

Governor's Conference on Postsecondary Education

An Overview of the Capital Financing Programs for Postsecondary Education

Prepared by the
Office of Financial Management
September 17, 2007

Topics of Discussion

- Capital Financing Process
- Related Debt Issuing Entities
- University Ratings
- Commonwealth's Debt Profile
- State Appropriation Ratings
- Summary

Capital Financing Process

➤ **Project Authorization**

- Capital Planning Advisory Board
- Executive Budget Submission
- Legislatively Enacted Budget for appropriation supported capital projects
- Statutory cap for non-appropriation issuers such as the Kentucky Higher Education Student Loan Corporation.

Capital Financing Process

➤ Project Planning

- Architect & Engineering design
- Construction bids
- Funding estimates
- A reasonable expectation to meet IRS expenditure test for tax-exempt bonds:
 - 10% within 6 months
 - 45% within 12 months
 - 75% within 18 months
 - 100% within 24 months

Capital Financing Process

- **Procurement of Bond Counsel and Financial Advisors are subject to KRS 45A.840 et seq.**
- **Financing Team Members**
 - Bond Counsel
 - Financial Advisor
 - University finance staff
 - Office of Financial Management staff

Capital Financing Process

➤ **Bond Approval Process**

- University Board
- State Property & Buildings Commission (Executive)
- Capital Projects & Bond Oversight Committee (Legislative)
- Office of Financial Management

Related Debt Issuing Entities

<u>ENTITY</u>	<u>STATUTORY AUTHORITY/PURPOSE</u>	<u>LIMITATIONS</u>	<u>RATING</u>
Kentucky Asset/ Liability Commission	KRS 56.863. Provide interim financing of capital projects and cash flow borrowings to meet working capital needs of the State.	Cannot incur debt without prior approval of project and appropriation of debt service by General Assembly, exclusive of cash flow borrowings within a fiscal year.	Varies
Kentucky Economic Development Finance Authority	KRS 154. Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state.	None	Varies
Kentucky Higher Education Student Loan (Sr. Series) Corporation (Subord. Series)	KRS 164A. Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state.	Limited to \$5.0 billion of debt outstanding	NR/AAA/AAA A/NR/A/A

Related Debt Issuing Entities

<u>ENTITY</u>	<u>STATUTORY AUTHORITY/PURPOSE</u>	<u>DEBT LIMITATIONS</u>	<u>RATING</u>
State Property and Buildings Commission	KRS 56.450. Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/A+/AA-
State Universities (consisting of nine)	KRS 56.495. Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies

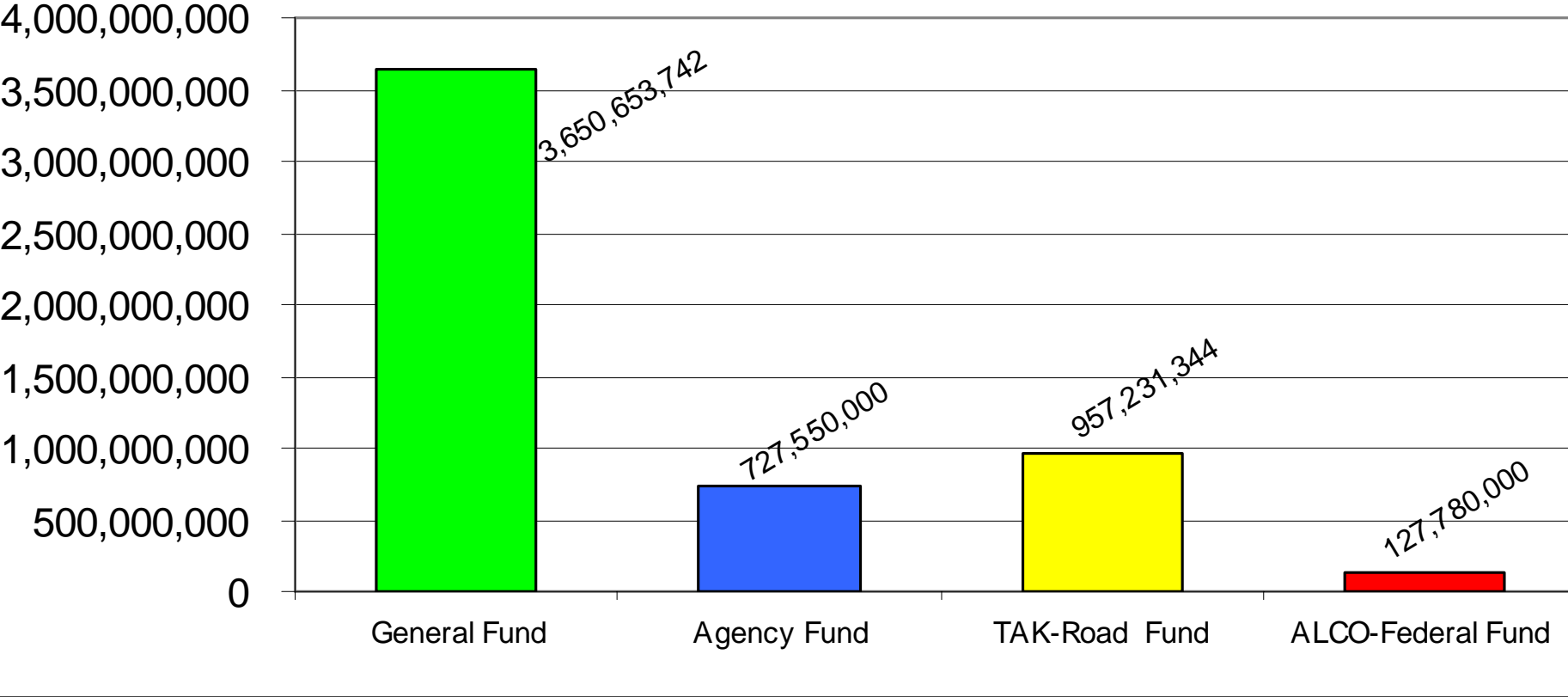
* Ratings, where applicable, include Moody's, Standard and Poor's and Fitch. Certain State Property and Buildings Commission Agency Fund Revenue Bonds may have ratings different than those identified above.

