

DIVISION OF BUSINESS & FINANCE

COMPTROLLER'S UPDATE

April 26, 2019





The University of North Carolina System Debt Capacity Study – Fiscal Year 2018

North Carolina A&T State University
Campus Report

North Carolina A&T State University April 1, 2019



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 in 2018, 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 **\$76,510,486**. 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 **\$100,629,097**.



Debt Profile

<i>Series</i>	<i>Description</i>	<i>Par Outstanding</i>	<i>Final Maturity</i>	<i>Use of Funds</i>	<i>Refunding</i>	<i>Source of Repayment</i>
• 2011C	UNC System Pool Revenue Bonds	\$ 2,445,000	10/2/2031	Stadium Press Box		* Available Funds
• 2013	UNC System Pool Revenue Bonds	9,095,000	10/1/2037	Student Health Center		Available Funds
• 2015A	General Revenue Bonds	76,835,000	10/1/2045	Student Center		Available Funds
• 2015B	Taxable General Revenue Bonds	7,635,000	10/1/2022	Student Center		Available Funds
				Parking Deck	2006B	Available Funds
• 2017	General Revenue Refunding Bonds	2,010,000	10/1/2020	Parking Deck	2006B	Available Funds
				Improve and Enlarge Dining Facility	2006B	Available Funds
• TOTAL		\$ 98,020,000				

“Available Funds” is comprised of unrestricted auxiliary funds, allocations from Campus Enterprise operations, Athletics ticket sales, press box rental receipts and advertising, unrestricted gift income, and unrestricted investment income



Credit Profile

Overview

- Moody's maintains an A1 rating on NCA&T's general revenue bonds. The outlook is stable.
- Fitch maintains an A+ rating on NCA&T'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-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-

Non Investment Grade

Recommendations & Observations

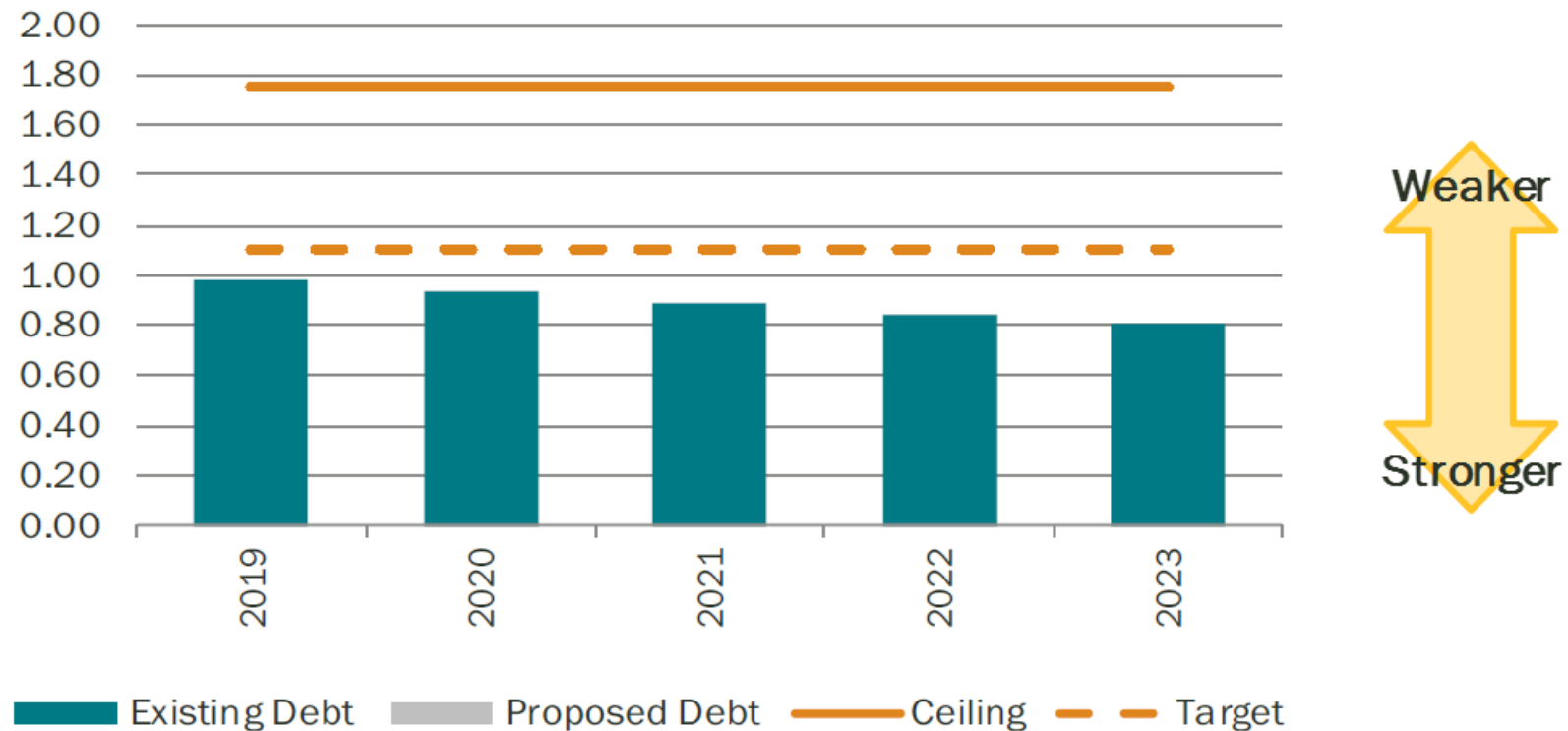
- Pursue strategies, working within the existing statutory framework relating to reversions, to increase liquidity through growth in cash reserves.



