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FY2017 DEBT CAPACITY STUDY OVERVIEW

University of North Carolina System

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Overview of FY2017 Debt Capacity Study

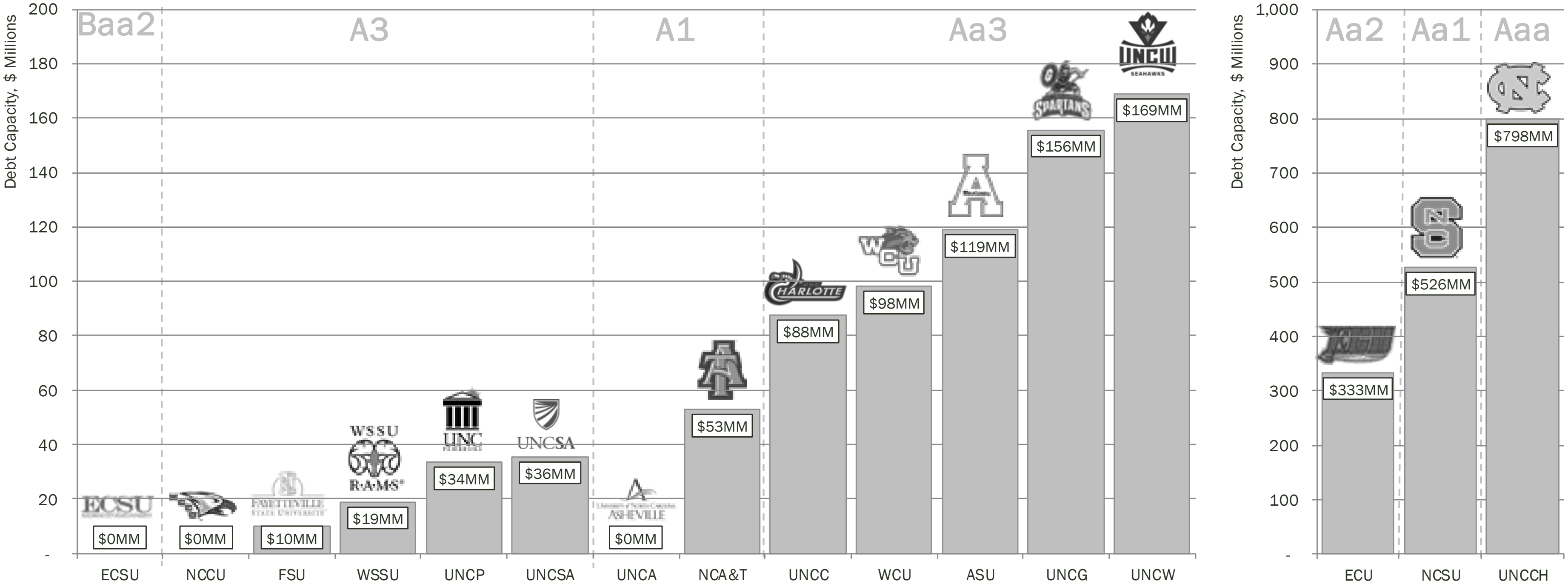
UNC System Report

- SL 2015-241 (H97) requires the Board to advise stakeholders "on the **estimated debt capacity of The University of North Carolina for the upcoming five fiscal years.**"
- Because the UNC System itself has no aggregate debt capacity, the System report instead focuses on the following elements:
  - Educating stakeholders on the System's current approach to evaluating debt and the complexity of the credit rating process;
  - Assessing each Campus's estimated debt capacity over a five year period; and
  - Making recommendations for the use of the Study and suggestions for future improvement.

Campus Reports

- Each Campus report provides context for the Campus's financial model and addresses H97's legislative requirements.
- Campus reports contain the following components:
  - Overview of **recent enrollment trends** and other general performance metrics;
  - Explanation of **factors considered in setting growth factors**;
  - Summary of **projected results** for the financial model's **four financial ratios**;
  - Current **debt and credit profiles**, including details on financed projects, sources of repayment, and recommendations for maintaining or improving the Campus's credit rating; and
  - Copy of any **existing debt management policy.**

