



NORTH CAROLINA AGRICULTURAL  
AND TECHNICAL STATE UNIVERSITY

---

# *COMPTROLLER'S UPDATE*

---

Scott Hummel

AVC for Business and Finance/Comptroller

April 27, 2018

Board of Trustees, Business Affairs Committee  
Meeting

AGGIES **DO**



**The University of North Carolina System  
Debt Capacity Study – Fiscal Year 2017**

North Carolina A&T State University  
Campus Report

January 31, 2018

North Carolina A&T State University

## **Executive Summary**

Pursuant to Article 5 of Chapter 116D of the North Carolina General Statutes, North Carolina A&T State University has submitted a "Campus Report" as part of the annual debt capacity study undertaken by The University of North Carolina in accordance with the Act. The financial advisory arm of First Tryon Securities in Charlotte, NC was retained by the University System to assist each campus with the survey and report submission.

### **Purpose of the Study**

The intent of the legislative act is to provide tools for sound debt management at The University of North Carolina and at each constituent institution by conducting an annual debt affordability study, by requiring the establishment of guidelines for maintaining prudent debt levels, and by establishing a system for prioritizing University capital needs when the needs exceed the University's capacity for new debt.

This NC A&T Campus Report details the historical and projected financial information incorporated into the financial model developed in connection with the Study. NC A&T has used the model to calculate and project the following four financial ratios:

\* Debt to Obligated Resources

\* Expendable Resources to Debt

\* Five-Year Payout Ratio

\* Debt Service to Operating Expenses

- **Results of the Study**

- The University developed, and the Board has approved, a formal debt policy to prioritize capital needs. The policy includes specific criteria for approving debt financing when key ratios may indicate limited debt capacity.
- The Division of Business & Finance manages cash reserves within the statutory reversion framework to strategically allocate and grow those reserves.
- Based solely upon the debt to obligated resources ratio, NCAT's current estimated debt capacity is **\$52,899,869**. If NCAT issued no additional debt until the last year of the Study Period, then NCAT's debt capacity for 2022 is projected to increase to **\$77,002,092**.

## Debt Profile

### North Carolina A&T State University

FY2017 Debt Capacity Study

#### Summary of Debt Outstanding as of FYE June 30, 2017

Series	Description	Par Outstanding	Final Maturity	Use of Funds	Refunding	Source of Repayment
2011C	UNC System Pool Revenue Bonds	2,575,000	10/1/2031	Stadium Press Bonx		Student Fees
2013	UNC System Pool Revenue Bonds	9,345,000	10/1/2037	Student Health Center		Student Fees
2015A	General Revenue Bonds	76,980,000	10/1/2045	Student Center		Student Fees
2015B	Taxable General Revenue Bonds	9,195,000	10/1/2022	Student Center		Student Fees
				Parking Deck	2006B	Student Fees
2017	General Revenue Refunding Bond	2,655,000	10/1/2020	Parking Deck	2006B	Student Fees
				Improve and Enlarge Dining Facility	2006B	Student Fees
Total		100,750,000				

## Credit Profile

### Overview

- Moody's maintains an A1 rating on the University's general revenue bonds. The outlook is stable.
- Fitch maintains an A+ rating on the University's general revenue bonds. The outlook is stable.

### Key Information Noted in Reports

#### Credit Strengths

- Market niche as a STEM focused HBCU (Historically black colleges and universities) attracting students from many states
- Large operating and enrollment base at the rating level with diversified revenue
- Prudent fiscal management contributes to consistently positive operating performance

#### Credit Challenges

- Flexible reserves are limited relative to A1-rated peers
- High leverage following the issuance of Series 2015 bonds limits debt capacity at the current rating
- Demand debt related to foundation financed student housing introduces credit risk

Moody's	S&P	Fitch
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
<b>A1</b>	A+	<b>A+</b>
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
----- Non Investment Grade		

### Recommendations & Observations

- Develop a formal debt policy to prioritize capital improvement needs in light of limited resources, including specific criteria for approving new debt financings when key financial ratios may indicate limited debt capacity.
- Pursue strategies, working within the existing statutory framework relating to reversions, to increase liquidity through growth in cash reserves.

