Arizona State University

2016 Debt Capacity

PURPOSE

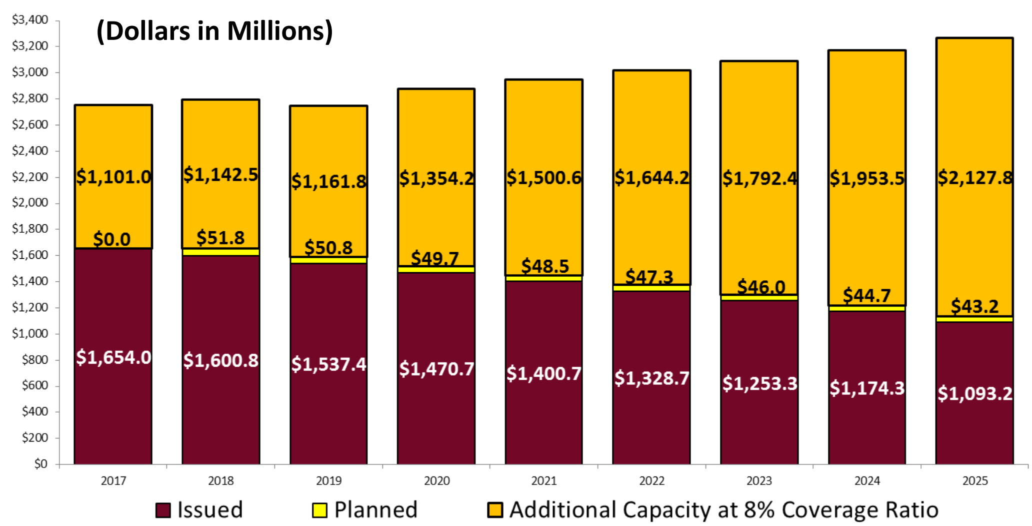
To demonstrate Arizona State University's ability to finance additional capital investment through debt instruments and to fund the related debt service (principal and interest).

PROJECTED DEBT CAPACITY

Maximum Projected Ratio of Debt Service to Total Expenditures Excluding/Including SPEED debt
4.8%/ 5.2%

Based upon planned financing of approved, CDP and CIP projects totaling $51.8 million, the maximum projected debt ratio is 4.8 percent in FY 2019, relative to the statutory debt limit of 8 percent. Outstanding debt in FY 2019 is projected to be $1.6 billion, with total annual debt service of $124.4 million. The 4.8 percent ratio is within the range used by bond rating firms to confirm an institution's creditworthiness and is below the 8 percent statutory maximum.

Currently outstanding (issued) debt declines from $1.65 billion in FY 2017 to $1.1 billion in FY 2025 as debt is retired. Outstanding planned debt includes future financings of approved, CDP and CIP projects. Additional debt capacity represents debt that can be issued in any given year based on the statutory 8 percent debt ratio maximum.



CREDIT RATINGS

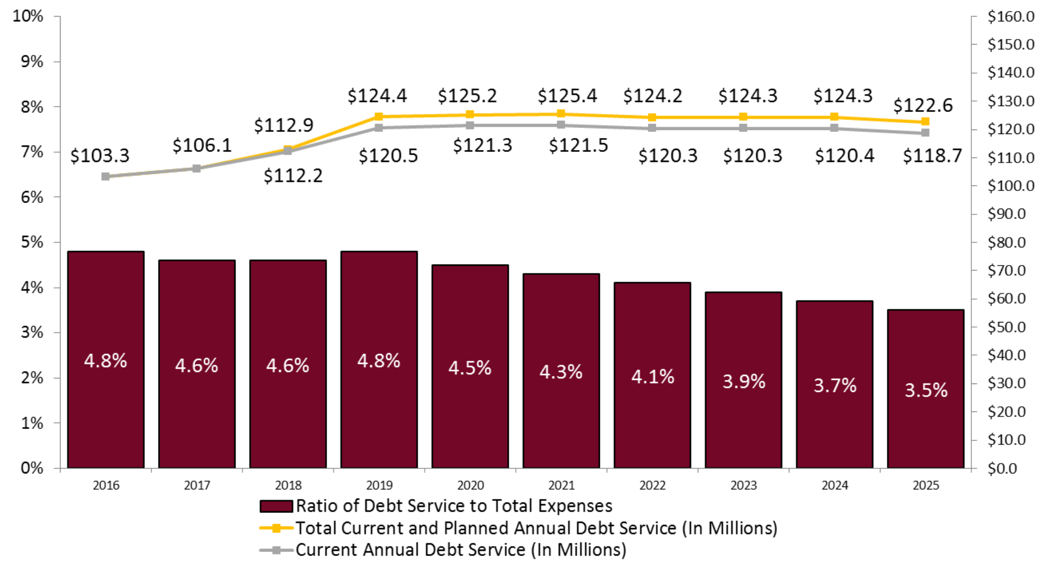
Positive rating factors cited by the agencies include ASU's rapid growth and increasing brand recognition, robust revenue growth, good budgetary oversight, consistent operating surpluses, healthy cash flow, strategic reinvestment, and stable debt service support from the State of Arizona.

Offsetting factors identified by the agencies include high debt levels, narrow reserves relative to debt, weak state funding, and limited revenue diversity.

	Moody's		Standard & Poor's (S&P)	
Fiscal Year	Rating	Outlook	Rating	Outlook
2011	Aa3	Stable	AA	Negative
2012	Aa3	Stable	AA	Stable
2013	Aa3	Stable	AA	Stable
2014	Aa3	Stable	AA	Stable
2015	Aa3	Stable	AA	Negative
2016	Aa3	Positive	AA	Stable

RATIO OF DEBT SERVICE TO TOTAL EXPENSES

Annual debt service on system revenue bonds and COPs is projected to increase from $103.3 million in FY 2016 to a maximum of $125.4 million in FY 2021. The ratio of debt service to total expenses peaked in FY 2016 at 4.8 percent and the projected future maximum is 4.8 percent in FY 2019.



SPEED (Stimulus Plan for Economic and Educational Development) 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, but if SPEED debt service of $11.9 million is included, the FY 2019 projected debt ratio increases to 5.2 percent.

FUTURE PROJECTS

	Project Budget	Amount to be Financed
Armstrong Hall/Ross Blakley Renovations	$21,800,000	$21,800,000
Parking Structure Lot 20/Block 22	30,000,000	30,000,000
	$51,800,000	$51,800,000

Future debt-financed projects include those approved in the FY 2017 Capital Development Plan (CDP), the first year of the FY 2018-2020 Capital Improvement Plan (CIP), and projects that have received ABOR Project Approval. These planned projects are included in the future Debt Capacity assumptions.

REVENUE ASSUMPTIONS

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

	Revenue Growth Assumptions							
	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
Revenues								
State Appropriations (General Fund)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Tuition and Fees	5.3%	7.5%	6.4%	5.6%	5.6%	4.8%	4.7%	4.4%
Grants and Contracts	8.0%	8.0%	15.5%	3.0%	3.5%	3.0%	4.5%	2.0%
Financial Aid Grants	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Private Gifts	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Technology and Research Initiative	1.5%	1.5%	1.5%	1.5%				
Auxiliary Enterprises	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Other Sources	3.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%