Current Estimated Debt Capacity

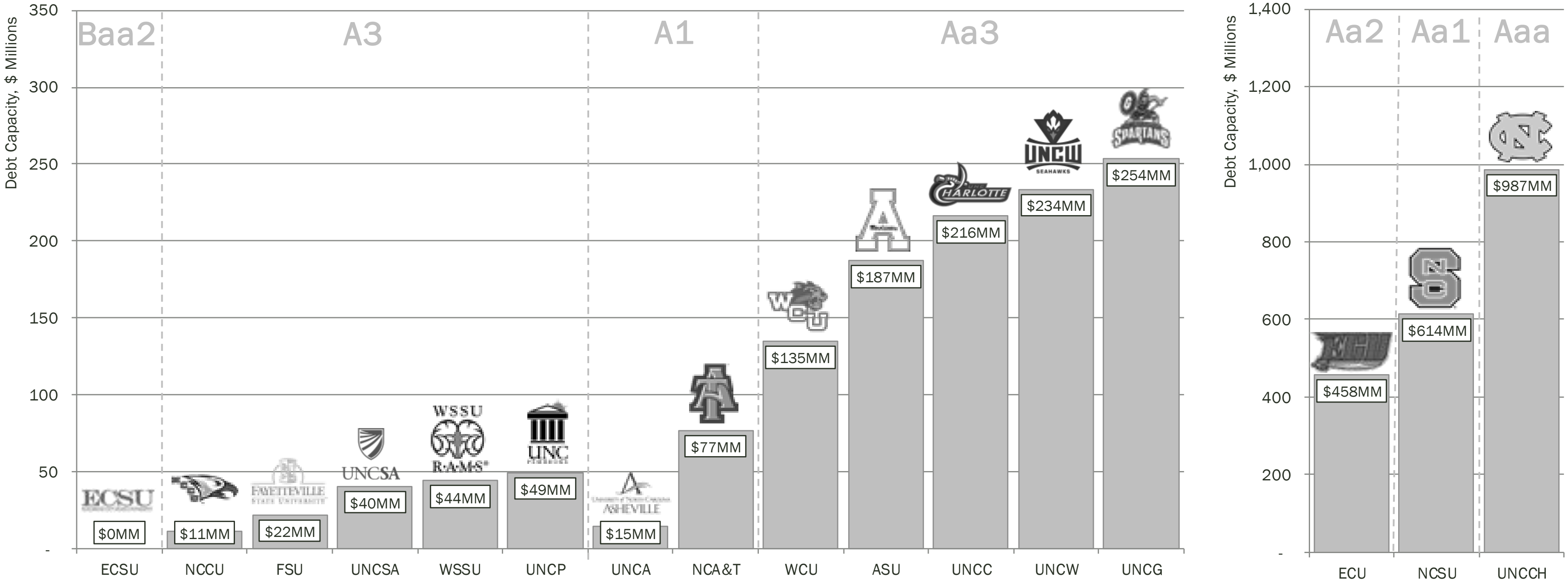


*FSU, UNCP and UNCSA are not currently rated by Moody's. FSU and UNCP have been grouped based on their corresponding ratings from either Standard and Poor's or Fitch; UNCSA has been grouped based on an estimated Moody's rating of A3.

General Observations

- What does "estimated debt capacity," as used in the Study, measure and mean?
  - Measures a Campus's general ability to absorb additional debt on its balance sheet, based on that Campus's ceiling ratio for debt to obligated resources
  - Calculated after taking into account any legislatively-approved projects to be issued during Study period
- What are its limitations?
  - Does not account for new revenue streams for self-liquidating projects (e.g., new dorm revenues)
  - Does not capture other strategic factors such as the opportunity costs of foregoing the project