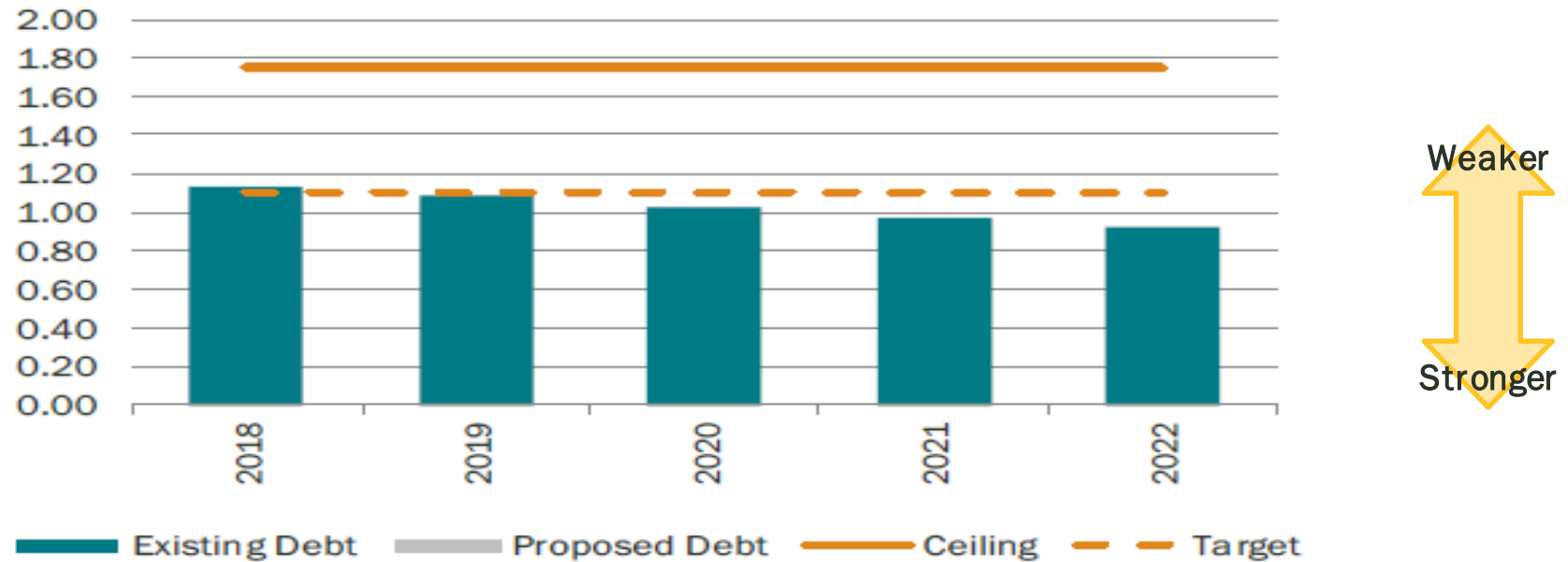
## Financial Ratios

### Debt to Obligated Resources

**What does it measure?** NCA&T's aggregate outstanding debt as compared to its obligated resources - funds legally available to service its debt.

