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Overview of Proposed Capital Improvements 2019 Financing Plan

Stephen F. Austin State University

October 28, 2018

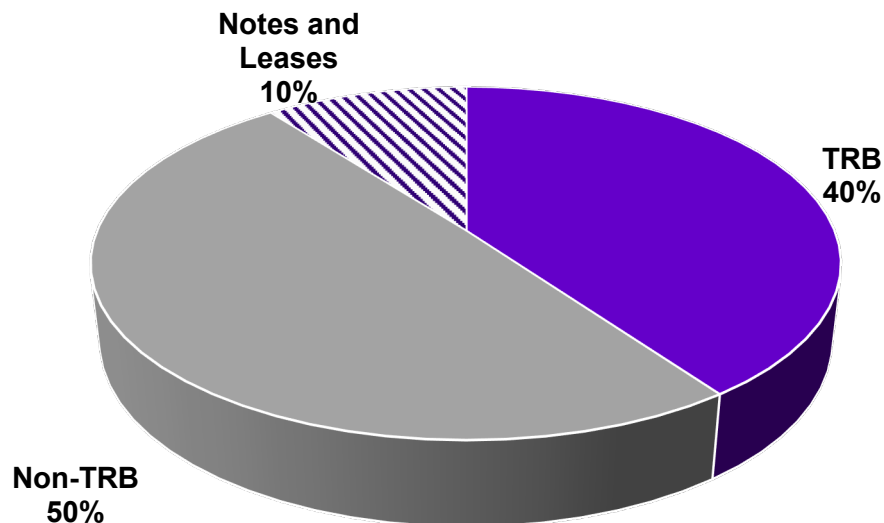
Summary of Outstanding Debt



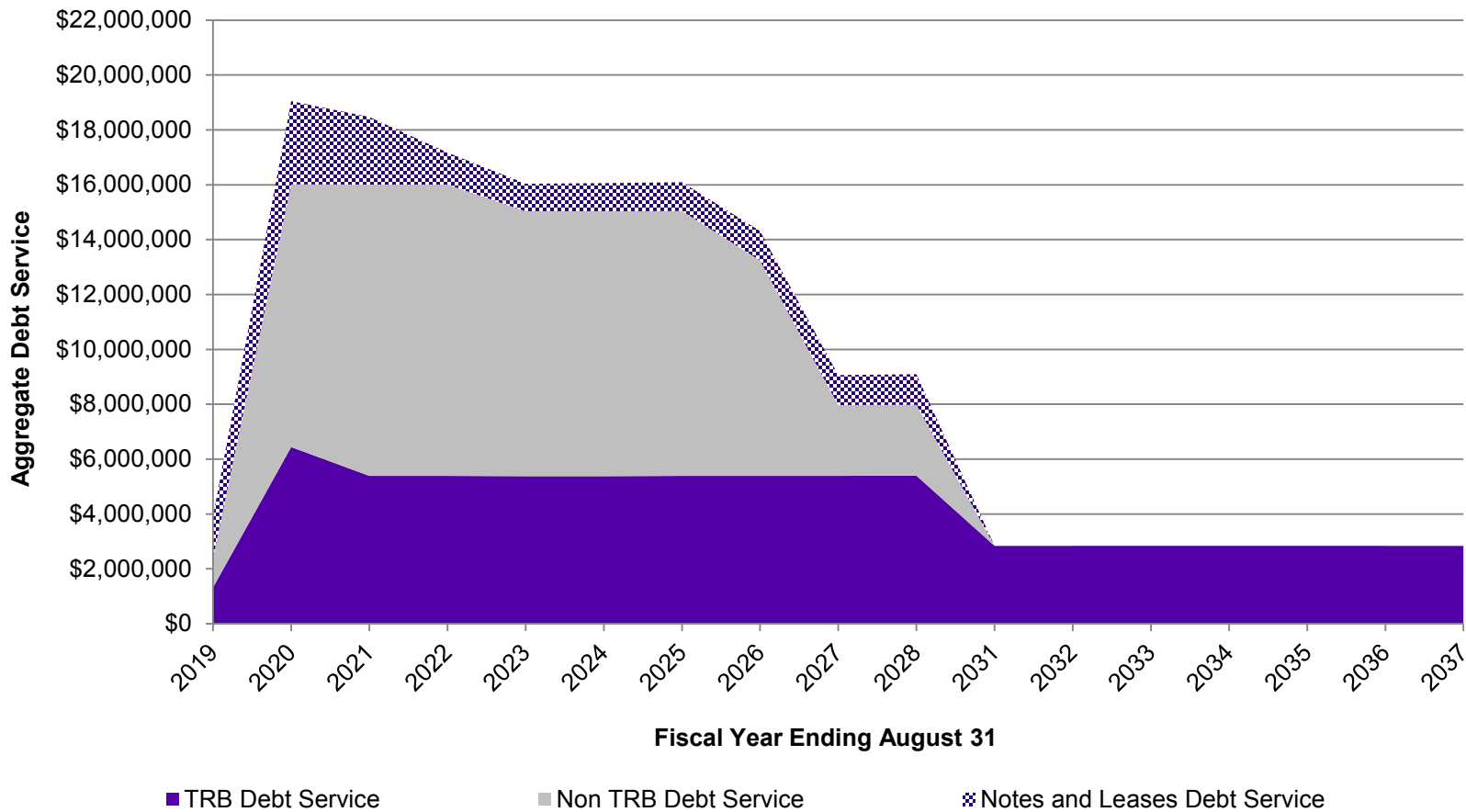
STEPHEN F. AUSTIN STATE UNIVERSITY

Summary of Outstanding Bonds as of November 1, 2018

	<u>TRB</u>	<u>NON-TRB</u>	<u>TOTAL</u>
Revenue Financing System Obligations			
Series 2010	\$ -	\$ 22,455,000	\$ 22,455,000
Series 2013	1,027,408	11,102,592	12,130,000
Series 2015	-	34,445,000	34,445,000
Series 2016	54,135,000	-	54,135,000
Total Revenue Financing System Obligations	\$ 55,162,408	\$ 68,002,592	\$ 123,165,000
Notes and Leases			
Bank of America Public Capital Corporation Equipment Lease	\$ -	\$ 10,051,565	\$ 10,051,565
Interfund SECO Loan	-	3,098,704	3,098,704
Banc of America Leasing & Capital, LLC Taxable Equipment Lease	-	1,156,715	1,156,715
Total Notes and Leases	\$ -	\$ 14,306,985	\$ 14,306,985
Total Obligations	\$ 55,162,408	\$ 82,309,577	\$ 137,471,985



Outstanding Debt Service Chart as of November 1, 2018



Summary of the Series 2019 Bond Issuance



STEPHEN F. AUSTIN STATE UNIVERSITY

Summary of Capital Improvement Projects

Proposed Capital Projects to be included in the Series 2019:

- **Fine Arts Expansion Initiative - \$37,000,000**
 - ✓ Construct and renovate facilities for theatre, dance, sound recording technology, and filmmaking
- **Welcome Center and One Stop Shop - \$13,000,000**
 - ✓ Redesign and repurpose Kennedy Auditorium and the Rusk Building to contain a Welcome Center and One Stop Student Services
