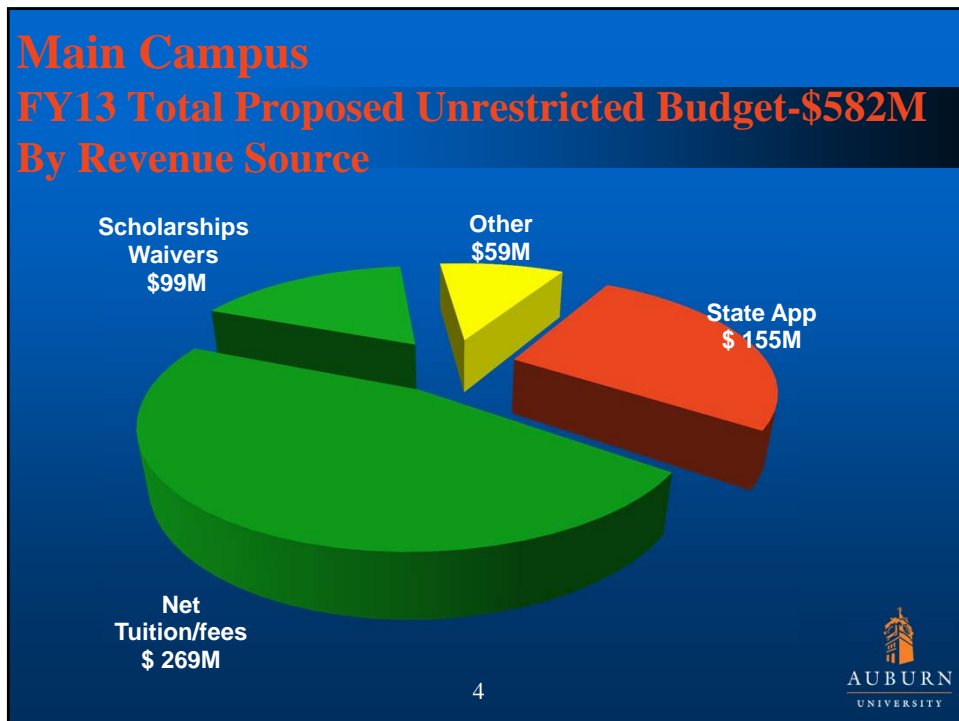
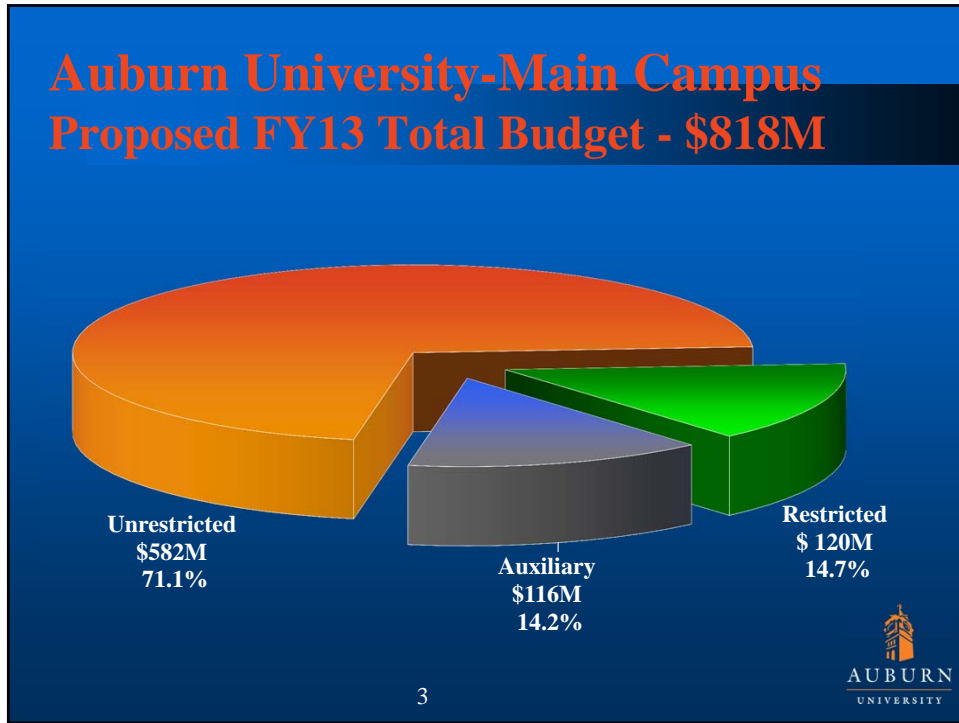
AUBURN UNIVERSITY FINANCIAL WORKSHOP