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.



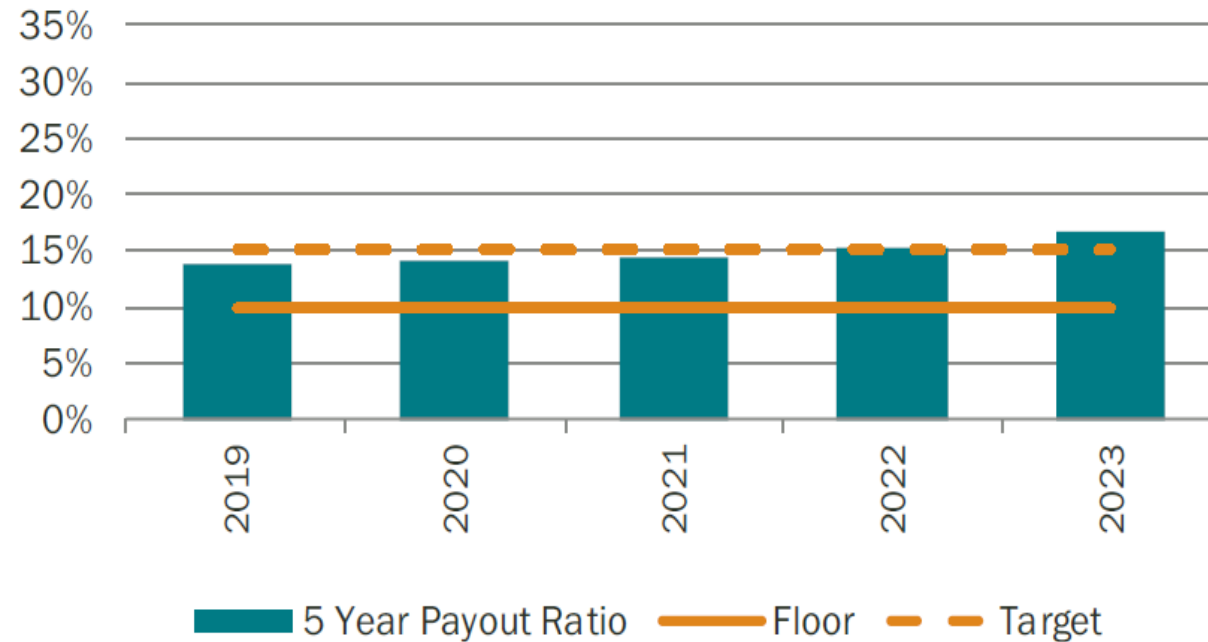


5-Year Payout Ratio

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		
Fiscal Year	Principal Balance	Ratio
2019	95,225,000	14%
2020	92,345,000	14%
2021	89,390,000	14%
2022	87,000,000	15%
2023	84,535,000	17%