- **Basketball practice facility - \$25,600,000**
 - ✓ Construct a new basketball practice facility and provide renovations for men's and women's basketball programs
- **Student Housing - \$39,500,000**
 - ✓ Construct a new residence hall and dining hall, and provide renovations to existing residence life and dining facilities

Higher Education Fund (HEF)

- November 6, 1984 Texas Constitution approved \$100mm for certain state institutions (non PUF supported schools) and allocated on a formula basis
- HEF appropriations are authorized for acquiring land, permanent improvements such as construction, equipping buildings, major repairs and rehabilitations of educational and general buildings (no auxiliaries)
- The formula amount of HEF is authorized for a ten year period and can be adjusted by a 2/3's vote of each legislative house to increase the amount every five years
- The Constitutional Provision allows the issuance of bonds supported by no more than 50% of the HEF appropriation for a maximum of 10 year maturity
- In 1993, the people of the State voted to increase the HEF to \$175mm and again in 2007 another increase to \$262.5mm.
- The most recent amendment implemented on September 1, 2016 increased the HEF annual appropriation to the current amount of \$393.75mm
- The allocation to SFA under the formula provided an annual HEF appropriation for FY19 is \$11,636,163 compared to the prior amount of \$7,757,442
- SFA currently has NO outstanding HEF bonds, the Series 2008 HEF Constitutional Appropriation Bonds matured on 10/15/2018