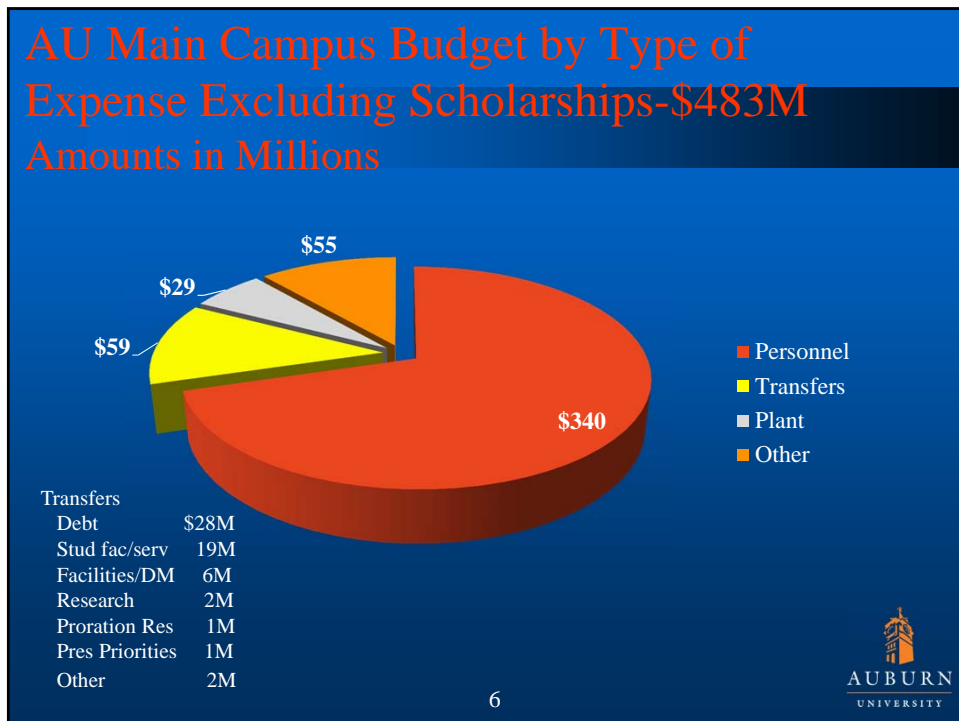
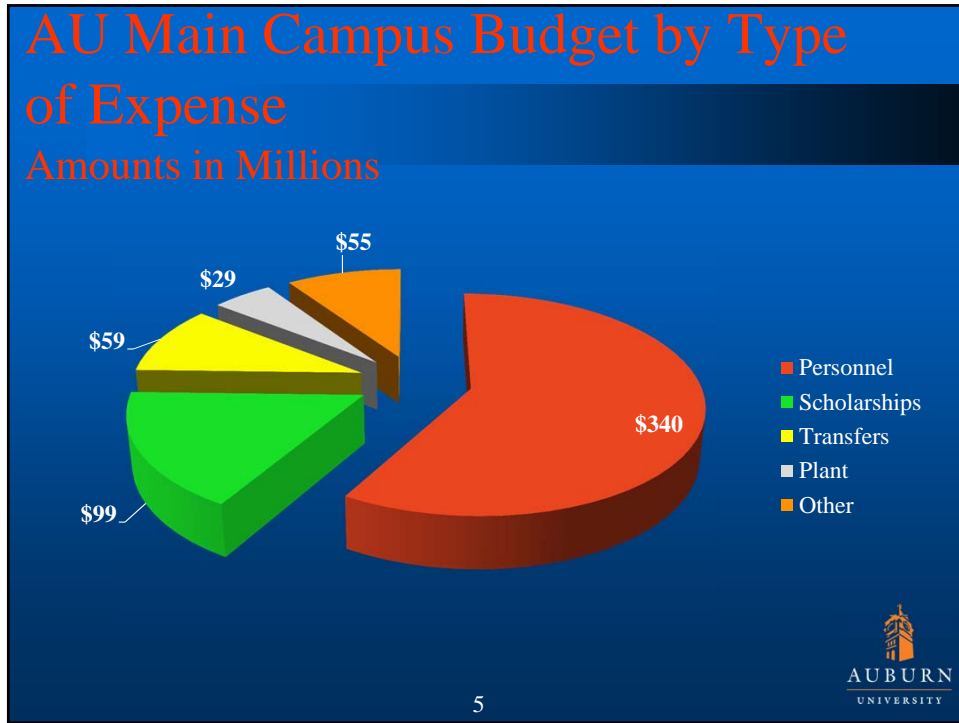
Presented to the Board of
Trustees
September 20, 2012