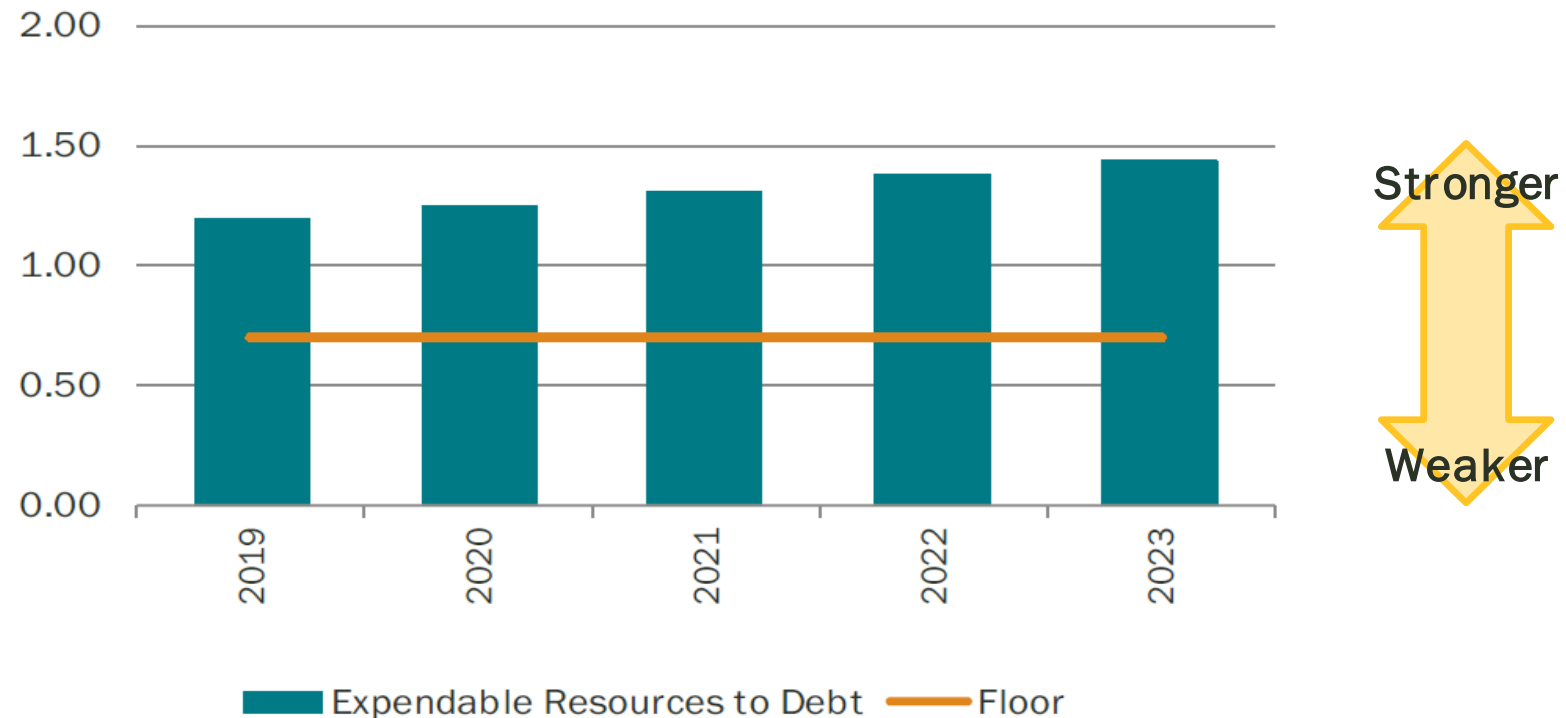




Expendable Resources to Debt

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.

