FY 2019
Capital Development Plan

Northern Arizona University

EXECUTIVE SUMMARY

Item Name: Capital Development Plan (NAU)

☒ Action Item

Requested Action: Northern Arizona University asks that the committee review and forward to the board for approval of its Capital Development Plan, which includes no new projects and no resubmitted projects. The CDP has no financial impact.

Previous Board Action

Not Applicable

Statutory/Policy Requirements

- Pursuant to Arizona Board of Regents Policy Chapter 7-107, each university shall submit an annual Capital Development Plan for the upcoming year in accordance with the calendar approved by the President of the Board.
- Capital Development Plans are reviewed by the Finance, Capital, and Resources Committee and approved by the Board.
- Approval of the CDP allows universities to complete design and planning, execute construction and financing agreements, and begin construction as outlined in policy.

Prior Year Activity

- One university project totaling $19.2M was substantially completed within the last 12 months. Additionally, two third-party projects were completed.
- Two university projects totaling $32.4M began or continued construction activity in the last 12 months.
- Detail on completed and ongoing projects are listed in Exhibit 1.

Overview and Alignment with Enterprise and University Goals and Objectives:

- The NAU CDP includes no projects and has no financial impact.
- NAU has developed the CDP to align with university's campus master plan, and the system Enterprise and university strategic goals and objectives.

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Capital Development Plan Projects:

- The following lists the new and resubmitted projects proposed for CDP approval.
  - Not applicable

- Additional detail on project costs, financing, and scope can be found in the tables in Exhibits 2 and 3, and the individual Project Justification Reports attached at the end.

Fiscal Impact and Management:

- The NAU CDP has no fiscal impact.

- **Debt Ratio Impact:** Based upon projects included in this CDP and the first year of the CIP, the debt ratio is expected to reach its maximum in FY 2021 at 6.1 percent excluding SPEED debt. If SPEED debt is included, the FY 2021 debt ratio is 7.8 percent.

- The tables in Exhibits 2, 3, and 4 provide detail project financing, funding sources and debt ratio impact.

EXHIBIT 1

Northern Arizona University Capital Project Status Report							
Project Name	**Square Footage**	**Total Budget**	**Percent Work Complete**	**Percent Total Expended ***	**Percent to Gift Target ***	**Date last Board Approval**	**Original / Revised Occupancy Date**
Ongoing University Projects							
Recital Hall	26,863	$ 15,000,000	75%	47%	14%	Jul-17	Jan-19
Science Annex 3rd/4th Floor Renovation	34,115	$ 17,400,000	20%	10%	N/A	Jan-18	May-19
Ongoing Third-Party Projects							
N/A							
Substantially Completed University Projects							
South Dining Renovation	50,759	19,259,053	99%	98%	N/A	Apr-16	Aug-17
Substantially Completed Third-Party Projects							
Skyview	289,861		99%		N/A	Jun-15	Aug-17
Honors Hall	197,989		90%		N/A	Apr-17	Aug-18
***Values as of 8/17/2018**							

EXHIBIT 2

Northern Arizona University Capital Project Status Report							
Project	Board Approval Status	Gross Square Footage	Project Cost	Amount Financed	Funding Method	Annual Debt Service	Debt Ratio
New Projects							
No new projects							
Subtotal							
Resubmitted Projects							
No resubmitted projects							
Subtotal							
Third Party Projects							
No third party projects							
Subtotal							
TOTAL		-	$ -	$ -		$ -	0.00%

EXECUTIVE SUMMARY

EXHIBIT 3

CAPITAL DEVELOPMENT PLAN - ANNUAL DEBT SERVICE BY FUNDING SOURCE											
Project	Amount Financed	CIF	TUI	AUX	ICR	OLF	SLP	FGT	DFG	OTH	TOTAL ANNUAL DEBT SERVICE
New Projects											
No new projects											
Subtotal											
Resubmitted Projects											
No resubmitted projects											
Subtotal											
Third Party Projects											
No third party projects											
Subtotal											
Total											

OPERATION AND MAINTENANCE BY FUNDING SOURCE										
Project	TOTAL ANNUAL O&M	301	TUI	AUX	ICR	OLF	GFA	FGT	DFG	OTH
New Projects										
No new projects										
Subtotal										
Resubmitted Projects										
No resubmitted projects										
Subtotal										
Third Party Projects										
No third party projects										
Subtotal										
Total										

