THE UNIVERSITY OF ARIZONA

2016 DEBT CAPACITY

PURPOSE

To demonstrate The University of Arizona's ability to finance additional capital investment through debt instruments and to fund the related debt service (principal and interest).

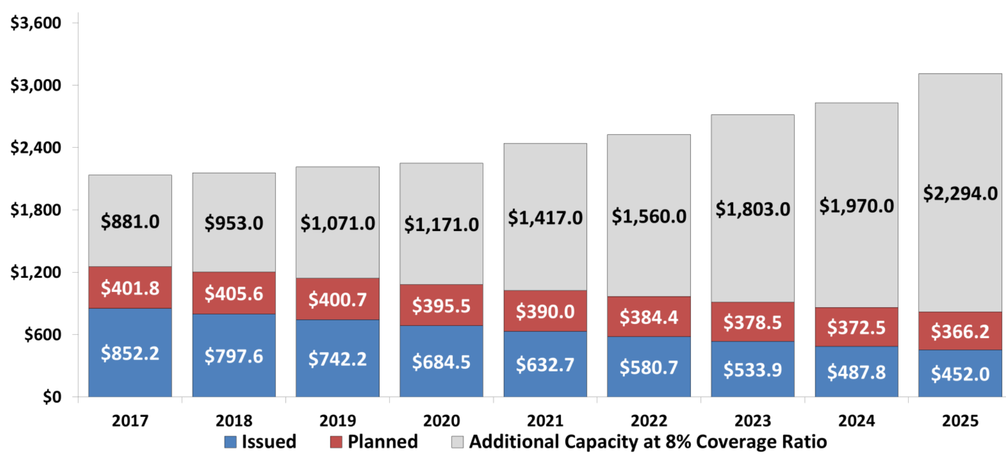
PROJECTED DEBT CAPACITY

Maximum Projected Debt Service to Total Expenditures Excluding/ Including SPEED debt
5.3% / 6.6%

This debt capacity includes debt issuances for the Health Sciences Innovation Building (HSIB), Phoenix Union High School (PUHS), and the North Alvernon Way Building projects which have received ABOR Project and Financing Approval. Additionally, the South Stadium Parking Garage has received Capital Development Plan (CDP) approval. With these three projects, the projected highest debt ratio is 5.3 percent in FY 2017, relative to the statutory debt limit of 8 percent. Outstanding debt in FY 2017 is projected to be $1.55 billion, with total annual debt service of $104.2 million. The 5.3 percent ratio is within the range used by bond rating firms to judge an institution's creditworthiness to service debt and is below the 8 percent statutory limit.

The UA projects outstanding (issued) debt to decline from $852.2 million in FY 2017 to $452.0 million in FY 2025 as debt is retired. The planned debt includes financing of the HSIB, PUHS, North Alvernon Way Building projects, and South Stadium Parking Garage. Additional debt capacity represents debt that can be issued in any given year based on the statutory 8 percent debt ratio limit.

(Dollars in Millions)



CREDIT RATINGS

UA's current credit rating is Aa2 (Moody's) and AA- (S&P)

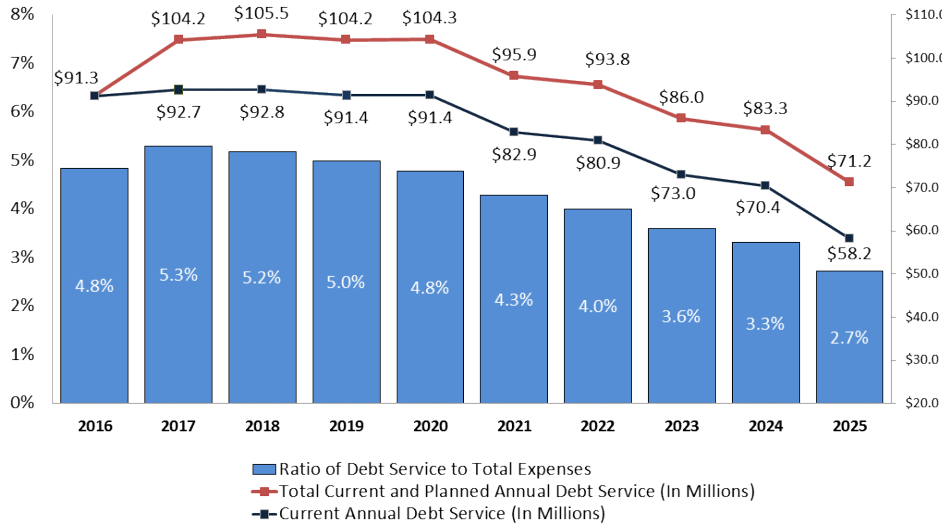
Positive rating factors include the UA as the flagship and land-grant institution, as well as its important role in the provision of medical education for the State of Arizona. UA continues to see robust tuition revenue growth, sizable sponsored research funding with diverse sources, substantially improved philanthropic support and enhanced financial modeling and strategic planning.