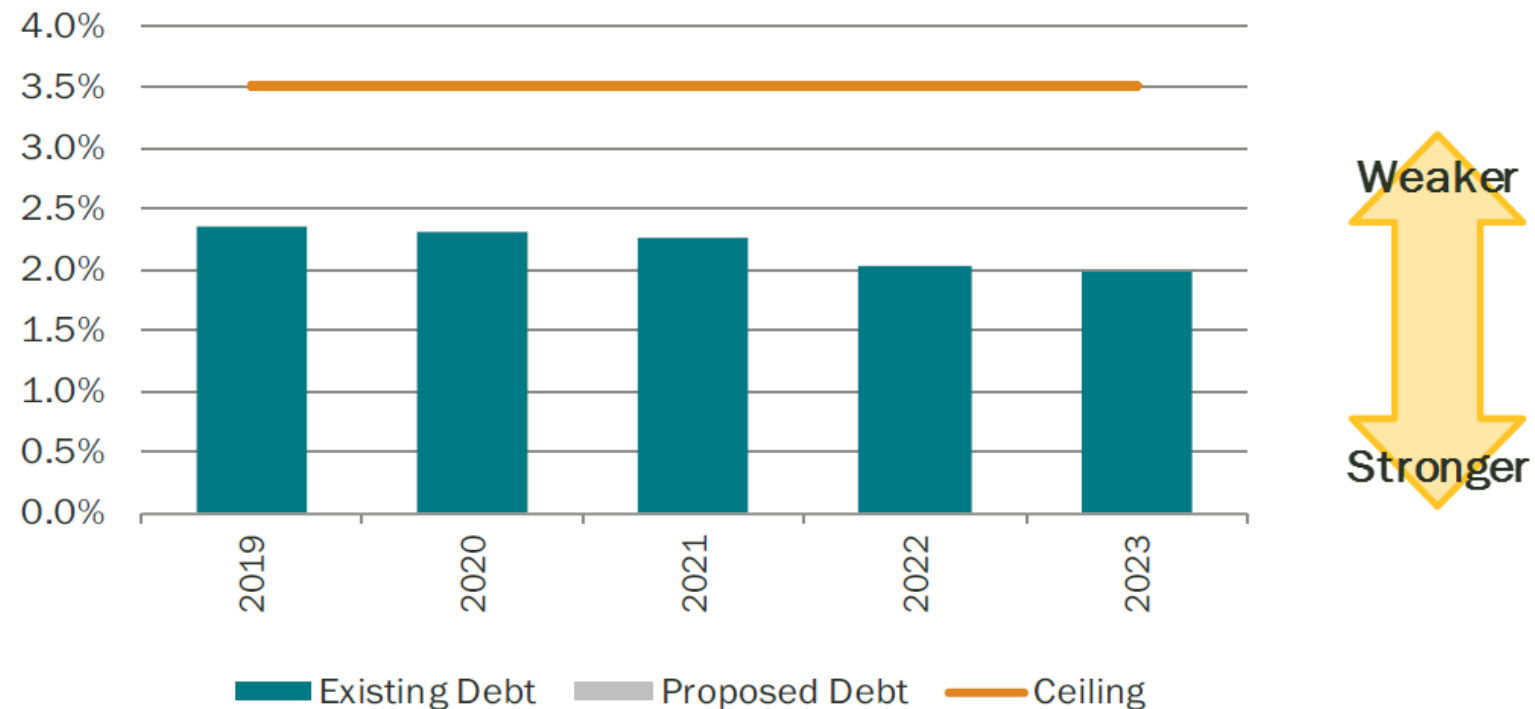




Debt Service to Operating Expenses

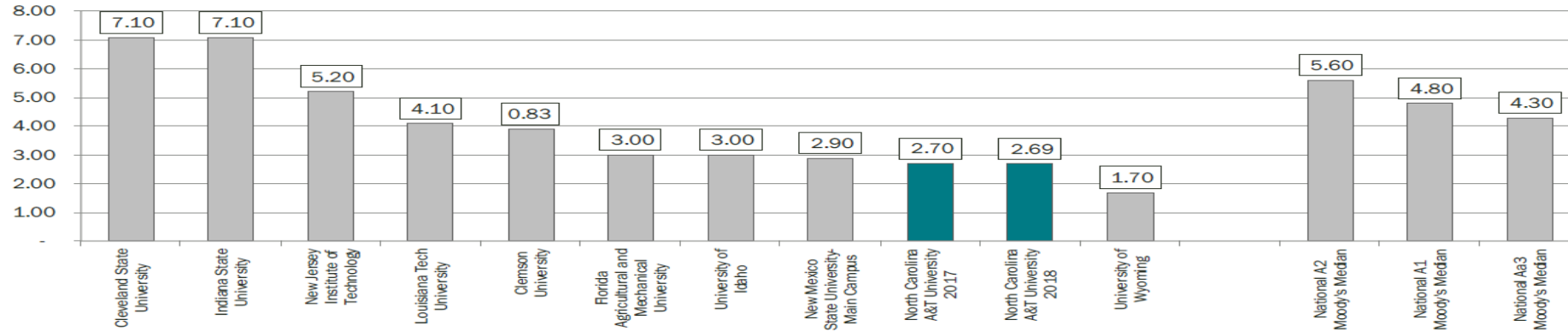
What does it measure? NCA&T's debt service burden as a percentage of its total expenses, which is used as the denominator because it is typically more stable than revenues.