New Projects to be Financed and Internally Supported by HEF

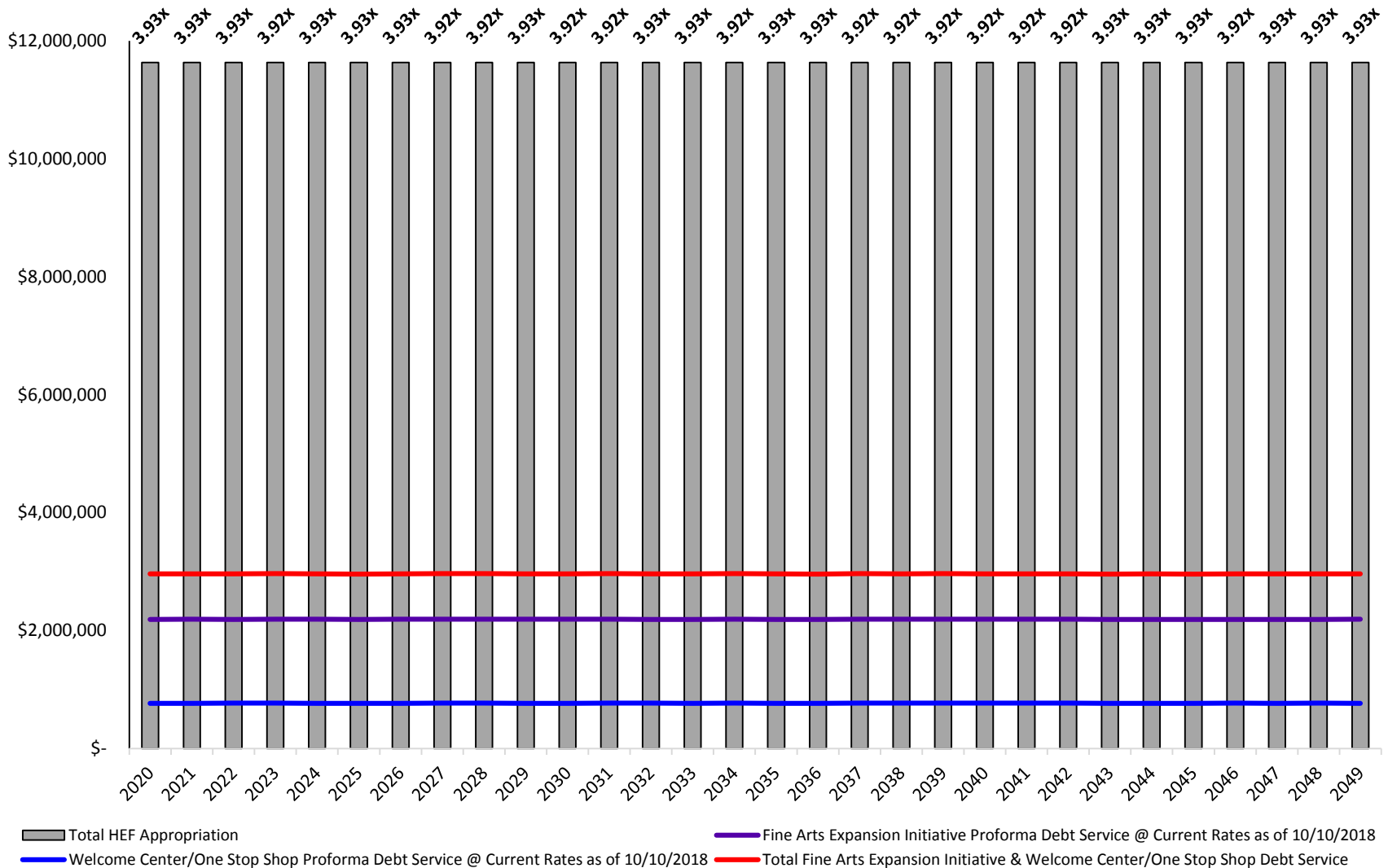
- A new Fine Arts Expansion Initiative and Welcome Center/One Stop Shop are proposed to be included in the Series 2019 bond issue. The source of funding for the projects will come from annual HEF appropriations
- Total Annual HEF appropriations as of FY19 is \$11,636,163
- Estimated Series 2019 annual debt service internally supported by HEF is ~\$2,962,421
- Remaining annual HEF appropriations available for other eligible purposes is ~\$8,673,742
- 2008 HEF bonds debt service was ~16% of annual \$7,757,442 appropriation, leaving ~ \$ 6,535,550 annual HEF appropriations
- After the 2019 bond issue, the remaining annual HEF appropriations of ~\$8,673,742 is a 33% increase over the past 10 years