Total FY13 Proposed Budget by Division \$ 1.017B







Debt Discussion

- Rating agency reports
- Current debt service - next 15 years
- AU Outstanding debt and selected indicators - past 5 years
- Merchant Capital Observations

7



Moody's Comments Feb 2012 AU Rating Report

Outlook -The stable outlook is based on the strong student market position, sound University operating performance, as well as expected resource growth and manageable borrowing plans. **(Consistent with Nov 2010 report)**

Challenges –

state operating support reductions,
increasing leverage with current borrowing driving annual debt service to 7% of operations **(new)**
Plans to increase sponsored research activity likely to face health competition as federal funding likely to be constrained

July 2012 update for higher education

colleges' credit challenges "have intensified as the economic recovery continues to stumble, equity markets have produced stagnant-to-negative investment returns, federal and state budgets remain stressed and household net worth remains well below prior levels."

8



S&P Feb 2012 Rating Report

Outlook – “The stable outlook reflects our expectation that during the next two years, the university will have balanced operations on a full accrual basis, stable enrollment, maintain financial resources consistent with the rating category and will continue to manage any reductions in state appropriations.” **(Consistent with Nov 2010 report)**

“Credit factors that could lead toward negative rating actions include what we consider significant additional debt issuance, a decrease in financial resources and deficits in operating performance.”

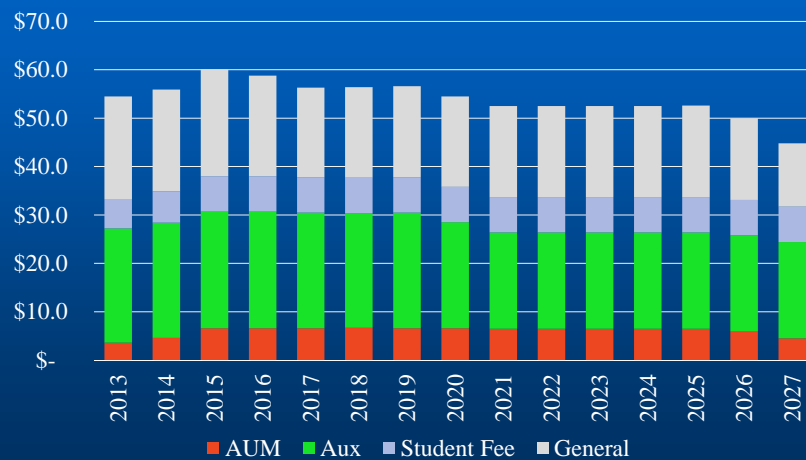
July 2012 update

“...institutions face pressure from operating expenses that are outpacing net tuition revenue grow, education costs that are rising faster than inflation, and downward pressure on the balance sheet from growing liability and endowment market values that have not returned to pre-recession levels.”