**How is it calculated?** Aggregate debt divided by obligated resources

Debt to Obligated Resources



## 5-Year Payout Ratio

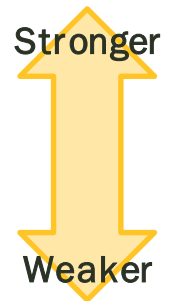
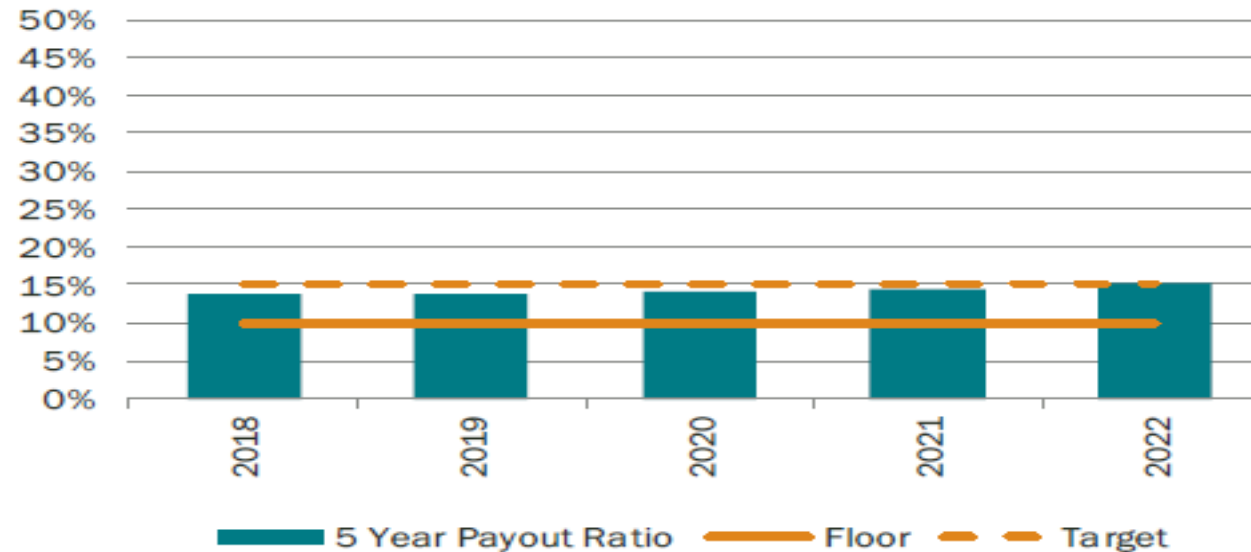
**What does it measure?** The percentage of NCA&T's debt scheduled to be retired in the next five years.

**How is it calculated?** Aggregate principal to be paid in the next five years divided by aggregate debt.

5-Year Payout Ratio

1	2	3
5 Year Payout Ratio		
Fiscal Year	Principal Balance	Ratio
2018	98,020,000	14%
2019	95,225,000	14%
2020	92,345,000	14%
2021	89,390,000	14%
2022	87,000,000	15%

5-Year Payout Ratio





## Expendable Resources to Debt

**What does it measure?** The number of times NCA&T's liquid and expendable net assets covers its aggregate debt.

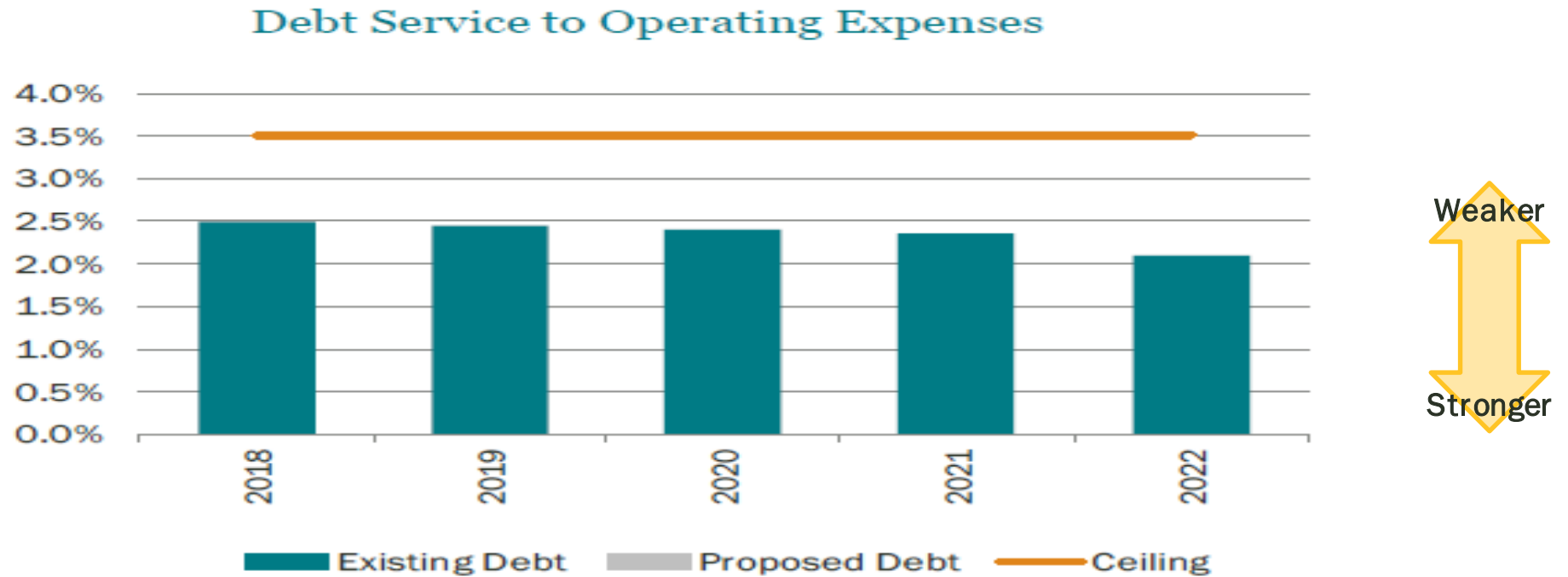
**How is it calculated?** The sum of (1) Adjusted Unrestricted Net Assets and (2) Restricted Expendable Net Assets divided by aggregate debt.