	Fine Arts Expansion Initiative	Welcome Center/One Stop Shop	Total
Project Fund	\$37,000,000	\$13,000,000	\$50,000,000
Proforma 30 years annual debt service ⁽¹⁾	\$2,192,668	\$769,753	\$2,962,421
Total HEF annual appropriation			\$11,636,163
Remaining HEF for operations			\$8,673,742
DS coverage to HEF Appropriations			3.93x

(1) Based on AA-/A+ rated tax-exempt market rates as of 10/10/2018

Projected Debt Service Coverage (x)

Total Fine Arts Expansion Initiative & Welcome Center/One Stop Shop Debt Service



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Project Financed and Supported by University Services Fee Revenue

- A new Basketball Practice Facility is proposed to be included in the Series 2019 bond issue. The source of funding for the project will come from a proposed increase of \$10/SCH to the University Services Fee beginning effective Fall of 2019.
- The annual University Services Fee is estimated to generate \$3,100,000 based on current enrollment projections
- The estimated 30 year annual debt service is ~\$1,519,158
- The remaining University Services Fee of ~\$1,580,842 will be available for operations
- The proposed increase of \$10/SCH University Services fee provides ~2.04x annual debt service coverage

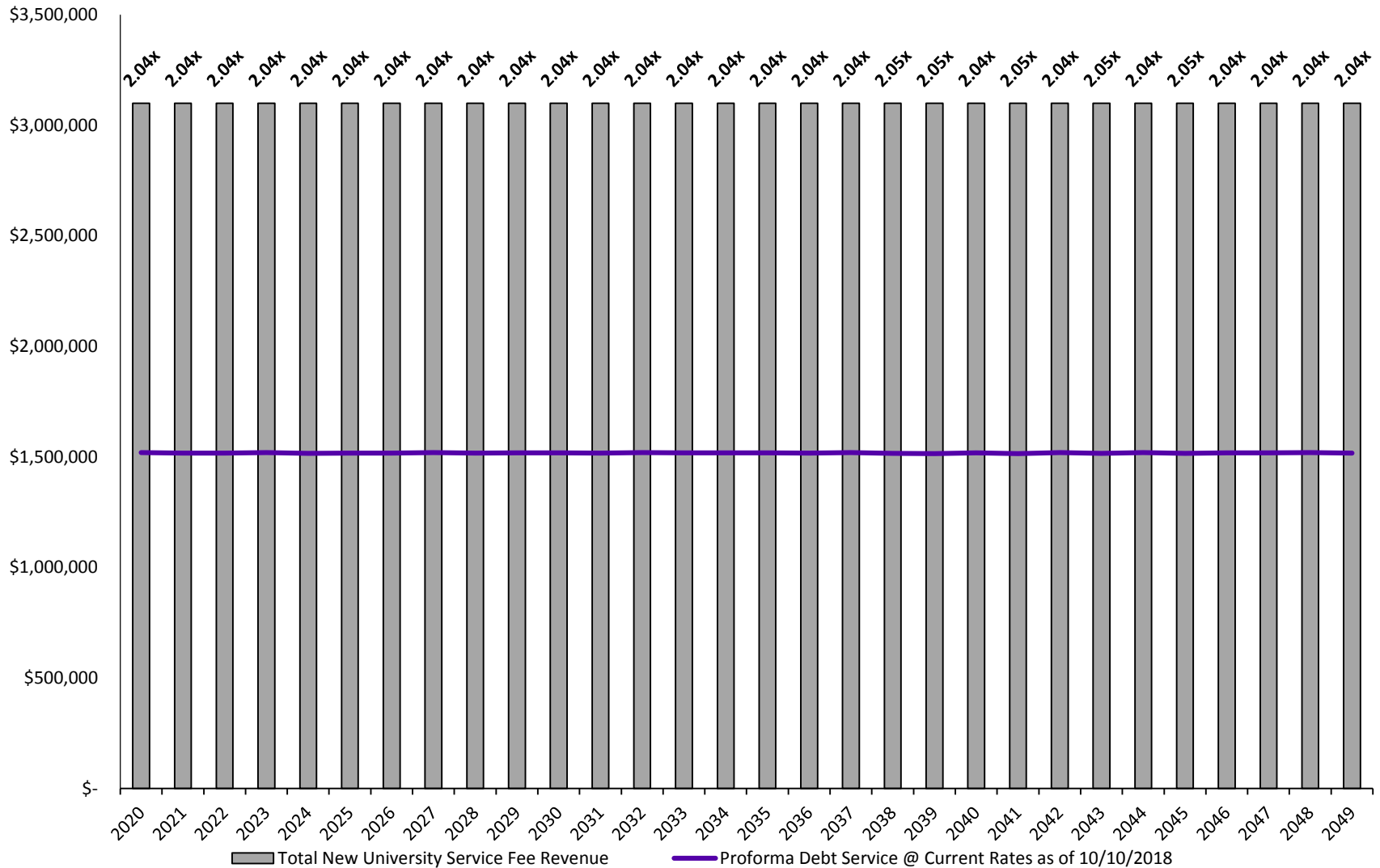
Athletics Project	
Project Fund	\$25,600,000
Student Fee Increase	\$10/SCH ⁽¹⁾
Total University Services Fee Revenue	\$3,100,000
Proforma 30 years annual debt service ⁽²⁾	\$1,519,158
Remaining University Services Fee Revenue for Operations	\$1,580,842
DS coverage to University Services Revenue	2.04x

(1) Increase to University Services fee beginning Fall 2019, FYE 2020.

(2) Based on AA-/A+ rated tax-exempt market rates as of 10/10/2018

Projected Debt Service Coverage (x)