9

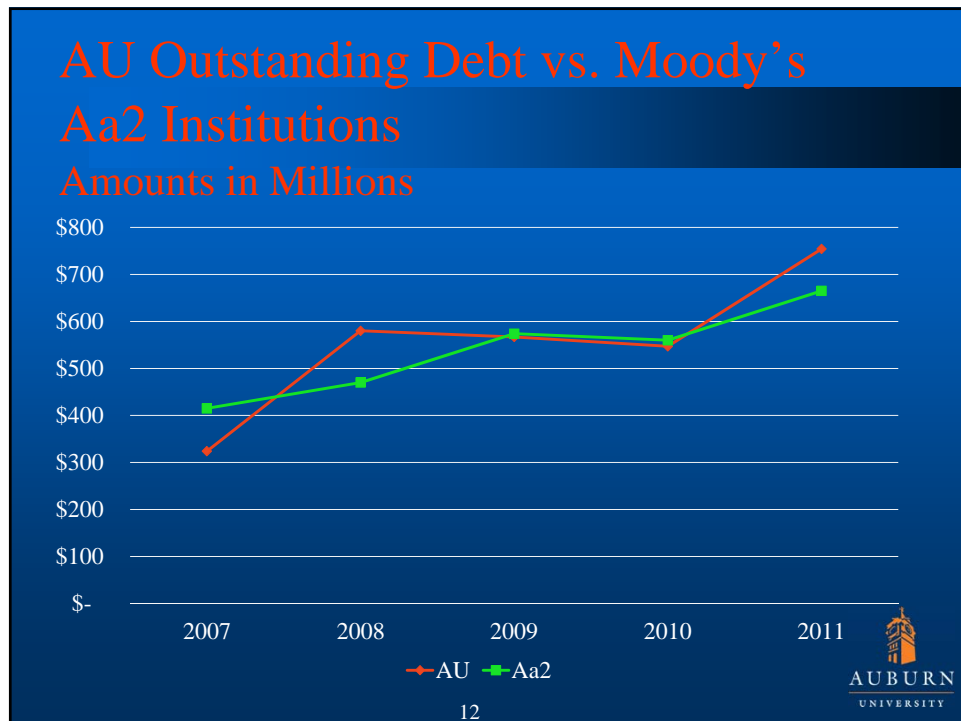
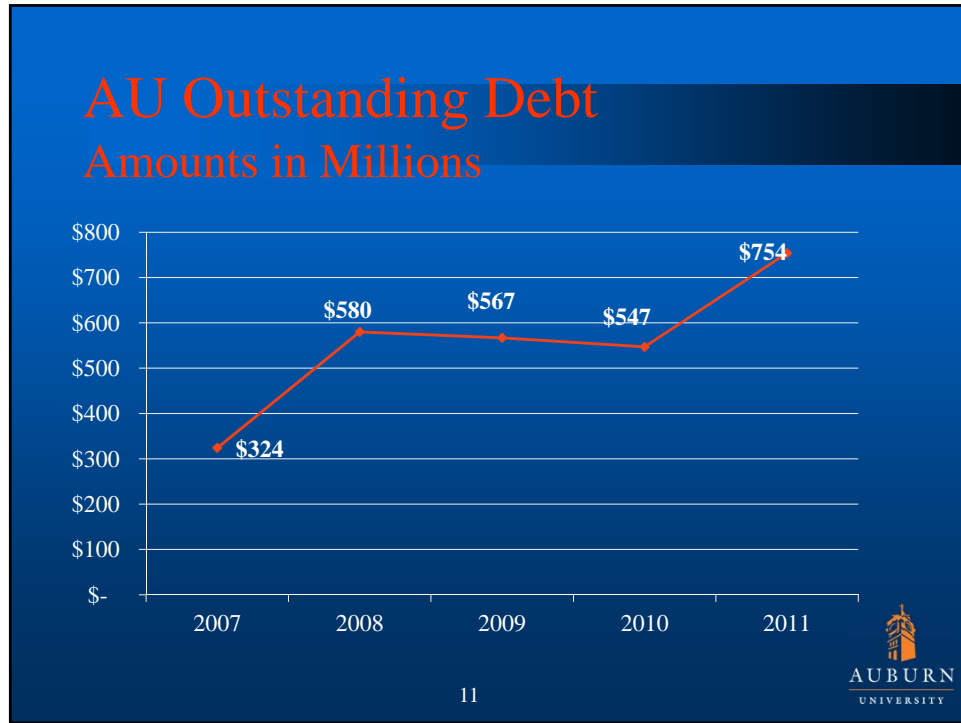