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

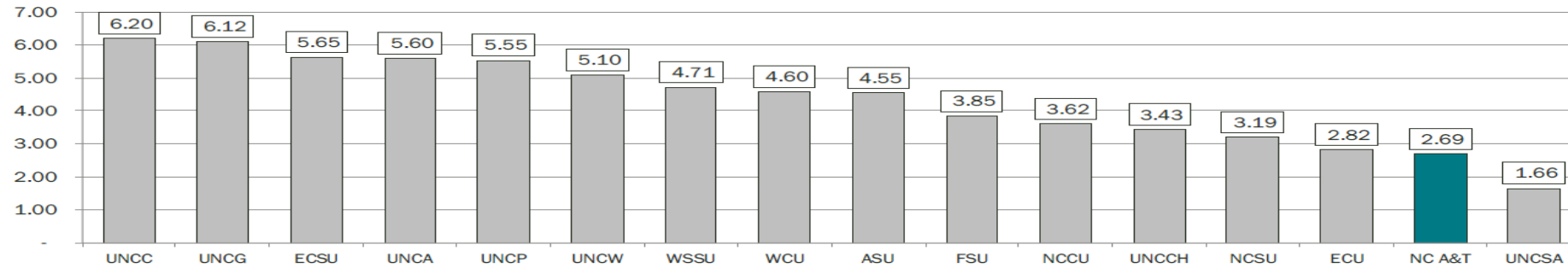




Debt Service to Operating Expenses (%)
NCA&T vs. National Peers



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



Notes:

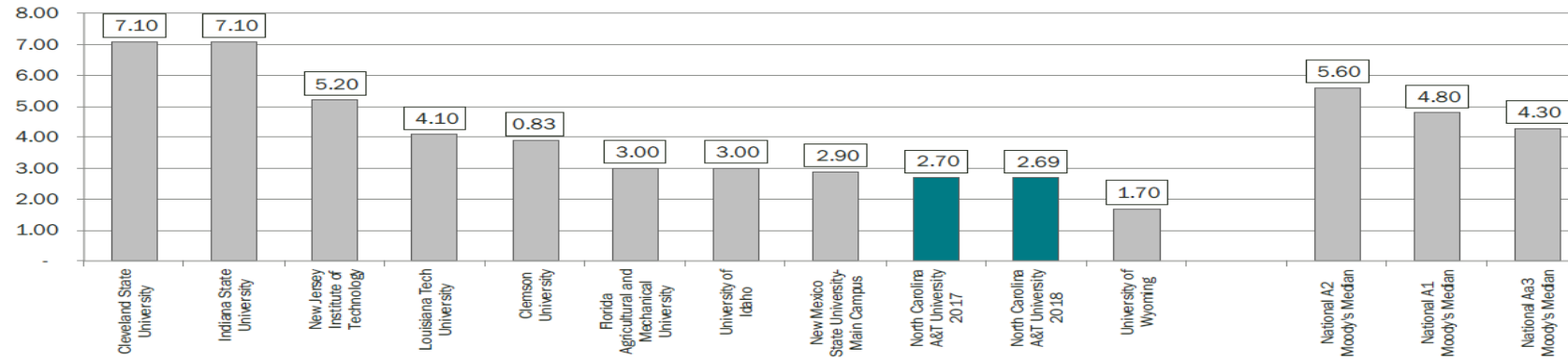
1. National peer ratios are calculated by Moody's as of the end of FY 2017 (or most recent available).
2. UNC campus peer ratios are based on FY 2018 results and are subject to change.

*Peer comparisons reflect Moody's data for the Campus (as of 6/30/2018 and 6/30/2017) 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.



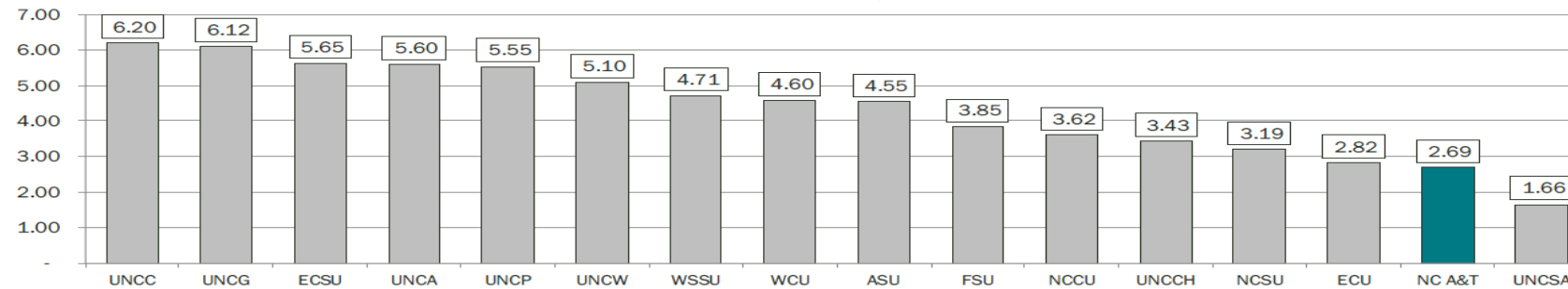
Debt Service to Operating Expenses (%)