Athletics Project



STEPHEN F. AUSTIN STATE UNIVERSITY

Projects Financed and Supported by Student Housing Revenues

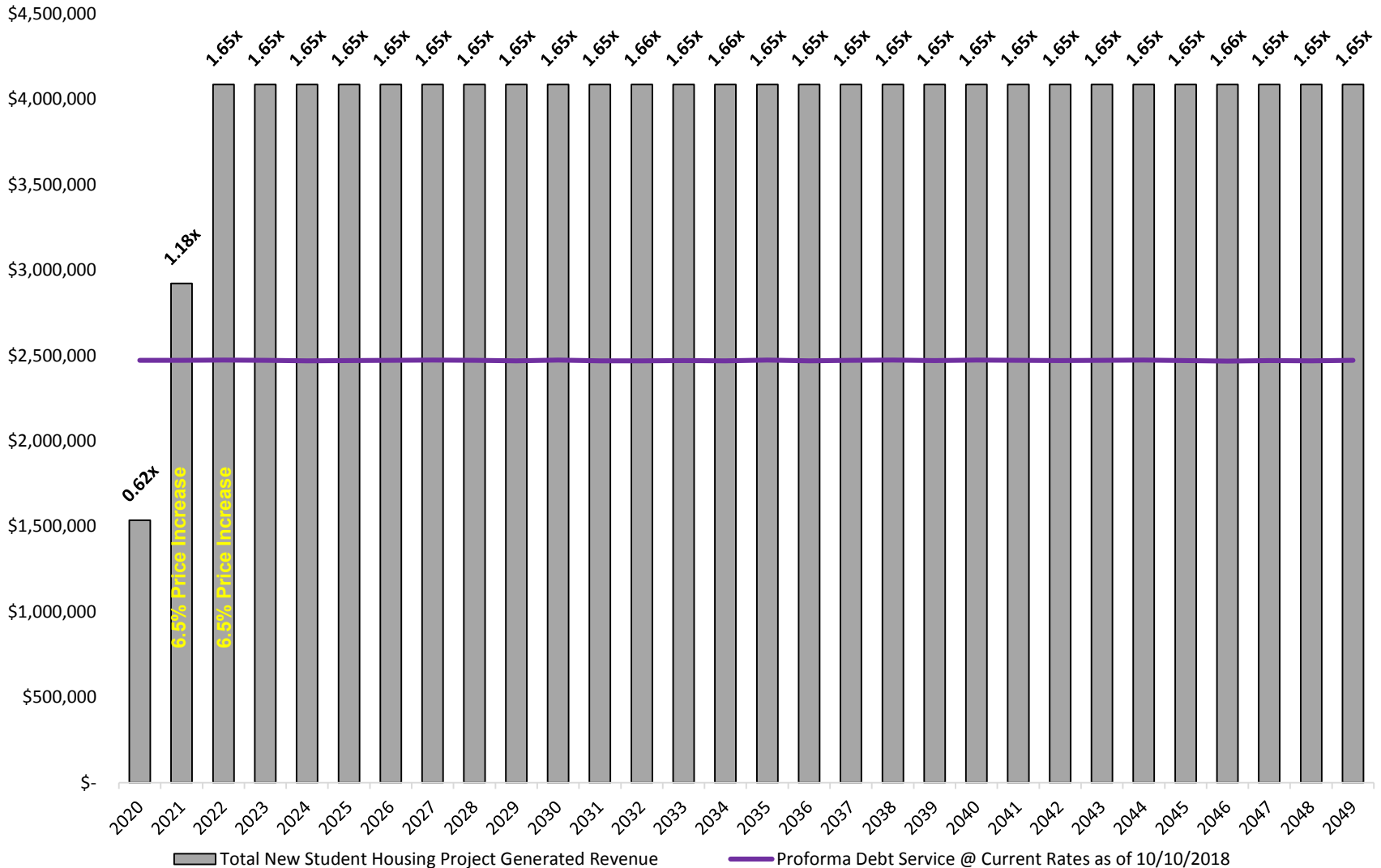
- An approximate new 400 bed Student Housing – Landing II facility is proposed to be included in the Series 2019 bond issue. The source of funding for the project will come from a 6.5% increase in housing rates in FY 2021 and FY 2022.
- The FY 2022 Annual Student Housing revenue, estimated to be generated based on a 93% Fall occupancy rate and a 82% Spring occupancy rate, is \$4,086,645
- The estimated FY 2022 annual debt service is ~\$2,473,794
- The Student Housing Revenue provides ~1.65x annual debt service coverage. The remaining revenues will be available to support student housing operations.

	Student Housing Project		
	FY 2020	FY 2021	FY 2022
Project Fund	\$39,500,000		
Total Annual Student Housing Revenue	\$1,537,368	\$2,922,573	\$4,086,645
Proforma Annual debt service ⁽¹⁾	\$2,472,109	\$2,472,920	\$2,473,794
Remaining Student Fee Revenue for operations	-\$934,741	\$449,654	\$1,612,851
DS Coverage after Landing II is online	0.62x	1.18x	1.65x

(1) Based on AA-/A+ rated taxable market rates as of 10/10/2018

Projected Debt Service Coverage (x)

Student Housing Project



STEPHEN F. AUSTIN STATE UNIVERSITY

Proforma RFS Series 2019*

- Sale Date: January 24, 2019
- Closing Date: February 14, 2019
- Proforma True Interest Cost (TIC) of 4.366% and All-In Cost (AIC) of 4.390%