## Debt Service to Operating Expenses

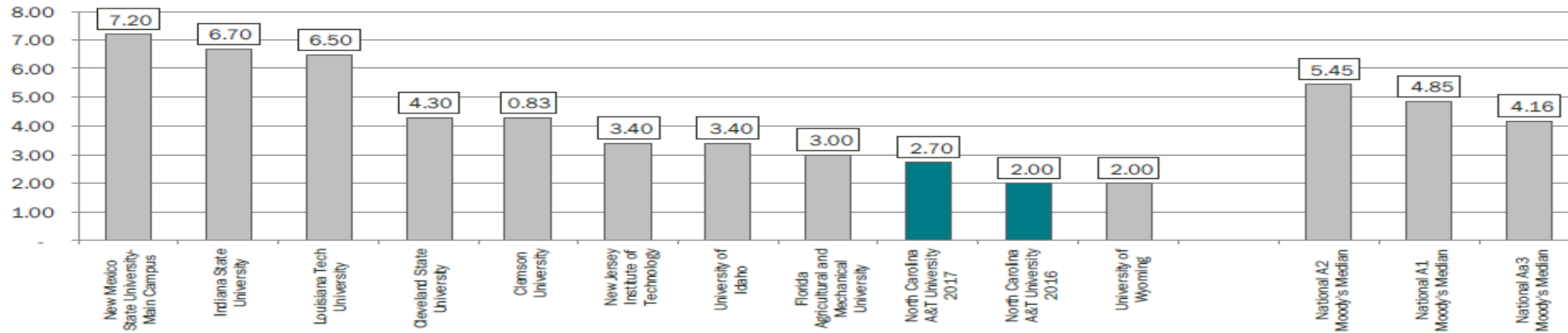
**What does it measure?** NCA&T's debt service burden as a percentage of its total expenses, which is used as the denominator because it is typically more stable than revenues.