University Ratings

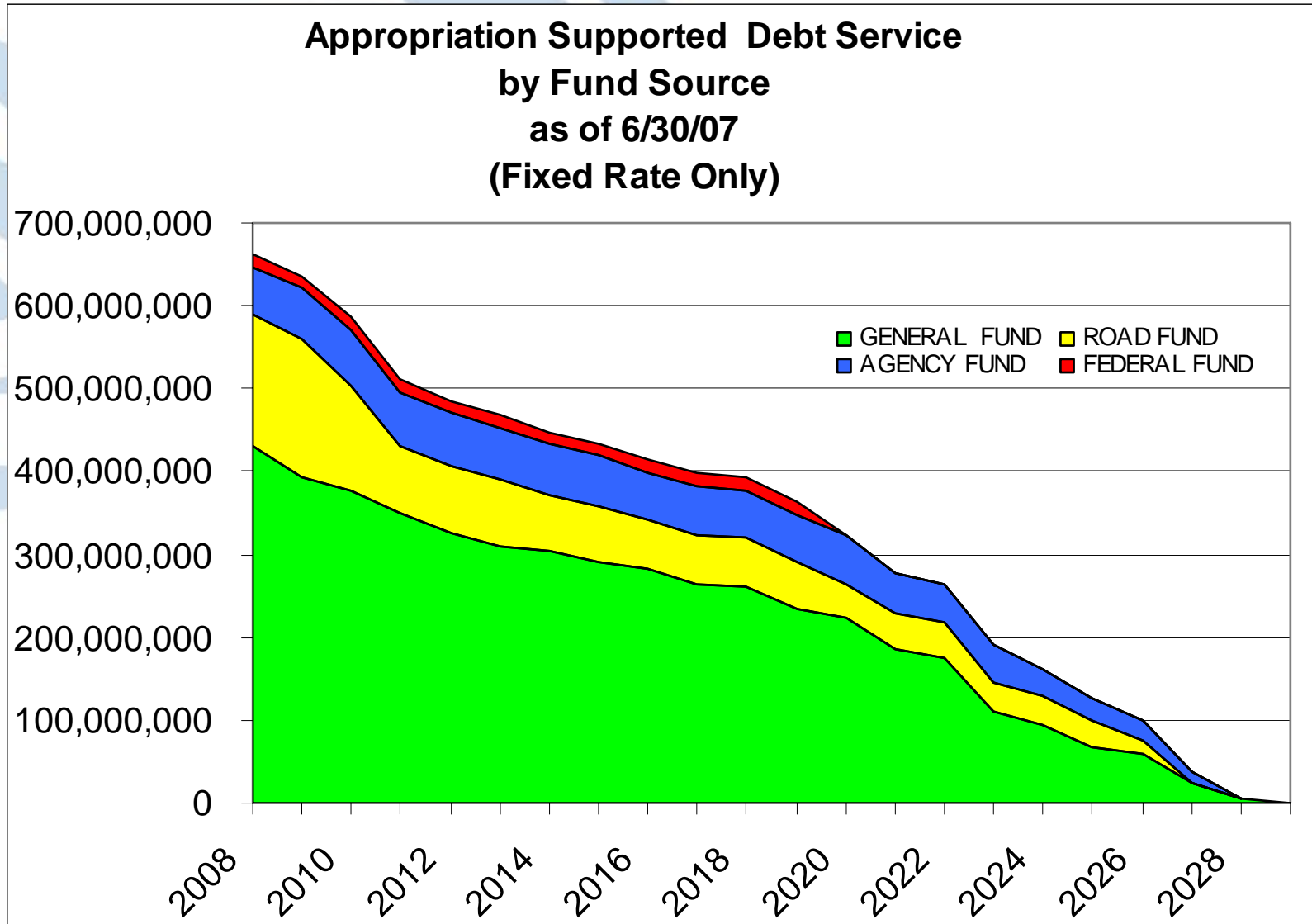
University	Con. Education		Housing & Dining		General Receipts	
		Underlying Rating		Underlying Rating	Underlying	Enhanced
EKU	Moody's	A2		A3	A2	A1
	S&P	A		A-	Not Rated	A+
KSU	Moody's	A3		Baa1	A3	A1
	S&P	Not Rated		Not Rated	Not Rated	Not Rated
Morehead	Moody's	A2		A3	A2	A1
	S&P	Not Rated		Not Rated	Not Rated	Not Rated
Murray	Moody's	A2		Not Rated	A2	A1
	S&P	A		A-	Not Rated	A+
NKU	Moody's	A2		A3	A2	A1
	S&P	A		Not Rated	Not Rated	A+
UK	Moody's	Aa3		Aa3	Aa3	Not Rated
	S&P	Not Rated		Not Rated	AA-	Not Rated
UL	Moody's	Aa3		A1	Aa3	Not Rated
	S&P	AA-		A	AA-	Not Rated
WKU	Moody's	A2		Not Rated	A2	A1
	S&P	A		Not Rated	Not Rated	A+