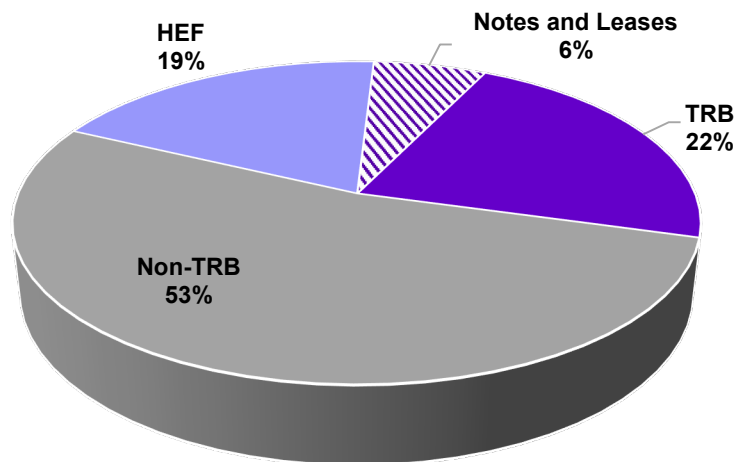
Sources:	Fine Arts Expansion Initiative Project (TE)	Welcome Center / One Stop Shop Project (TE)	Athletics Project (TE)	Student Housing Project (TX)	Total
Bond Proceeds:					
Par Amount	34,895,000.00	12,260,000.00	24,145,000.00	39,855,000.00	111,155,000.00
Premium	2,419,132.70	849,945.20	1,673,858.60		4,942,936.50
	37,314,132.70	13,109,945.20	25,818,858.60	39,855,000.00	116,097,936.50
Uses:	Performing Arts Facility Project (TE)	Welcome Center / One Stop Shop Project (TE)	Athletics Project (TE)	Student Housing Project (TX)	Total
Project Fund Deposits:					
Project Fund	37,000,000.00	13,000,000.00	25,600,000.00	39,500,000.00	115,100,000.00
Delivery Date Expenses:					
Cost of Issuance	103,597.23	36,397.82	71,682.34	118,322.61	330,000.00
Underwriter's Discount	209,370.00	73,560.00	144,870.00	239,130.00	666,930.00
	312,967.23	109,957.82	216,552.34	357,452.61	996,930.00
Other Uses of Funds:					
Rounding Amount	1,165.47	-12.62	2,306.26	-2,452.61	1,006.50
	37,314,132.70	13,109,945.20	25,818,858.60	39,855,000.00	116,097,936.50

