







## Objectives for Revision of Current Debt Policy

Modernize the policy in recognition of rating agency and accounting changes

- For example, Moody's typically includes the capital raise for a P3 (debt and equity) as total adjusted debt of the host institution regardless of balance sheet treatment

Update the key ratios and to be more in line with current rating trends

- For example, leverage ratios should be comprehensive in including P3s should not have separate % targets in comparison to Direct Debt

Reassess the importance of maintaining a rating in the "AA+" category

Be more specific about the criteria for approving a capital project

- Demand for project
- Operating impact (self-support)
- Following identification of need for project then focus on what is best way to fund
  - System resources
  - Direct debt
  - P3



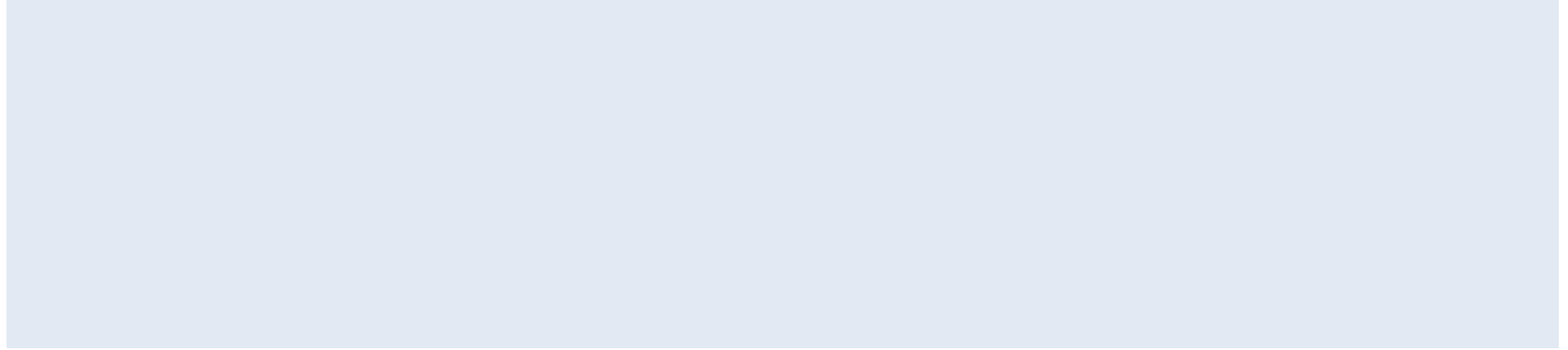
## Sources of Funding

Projects can be financed with a variety of sources as outlined by the chart below

Regardless of how a project is financed (wheth0 -443 -74 c-441 -71 -436 -425-712.925 0S. (aC20 1 Tf0 Tc 0 T )-5 (v)-1 (ar)-3 c



## Credit Impact of Alternative Delivery Projects on Host Institutions





















## Cost of 30-Year Debt at Different Points in Time

	<b>Aa1 (2021)</b>	<b>Aa1 (2022)</b>	<b>Aa1 (Current)</b>	<b>Aa2 (Current)</b>	<b>Baa2 (Current)</b>
<b>TIC</b>	2.86%	3.26%	4.22%	4.32%	5.01%
<b>Avg Annual Debt Service</b>	\$5,091,461	\$5,351,748	\$6,010,194	\$6,081,414	\$6,577,247





## Definitions of Key Terms

Moody's Definitions for Key Ratios and Metrics	
<b>Annual Debt Service Coverage</b>	Measures the ability of a university to make debt service payments from annual operations
<b>EBIDA Margin</b>	Measures net income (before non-cash expenses) relative to operating revenue to indicate the amount of cash a university generates to support its strategic and capital investments
<b>Operating Revenue</b>	Indicates the scope of a university's operations
<b>Total Adjusted Debt</b>	Measure of overall debt, including capitalized operating leases and unfunded pension liabilities
<b>Total Cash &amp; Investments</b>	







## Moody's Key Ratios – USM & Aa1 Peers (from 2019-2022)

EBIDA Margin (%)	2019	2020	2021	2022
Median	10.8	16.2 (an)	19.9	17.3 (an)