Funding Source Codes:

(CIF) Capital Infrastructure Fund
(TUI) Tuition
(AUX) Auxiliary
(ICR) Indirect Cost Recovery
(OLF) Other Local Funds
(GFA) General Fund Appropriation
(FGT) Federal Grant
(DFG) Debt Financed by Gifts
(OTH) Other

EXHIBIT 4
DEBT CAPACITY UPDATE

PURPOSE

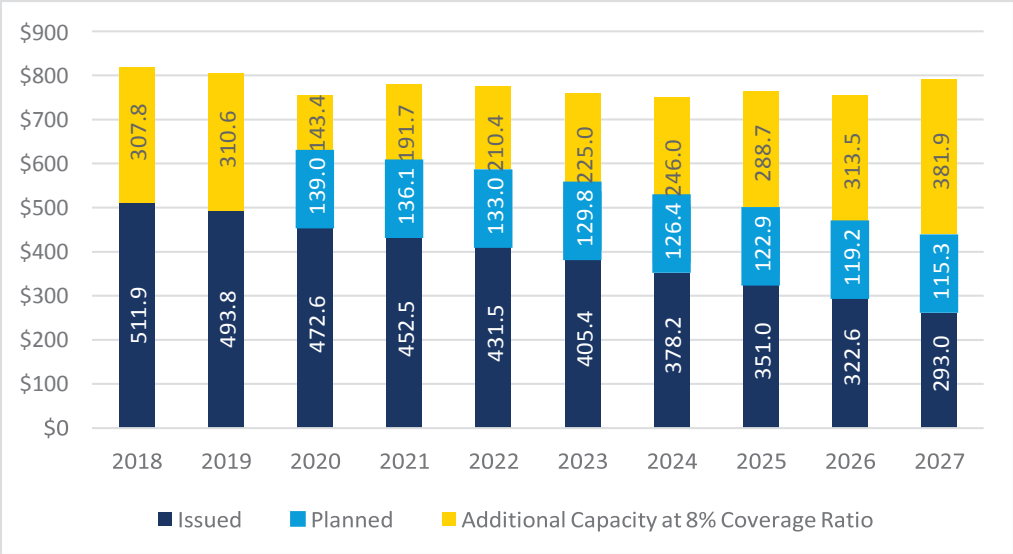
To demonstrate Northern Arizona University's ability to finance additional capital investment through debt instruments and to fund the related debt service (principal and interest).

PROJECTED DEBT CAPACITY

Maximum Projected Debt Service to Total Expenditures Excluding/Including SPEED debt
6.1% / 7.8%

Currently outstanding (issued) debt at the end of FY 2018 is $511.9M. Anticipating that all appropriate approvals are in place, the $139.0 million Multi-Discipline STEM Academic / Research building will be financed at the end of FY 2020 with debt service payments beginning in FY 2021. Outstanding debt in FY 2020 is projected to be $611.6 million. The maximum projected debt ratio is 6.1 percent in FY 2021. The 6.1 percent ratio is within the range used by bond rating firms to confirm an institution's creditworthiness and is below the 8 percent statutory debt limit. Maximum total annual debt service of $41.1 million will occur in FYs 2023 and 2024 (5.9 and 5.8 percent respectively).

Currently outstanding (issued) debt declines from $511.9 million in FY 2018 to $293.0 million in FY 2027 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.



FUTURE PROJECTS

Future debt financed projects include those approved in the FY 2019 Capital Development Plan (CDP), the first year of the FY 2020-2022 Capital Improvement Plan (CIP), and projects that will be presented for ABOR Project Approval. These planned projects are included in the future Debt Capacity assumptions.