NCA&T vs. National Peers



Debt Service to Operating Expenses (%)

NCA&T vs. UNC System



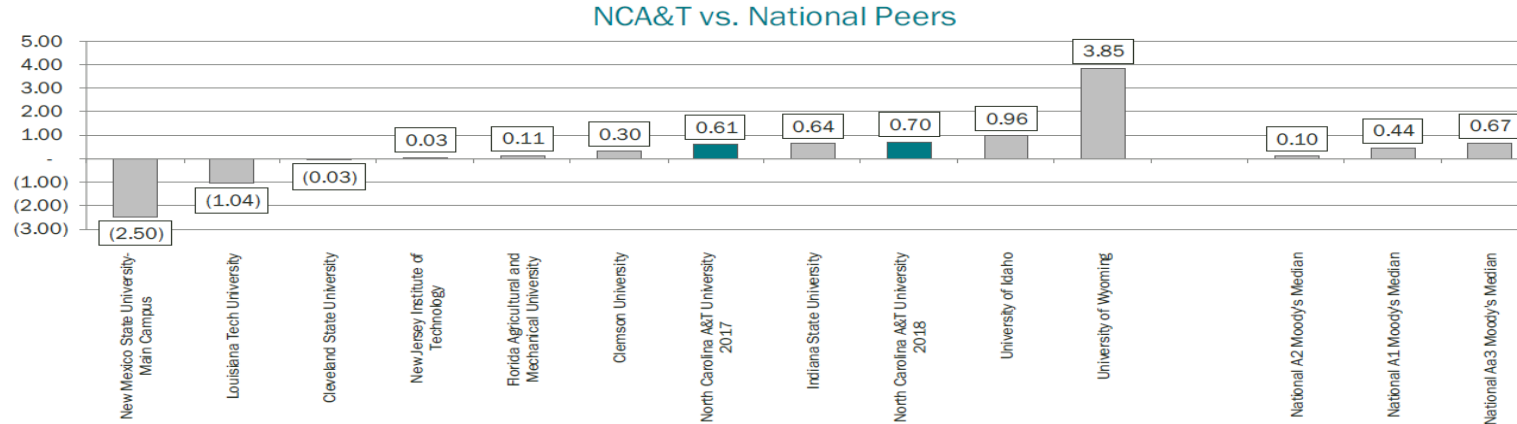
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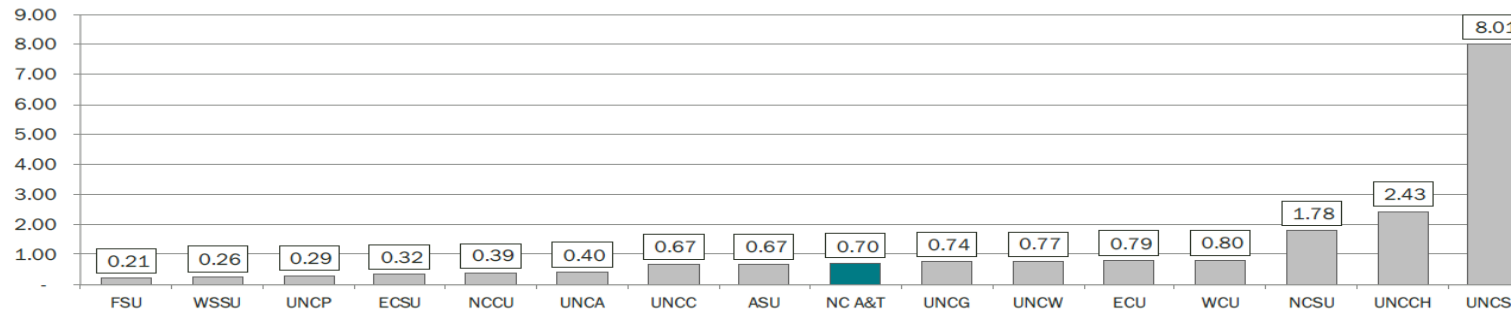
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Expendable Financial Resources to Debt



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



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