**How is it calculated?** Annual debt service divided by annual operating expenses.

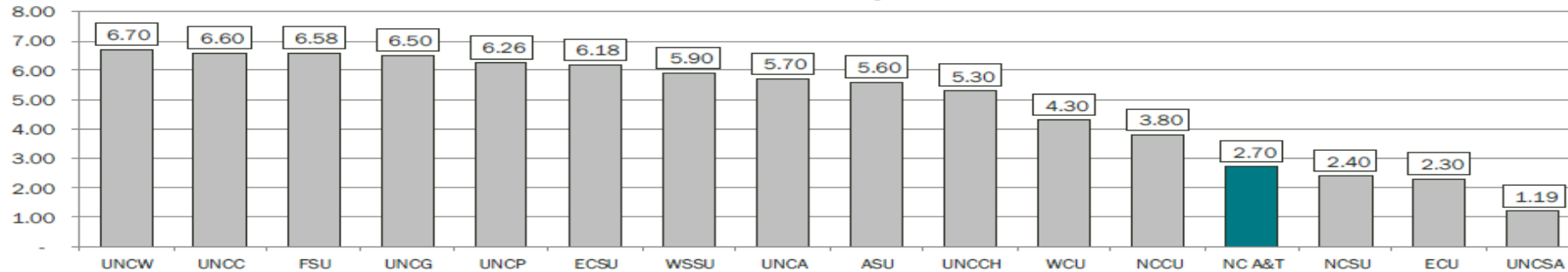




**Debt Service to Operating Expenses (%)**  
NCA&T vs. National Peers



**Debt Service to Operating Expenses (%)**  
NCA&T vs. UNC System



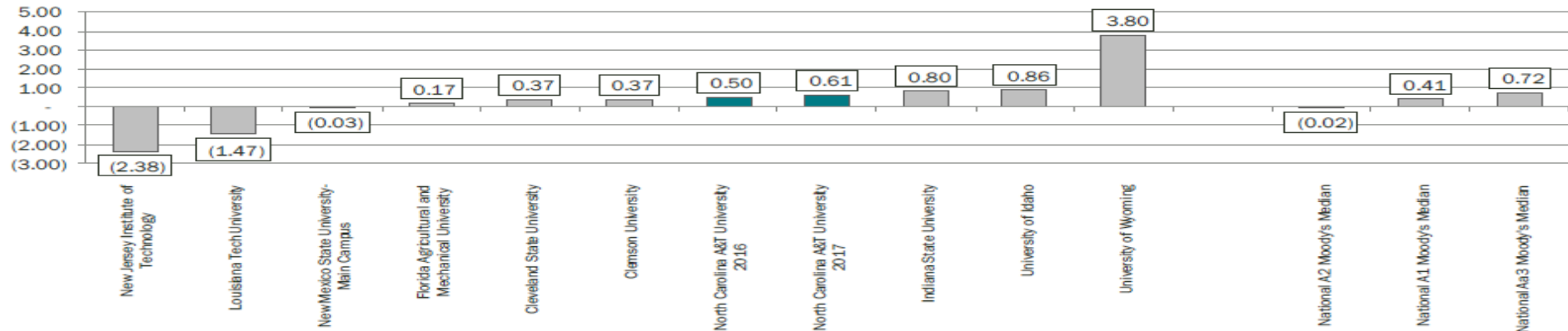
**Notes:**

1. National peer ratios are calculated by Moody's as of the end of FY 2016/2017 (most recent available).
2. UNC campus peer ratios are based on FY 2017 results and are subject to change.

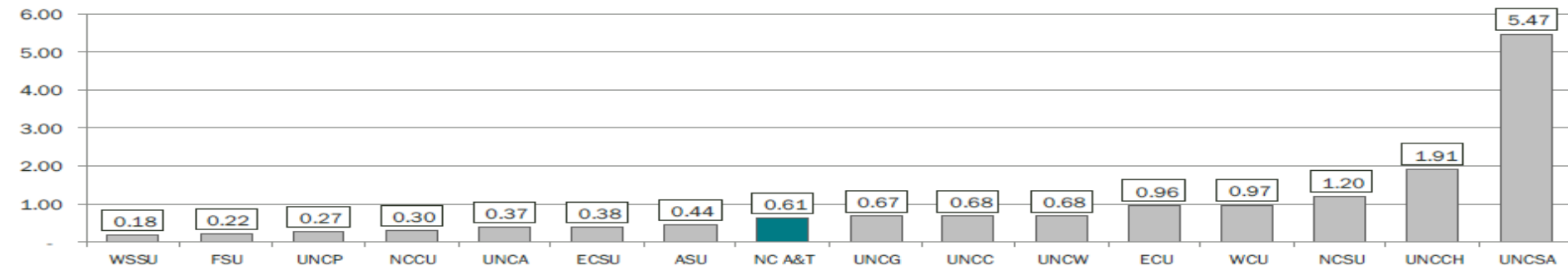
\*Peer comparisons reflect Moody's data for the Campus (as of 6/30/2017 and 6/30/2016) and its peers (as of 6/30/2017 and 6/30/2016). Moody's methodology differs slightly from the assumptions used in the financial model developed for the Study.



**Expendable Financial Resources to Debt  
NCA&T vs. National Peers**



**Expendable Financial Resources to Debt  
NCA&T vs. UNC System**



- Notes:**
1. National peer ratios are calculated by Moody's as of the end of FY 2016/2017 (most recent available).
  2. UNC campus peer ratios are based on FY 2017 results and are subject to change.

\*Peer comparisons reflect Moody's data for the Campus (as of 6/30/2017 and 6/30/2016) and its peers (as of 6/30/2017 and 6/30/2016). Moody's methodology differs slightly from the assumptions used in the financial model developed for the Study.