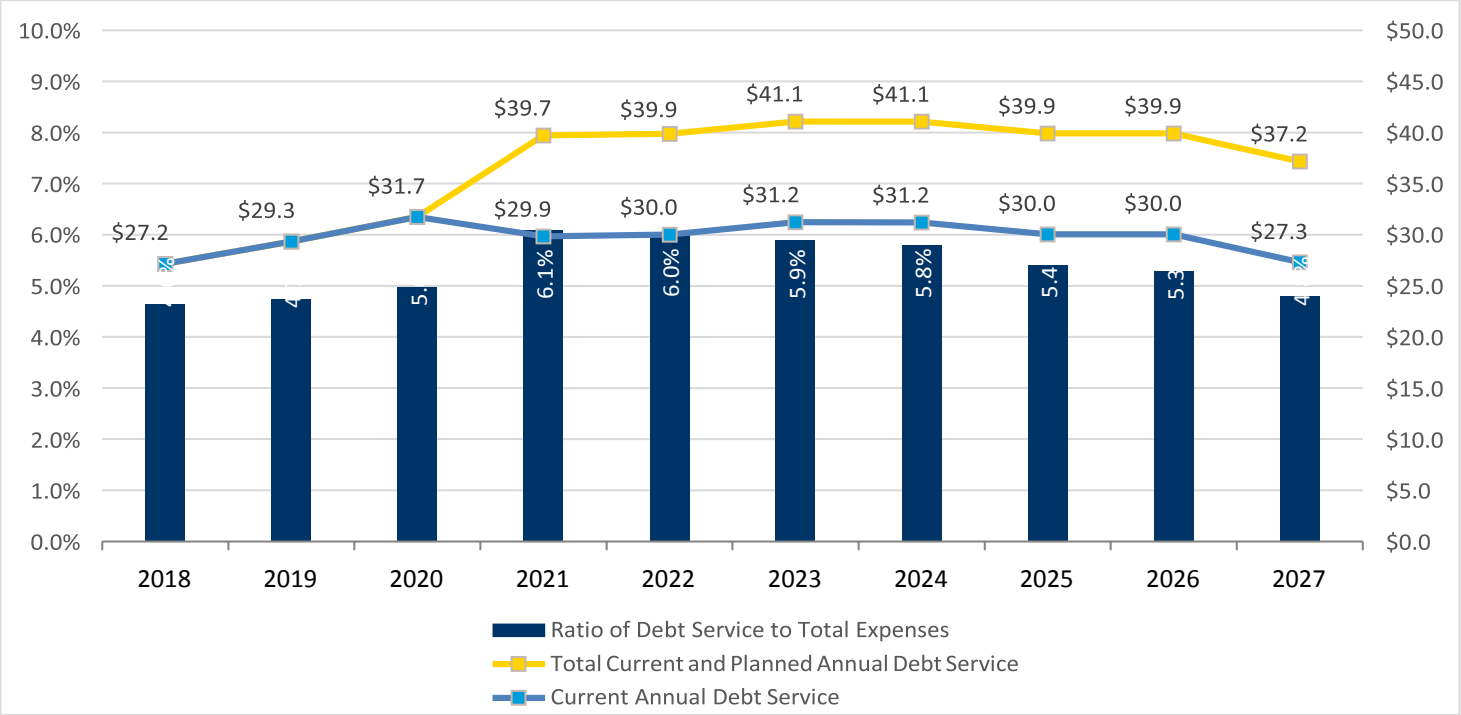
	Project Budget	Amount to be Financed
Multi-Discipline STEM Academic/Research Building	$139,000,000	$139,000,000

CREDIT RATINGS

Positive rating factors cited by agencies include NAU's role as a large and growing public university with enrollment growth of close to 20% over the past five years and annual growth since 2008, conservative fixed rate debt structure and improving student quality, higher retention and graduation rates.

Offsetting factors include strong enrollment competition, sustained weak state support for operations, high maximum annual debt service compared to agency medians and narrow reserves relative to debt.

	Moody's		Standard & Poor's	
Fiscal Year	Rating	Outlook	Rating	Outlook
2013	A1	Stable	A+	Stable
2014	A1	Stable	A+	Stable
2015	A1	Stable	A+	Stable
2016	A1	Stable	A+	Stable
2017	A1	Stable	A+	Stable
2018	A1	Stable	A+	Stable

RATIO OF DEBT SERVICE TOTOTAL EXPENSES

As a result of the planned project described above, annual debt service on system revenue bonds and COPs is projected to increase from $27.2 million in FY 2018 to a maximum of $41.1 million in FYs 2023 and 2024. The ratio of debt service to total expenses is expected to reach a maximum in FY 2021 at 6.1 percent. 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 $11.1 million is included, the highest projected debt ratio increases to 7.8 percent in FY 2021.