Total State Appropriation Debt Outstanding

Appropriation Debt Principal Outstanding
by Fund Source
as of 6/30/07

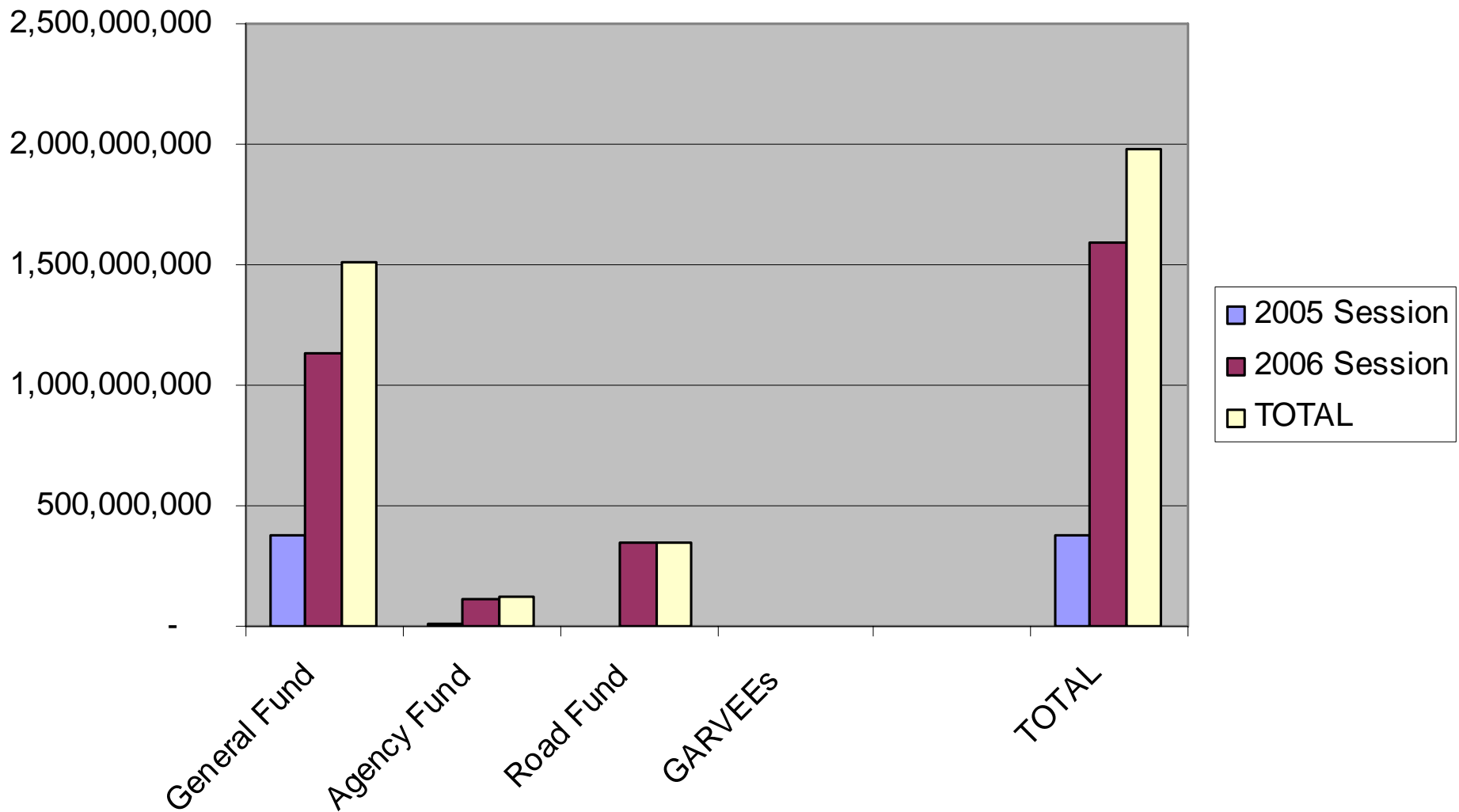


Total State Appropriated Debt Service

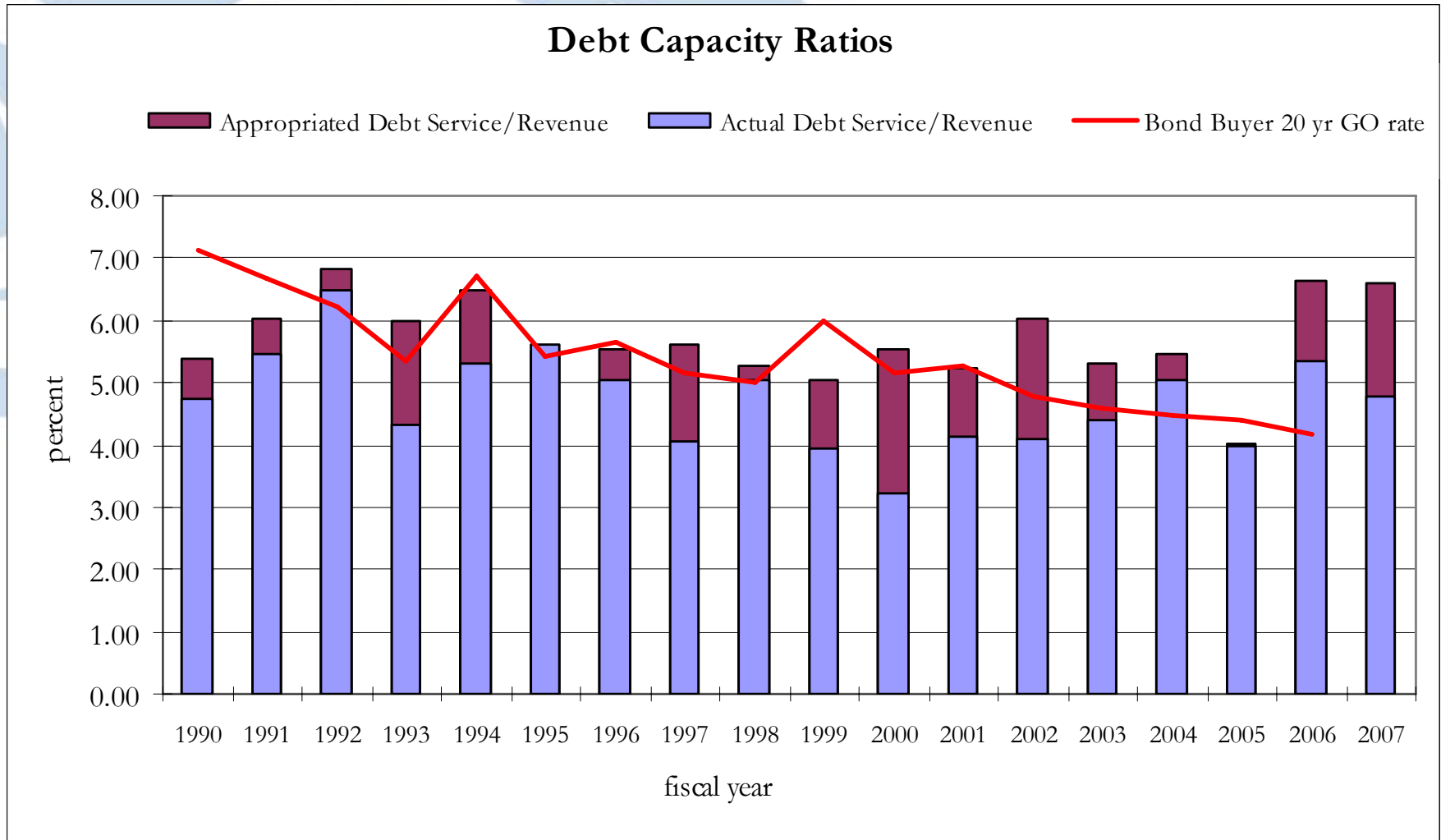


Total Authorized & Un-issued Debt

as of 9/17/2007



Total State Appropriated Debt Service / Total State Appropriated Revenue*



*Excludes Federal Funds

General Fund Appropriation Ratings

➤ Moody's Investors Service

- Aa3: Stable Outlook
- Outlook revised up in February 2007
- Previous Action -- upgrade on June 7, 1999

➤ Standard & Poor's Rating Service

- A+: Positive Outlook
- Outlook revised up January 2007
- Previous action -- a downgrade on October 9, 2002

➤ Fitch Ratings

- AA-: Stable outlook
- Last action -- an upgrade on August 17, 2000

Summary

- The Commonwealth has a well established capital financing process that is supported by:
 - Long range planning
 - Significant level of appropriations
 - Ability to intercept university appropriations
 - Integration of university finances in state budget process and financial management
 - Transition to a modern General Receipts pledge