Offsetting factors include thin reserves and liquidity relative to debt and operations, increased competition for research funding due to federal government budget reduction, and significant decrease in state support. Additionally, UA will have a near term presidential transition.

	Moody's		Standard & Poor's (S&P)	
Fiscal Year	Rating	Outlook	Rating	Outlook
2011	Aa2	Negative	AA	Stable
2012	Aa2	Negative	AA	Stable
2013	Aa2	Negative	AA	Negative
2014	Aa2	Negative	AA-	Stable
2015	Aa2	Stable	AA-	Stable
2016	Aa2	Stable	AA-	Stable

RATIO OF DEBT SERVICE TO TOTAL EXPENSES

Annual debt service on System Revenue Bonds (SRBs) and Certificates of Participation (COPs) is projected to increase from $91.3 million in FY 2016 to a maximum of $105.5 million in FY 2018. The ratio of debt service to total expenses is projected to peak in FY 2017 at 5.3 percent relative to the 8 percent statutory limit. Planned debt service includes the HSIB, PUHS, North Alvernon Way Building projects, and South Stadium Parking Garage.



The Stimulus Plan for Economic and Educational Development (SPEED) bonds are funded up to 80 percent by state lottery revenues, with the balance funded by the University. SPEED debt service is excluded from the statutory debt ratio. If SPEED debt were included, the year with the highest debt ratio would be FY 2017 with total annual debt service of $130.7 million or 6.6 percent of total projected expenditures.

FUTURE PROJECTS

There are five future debt financed projects in the FY 2017 CDP that have ABOR approval. These planned debt financing projects are currently on hold for additional assessment with the exception of HSIB and the South Stadium Parking Garage. Issuance for HSIB will occur Fall 2016.

	Project Budget	Amount to be Financed
Health Sciences Innovation Building	$ 165,000,000	$ 165,000,000
South Stadium Parking Garage	$ 18,500,000	$ 8,500,000
Total	$ 183,500,000	$ 173,500,000

REVENUE ASSUMPTIONS

The Financial Services Office projects revenues and expenditures through FY 2025 using historical data from audited financial statements and financial information from various internal sources. FY 2017 projections are based on the University's approved budget.

Revenue Growth Assumptions

Revenues	2017	2018	2019	2020	2021	2022	2023	2024	2025
State Appropriations (General Fund)	6.5%	4.9%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
Tuition and Fees	5.4%	2.6%	3.7%	3.3%	2.8%	3.6%	3.6%	3.6%	3.6%
Grants and Contracts	-3.8%	1.8%	2.3%	2.7%	2.9%	2.8%	2.8%	2.8%	2.8%
Financial Aid Grants	-35.4%	4.2%	5.1%	4.0%	3.5%	3.6%	3.6%	3.6%	3.6%
Private Gifts	-7.1%	4.0%	4.0%	4.0%	4.0%	4.1%	4.1%	4.1%	4.1%
Technology and Research Initiative	9.2%	5.9%	5.5%	5.2%	5.0%	-100.0%	0.0%	0.0%	0.0%
Auxiliary Enterprises	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Other Sources	28.2%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%