Projected Debt Capacity in 2022



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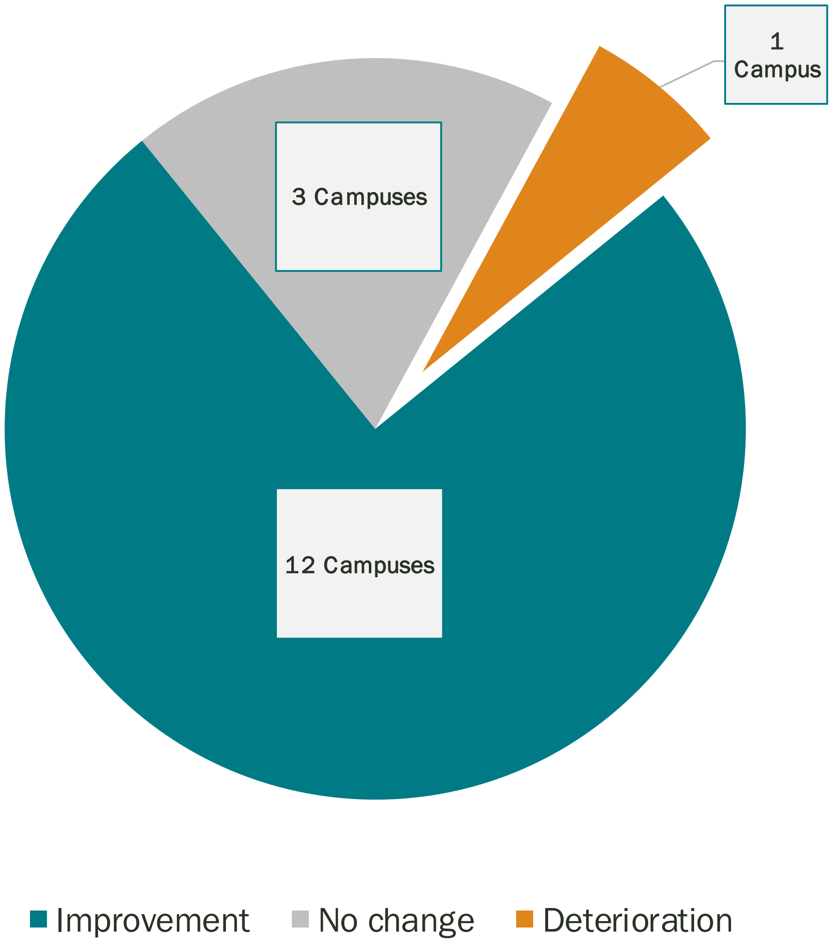
General Observations

- What does "projected debt capacity," as used in the Study, measure and mean?
  - Calculates debt capacity at the end of the Study Period, assuming each Campus issues no additional debt other than financings already approved by the General Assembly
  - Paydown of existing debt and projected growth in Available Funds generally lead to an increase in capacity
- Why might a Campus's estimated debt capacity be lower than projected?
  - Issuance of additional debt not already captured in the model
  - Deterioration in factors incorporated in Available Funds calculation (investments, auxiliary revenues, etc.)

