FINANCIAL AFFAIRS COMMITTEE
August 25, 2020
FY21 SHORTFALL REFLECTS LOWER REVENUE AND INCREASED EXPENSE

• Reduced Revenues
  – Housing contracts
  – Dining
  – Athletics
  – Other Auxiliary Services
  – Tuition
    • 0% increase
    • Enrollment shifts

• COVID Expenses
  – Technology Enhancements
  – Testing
  – PPE
  – Space Modifications
  – Enhanced Cleaning Protocols
  – Contact Tracing

• Pre-COVID Expenses
  – Financial Aid
  – Fringe Benefits
  – Unrestricted Private Funds
MITIGATION STRATEGIES

- Cash balances ✔
- Hiring freeze ✔
- Cost containment ✔
- Mission-critical budget review ✔
- Voluntary personnel actions ✔
- Involuntary targeted, personnel actions
- Involuntary across-the-board personnel actions
- Restructuring existing debt ←
- Issuing new debt ←

Reminder: Restrictions on fund sources may limit options for some programs.
THE ROLE OF DEBT IN THE CURRENT ENVIRONMENT

• Interest rates are at a near-historic low
• Favorable market response
• General purpose debt provides needed flexibility
  – Short-term COVID-related shortfalls
  – Future strategic uses
PROPOSED ACTION: AUTHORIZE UP TO $200M BOND PACKAGE

<table>
<thead>
<tr>
<th>Amount</th>
<th>Description</th>
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<tbody>
<tr>
<td>$90M</td>
<td>Refund existing debt via the state and/or W&amp;M</td>
</tr>
<tr>
<td>$20M</td>
<td>New tax-exempt debt for dorm renovations</td>
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<tr>
<td>$70M</td>
<td>New general purpose taxable debt</td>
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<tr>
<td>$180M</td>
<td>Total Package*</td>
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* Authorization provides up to $20 million if circumstances change prior to bond sale.
$90M TO RESTRUCTURE EXISTING DEBT

- Current debt portfolio issued by the state
- Restructure reduces debt service in FY21 and FY22
- Flexibility for future property development via use of taxable debt
$20M FOR DORM RENOVATIONS

• $12.5M for One Tribe Place

• $7.5M for future work supporting summer semester
$70M GENERAL REVENUE PLEDGE

• Provides contingency funds during COVID
  – Size of issuance constrained by impact on bond rating
    • Current rating = AA; Required to maintain at least a AA- as Tier 3
  – Size of issuance constrained by university’s debt policy
    • As proposed, MADS = 6.14% of Operating Expenses
  – Impact on annual debt service
    • Debt service remains relatively flat to minimize future budget reductions and/or increases in student fees
    • Uses 30-year term to smooth debt service costs over time
CUSTOM STRUCTURE MAINTAINS DEBT SERVICE AT CURRENT LEVELS
AUGUST 2020 > $30M+ FY21 SHORTFALL
FY21 PICTURE MAY WORSEN...
... OR STEEPLY DECLINE, IF CONDITIONS DETERIORATE
## TIMELINE AND PROCESS

<table>
<thead>
<tr>
<th>Month</th>
<th>Activity</th>
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<tbody>
<tr>
<td>June</td>
<td>Selected financial advisor (FA)</td>
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<tr>
<td>July – August</td>
<td>Modeled scenarios for proposed debt package</td>
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<td>Selected bond counsel (BC)</td>
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<td>August – Mid-September</td>
<td>BOV authorization</td>
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<td>Develop bond documents in consultation with FA/BC</td>
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<td>Late September</td>
<td>Seek Treasury Board approval to refund existing debt</td>
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<td>Present package to rating agencies</td>
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<tr>
<td>October</td>
<td>Price bond sale</td>
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<tr>
<td>November</td>
<td>Bond closing</td>
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RESOLUTION 1(R)

• Authorizes President and COO to issue up to $200M to meet the outlined objectives
• Caps interest at 5%
  – Allows for some movement in the market without additional board action
• Allows for 31-year term depending on timing of sale(s)