AU Future Debt Payments Amounts in Millions

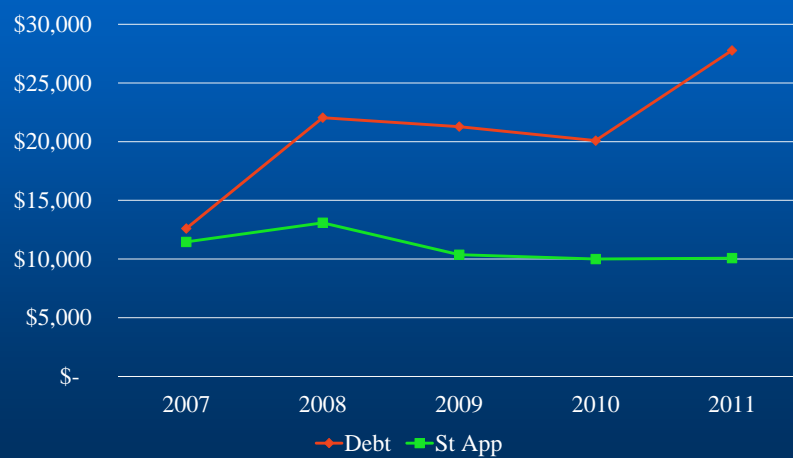


10





AU Debt and State Appropriations Per Student



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Merchant Capital Observations



Conservative Debt Structure

- All fixed rate debt (“real” fixed rate, not “synthetic” through an interest rate swap)
- Avoided the Auction Rate/swap train wreck experienced by many universities and other issuers (i.e. Jefferson County)
- Relatively “level” debt structure through 2027, then declining
- No balloon payments that could require a refinancing in an unfavorable market
- No restrictive covenants that could trigger an acceleration of debt

15



Bondholder Security: Broad Pledge

- In years past the University issued three different types of bonds: (1) General Fee Revenue Bonds (2) Housing and Dining Revenue Bonds and (3) Athletic Revenue Bonds
- In 2008 the University made a strategic decision to consolidate all future debt into General Fee Revenue Bonds – adding housing, dining and athletic revenues to “Pledged Revenue”
- University’s debt is now a “Broad Pledge” revenue bond, equivalent to an unlimited student fee pledge (similar to a general obligation pledge of a governmental entity)
- This structure provides maximum flexibility to the University, produces the highest rating and the lowest cost of capital
- While revenue sources are combined for bondholder security, the University can internally allocate funds such that housing pays for housing, athletic for athletic, etc.

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Public Projects versus Privatization

- In 2007 the University conducted an intensive review to assess a “privatized” approach to housing (i.e. developer driven, turn-key project, owned by related 501-c-3)
- Conclusions were as follows:
 1. Privatized project financing would be more expensive, thus potentially resulting in higher housing expense for students
 2. The related debt, while not a direct obligation of the University, would be taken into account by the rating agencies as an indirect obligation
 3. Alabama laws make the privatized approach more difficult
- In other states constitutional law provisions and the funding options for higher education may encourage the privatization approach

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Some Peer Group Comparisons

	<u>Moody's</u>	<u>S&P</u>	<u>State G.O. Rating</u>
Auburn University	Aa2	AA-	Aa1 / AA
University of Alabama (Tuscaloosa)	Aa2	AA-	Aa1 / AA
University of Georgia (Housing)	Aa2	AA	Aaa / AAA
Clemson (Student Fees)	Aa2	AA	Aaa / AA+
University of Florida (Housing)	Aa2	AA-	Aa1 / AAA

- It is difficult to compare universities in different states because the funding structures vary greatly (Many universities receive capital funds from their respective states and issue little debt at the university level).
- For example, in the state of Georgia, public universities can not issue direct debt. A “quasi” privatized approach is utilized which results in a higher cost of capital

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AU vs. UA 2011 Stats

	AU	UAT
Total Debt	\$781 million	\$820 + \$104 million
State Appropriations % operating revenues	26%	19.5%
Unrestricted Net Assets	\$631.4 M	\$450 M
% Operation expenses	73.3%	59.6%
% proforma debt	80.8%	54.8%
Maximum annual Debt service % of operating expenses	7.4%	7.8%
Enrollment Fall 2011 (FTE)	30,774 (27,385)	31,747 (29,625)
Auburn	25,469 (22,930)	
Montgomery	5,305 (4,455)	
Endowment	\$465 M	\$617 M
Days Cash on Hand	\$619 M 287 days	\$535 M 280 days
Cash and Investments	\$822 M	\$914 M
Net PPE	\$1,242 M	\$1,127 M

*UA Debt has increased from \$320M in 2004

*UA currently plans to issue additional debt of \$135M in 2014 and \$166M in 2017

