Presented to the Board of Trustees
September 20, 2012

Total FY13
Proposed Budget by Division $1.017B

Main Campus
$818M
80.4%

ACES
$50M
4.9%

AAES
$63M
6.2%

AUM
$86M
8.5%
Auburn University-Main Campus
Proposed FY13 Total Budget - $818M

- **Unrestricted**
  - $582M
  - 71.1%
- **Restricted**
  - $120M
  - 14.7%
- **Auxiliary**
  - $116M
  - 14.2%

Main Campus
FY13 Total Proposed Unrestricted Budget-$582M
By Revenue Source

- **Net Tuition/fees**
  - $269M
- **Scholarships and Waivers**
  - $99M
- **Other**
  - $59M
- **State App**
  - $155M
AU Main Campus Budget by Type of Expense
Amounts in Millions

Personnel: $340M
Scholarships: $59M
Transfers: $29M
Plant: $55M
Other: $99M

AU Main Campus Budget by Type of Expense Excluding Scholarships-$483M
Amounts in Millions

Transfers: $55M
Debt: $28M
Stud fac/serv: $19M
Facilities/DM: $6M
Research: $2M
Proration Res: $1M
Pres Priorities: $1M
Other: $2M
Debt Discussion

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

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.”
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 growth, 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.”
AU Outstanding Debt
Amounts in Millions

AU Outstanding Debt vs. Moody’s Aa2 Institutions
Amounts in Millions
AU Debt and State Appropriations Per Student

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

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.
Public Projects versus Privatization

- In 2007 the University conducted an intensive review to access 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

Some Peer Group Comparisons

<table>
<thead>
<tr>
<th></th>
<th>Moody’s</th>
<th>S&amp;P</th>
<th>State G.O. Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auburn University</td>
<td>Aa2</td>
<td>AA-</td>
<td>Aa1 / AA</td>
</tr>
<tr>
<td>University of Alabama (Tuscaloosa)</td>
<td>Aa2</td>
<td>AA-</td>
<td>Aa1 / AA</td>
</tr>
<tr>
<td>University of Georgia (Housing)</td>
<td>Aa2</td>
<td>AA</td>
<td>Aaa / AAA</td>
</tr>
<tr>
<td>Clemson (Student Fees)</td>
<td>Aa2</td>
<td>AA</td>
<td>Aaa / AA+</td>
</tr>
<tr>
<td>University of Florida (Housing)</td>
<td>Aa2</td>
<td>AA-</td>
<td>Aa1 / AAA</td>
</tr>
</tbody>
</table>

- 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
## AU vs. UA 2011 Stats

<table>
<thead>
<tr>
<th></th>
<th>AU</th>
<th>UAT</th>
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<tbody>
<tr>
<td><strong>Total Debt</strong></td>
<td>$781 million</td>
<td>$820 + $104 million</td>
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<tr>
<td><strong>State Appropriations</strong></td>
<td>26%</td>
<td>19.5%</td>
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<tr>
<td>% of operating revenue</td>
<td></td>
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<tr>
<td><strong>Unrestricted Net Assets</strong></td>
<td>$631.4 M</td>
<td>$450 M</td>
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<tr>
<td>% of operating expenses</td>
<td>73.3%</td>
<td>50.6%</td>
</tr>
<tr>
<td>% proforma debt</td>
<td>80.8%</td>
<td>54.8%</td>
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<tr>
<td><strong>Maximum annual Debt service</strong></td>
<td>7.4%</td>
<td>7.8%</td>
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<tr>
<td>% of operating expenses</td>
<td></td>
<td></td>
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<tr>
<td><strong>Enrollment Fall 2011 (FTE)</strong></td>
<td>Auburn: 30,774 (27,385)</td>
<td>Montgomery: 31,747 (29,625)</td>
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<td></td>
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<tr>
<td><strong>Endowment</strong></td>
<td>$465 M</td>
<td>$617 M</td>
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<tr>
<td><strong>Days Cash on Hand</strong></td>
<td>$619 M</td>
<td>$535 M</td>
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<td></td>
<td>287 days</td>
<td>280 days</td>
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<tr>
<td><strong>Cash and Investments</strong></td>
<td>$822 M</td>
<td>$914 M</td>
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<td>$1,242 M</td>
<td>$1,127 M</td>
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*UA Debt has increased from $320M in 2004
*UA currently plans to issue additional debt of $135M in 2014 and $166M in 2017