# 2020-2022 Higher Education Sector Outlook

MOODY'S

S&P Global

FitchRatings

2020	Pre-COVID	<p><b>Stable</b> (12/10/2019)</p>	<p><b>Negative</b> (1/16/2020)</p>	<p><b>Negative</b> (12/10/2019)</p>
	COVID-19 Impacts	<p><b>Negative</b> (3/18/2020)</p> <ul style="list-style-type: none"> <li>• <b>Outlook revised to Negative</b></li> <li>• Coronavirus response has immediately impacted revenue and increased expenses</li> <li>• Disrupted enrollment, state support, research grants, endowment income</li> </ul>	<p><b>Negative</b> (4/30/2020)</p> <ul style="list-style-type: none"> <li>• Financial and economic challenges exacerbated existing pressures</li> <li>• Loss of auxiliary revenue biggest near-term impact</li> <li>• Institutions with limited liquidity and flexibility are faced with greater operating pressures</li> </ul>	<p><b>Negative</b> (3/12/2020)</p> <ul style="list-style-type: none"> <li>• Decline in housing, dining, and parking revenues negatively affected margins</li> <li>• Operating risks from campus closures</li> <li>• Financial markets negatively impacted endowments</li> <li>• Strained state support</li> </ul>
2021	2021 Outlook	<p><b>Negative</b> (12/8/2020)</p> <ul style="list-style-type: none"> <li>• Operating revenues and auxiliary services continue to decline; athletic programs unable to offset fixed costs</li> <li>• State support expected to decrease</li> </ul>	<p><b>Negative</b> (1/20/2021)</p> <ul style="list-style-type: none"> <li>• Successful vaccination critical for in-person resumption; competition for students increasing</li> <li>• Material state funding cuts could challenge operations</li> <li>• Credit quality split between higher rated institutions and those in the 'BBB' category continues</li> <li>• Market position and value proposition matter more</li> <li>• Privatized (off-balance sheet) student housing sub-sector faces significant pressure</li> </ul>	<p><b>Negative</b> (12/8/2020)</p> <ul style="list-style-type: none"> <li>• Enrollment declines will persist for international students and incoming freshman</li> <li>• Ongoing expense reductions expected to continue into 2022, some will utilize large endowment draws</li> </ul>
	Outlook Revisions	<p><b>Stable</b> (3/22/2021)</p> <ul style="list-style-type: none"> <li>• <b>Outlook revised to Stable</b></li> <li>• Likelihood of a return to campus operations will bolster</li> <li>• Federal aid will bolster</li> <li>• Likelihood of a return to campus operations will bolster</li> </ul>	<p><b>Stable</b> (3/22/2021)</p> <ul style="list-style-type: none"> <li>• Uneven and gradual economic and health recovery</li> <li>• Enrollment pressures persist</li> <li>• Proactive management and contingency planning is key to creditworthiness</li> </ul>	



## Strategies to Leverage the Private Sector

- Higher Education institutions have leveraged the private sector to accomplish a variety of goals and objectives

### Finance

- Manage balance sheet / credit impact of the development of non-core assets
  - Debt covenants, internal debt policies
- Monetize non-core assets with commercial value
  - Transfer demand risk

### Design / Delivery

- Manage project delivery risk for on-time, on-budget project completion
  - Private sector expertise / efficiency for technically complicated development projects
  - Bundling of assets

### Operations

- Transfer operating risks for noncore and/or technically complex assets
- Alignment of interests with private partner for asset life cycle responsibility and risk
- Private sector efficiency

### Governance

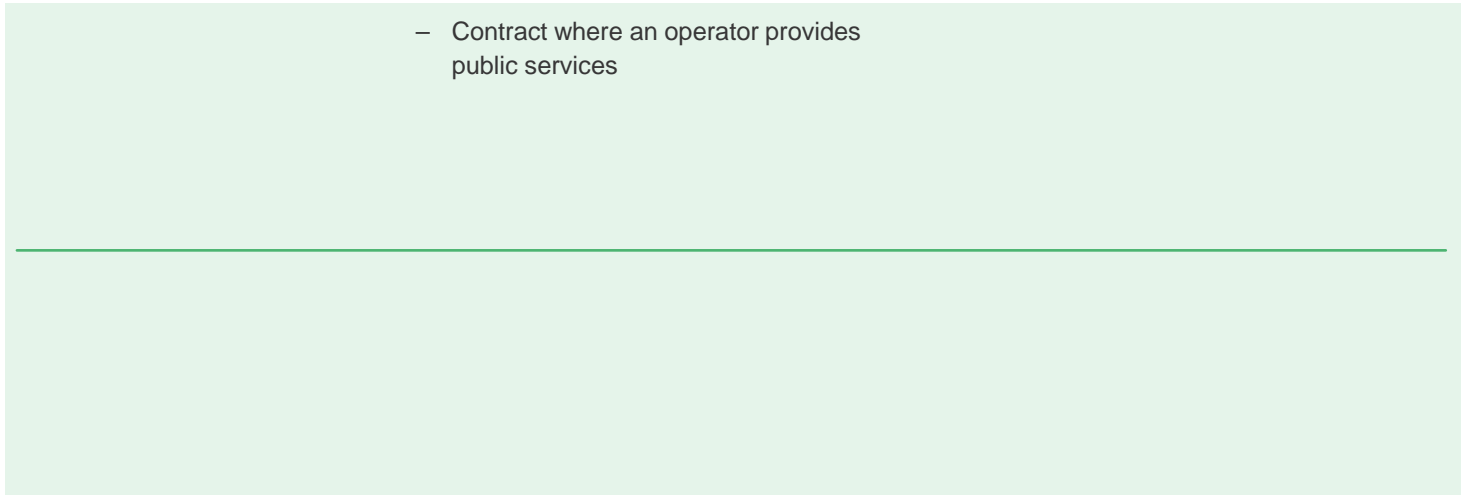
- Statutory limitations
- Ability to manage procurement or existing labor requirements
- Disposition on non-core assets



## Examples of Alternative Delivery Capital Projects in Higher Education



- Contract where an operator provides public services













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