Campus Debt Capacity Trends

Debt Capacity vs. FY2016 Study



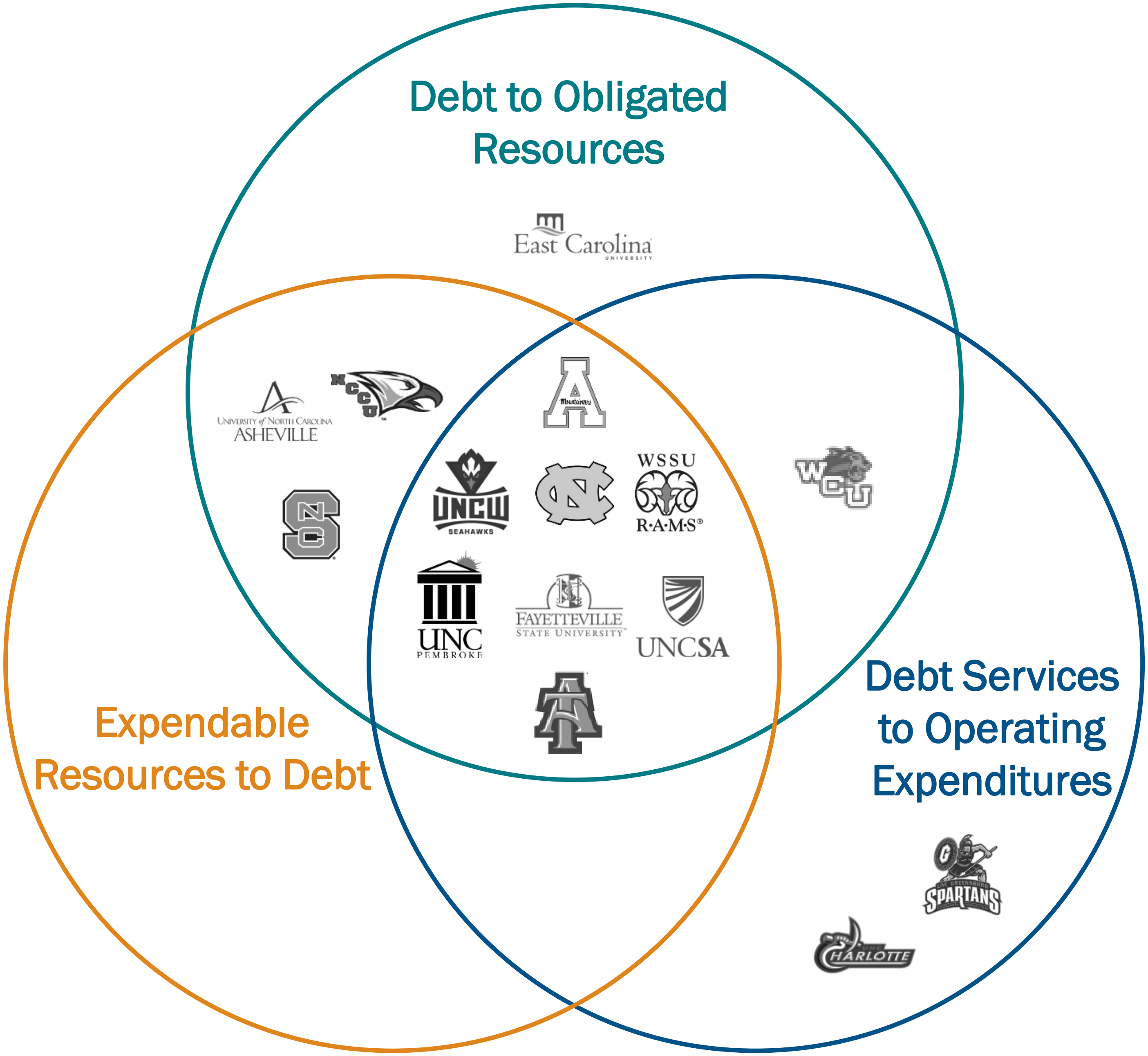
Breakdown of Debt Capacity Decrease

$62.5 Million Decrease

In past studies, UNC Charlotte used tailored Available Funds projections based on its internal planning process and assumptions. For this study, UNC Charlotte used more conservative, CPI-based growth assumptions, which reduced debt capacity from $150 million to $87.5 million.

Had the University used the same tailored assumptions it used in last year's study, UNC Charlotte's debt capacity would have been largely unchanged year-over-year.

Comparison of Campus Ratios to FY2016



Observations

- 15 of the 16 campuses improved their performance in at least one of the Study's primary ratios.
- 8 campuses improved their performance in all three primary ratios.

Rating Agency Matters

Rating Changes (May 2017 – April 2018)

Institution	Moody's	S&P	Fitch
ASU	Aa3	-	-
ECSU	Baa2	-	-
ECU	Aa2	AA-	-
FSU	-	A-	A+
NCA&T	A1	-	A+
NCCU	A3	-	-
NCSU	Aa1	AA	-
UNCA	A1	-	-
UNCC	Aa3	A+	-
UNCCH	Aaa	AAA	AAA
UNCG	Aa3	A+	-
UNCP	-	A-	-
UNCSA	-	-	-
UNCW	Aa3	-	-
WCU	Aa3	-	-
WSSU	A3	A-	-

Key:	
Rating Upgrade	Outlook Improvement
Rating Downgrade	Outlook Deterioration

Observations

- Moody's rating on ECSU's general revenue bonds were downgraded to "Baa2" from "Baa1".
- None of the Campuses received a rating upgrade during the period covered by the FY2017 Study.
- None of the Campuses received a change in outlook during the period covered by the FY2017 Study.

* Reflects ratings on each Campus's general revenue bonds

Integration of Debt Capacity Study into Debt Approval Processes

Annual Debt Capacity Study

- Provides snapshot of each Campus's current estimated debt capacity
- May indicate when a proposed project requires heightened scrutiny
- Updated annually to reflect newly approved debt and the Campus's latest financial results and projections

Campus Debt Policy

- Clarifies each Campus's strategic approach to debt and its capital investment needs
- Establishes criteria for evaluating projects and approving debt, including benchmarks to measure prudent debt levels

Current Debt Approval Process

- Evaluates each proposed project's affordability based on identified sources of repayment and projected impact on student cost
- Uses estimated debt capacity results to assess strategic value of proposed project in light of a Campus's overall debt burden, mission and needs