STEPHEN F. AUSTIN STATE UNIVERSITY

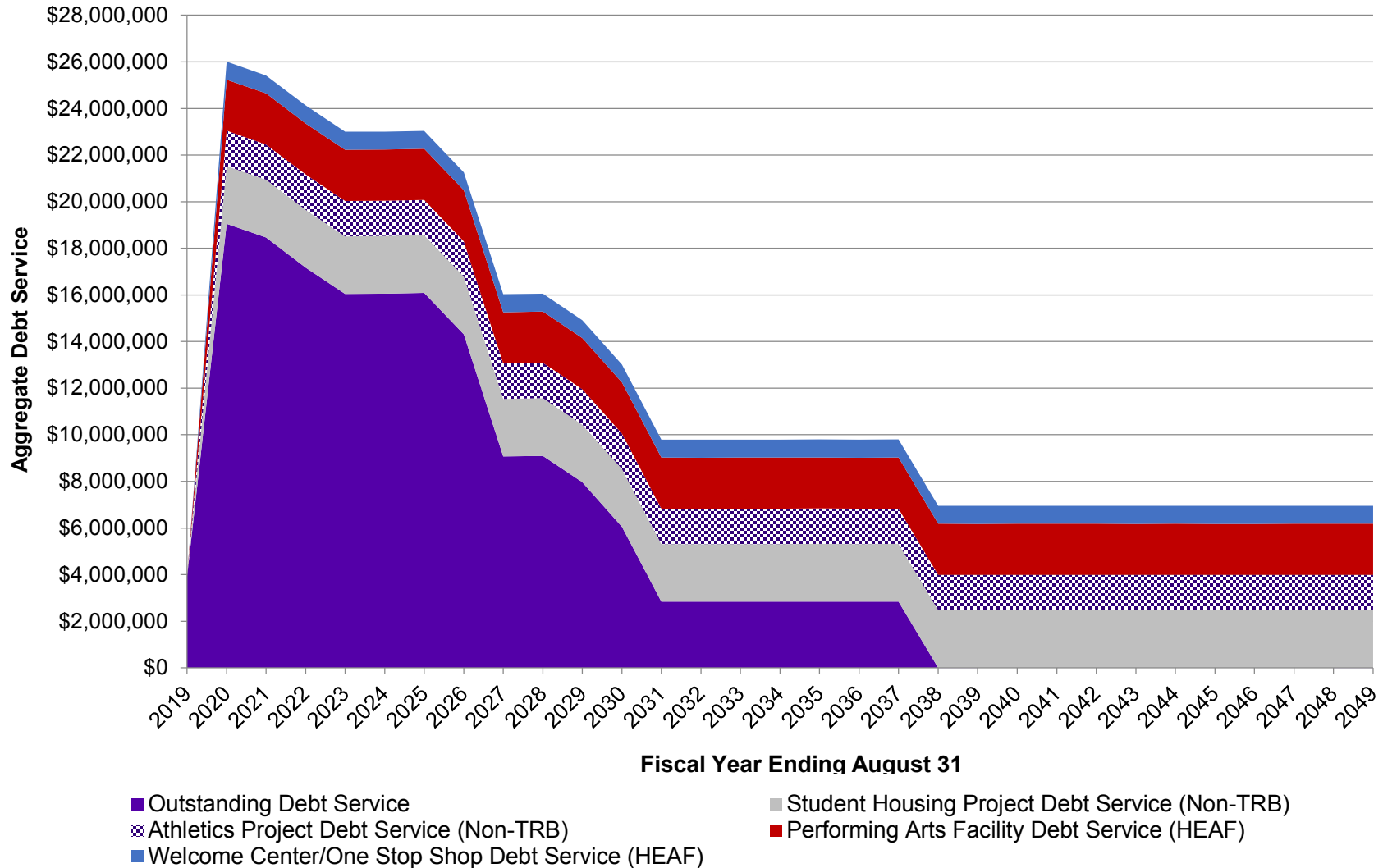
* Based on current market rates as of 10/10/2018

Summary of Proforma Outstanding Bonds as of February 14, 2019

	TRB	NON-TRB	HEF	TOTAL
Revenue Financing System Obligations				
Series 2010	\$ -	\$ 22,455,000	\$ -	\$ 22,455,000
Series 2013	1,027,408	11,102,592	-	12,130,000
Series 2015	-	34,445,000	-	34,445,000
Series 2016	54,135,000	-	-	54,135,000
Proforma Series 2019				
Student Housing Project	-	39,855,000	-	39,855,000
Athletics Project	-	24,145,000	-	24,145,000
Fine Arts Expansion Initiative	-	-	34,895,000	34,895,000
Welcome Center/One Stop Shop	-	-	12,260,000	12,260,000
Total Revenue Financing System Obligations	\$ 55,162,408	\$ 132,002,592	\$ 47,155,000	\$ 234,320,000
Notes and Leases				
Bank of America Equipment Lease	\$ -	\$ 10,051,565	\$ -	\$ 10,051,565
Interfund SECO Loan	-	3,098,704	-	3,098,704
Banc of America Taxable Equipment Lease	-	1,156,715	-	1,156,715
Total Notes and Leases	\$ -	\$ 14,306,985	\$ -	\$ 14,306,985
Total Obligations	\$ 55,162,408	\$ 146,309,577	\$ 47,155,000	\$ 248,626,985



Proforma Debt Service Chart as of February 14, 2019



Rating Summary



S T E P H E N F . A U S T I N S T A T E U N I V E R S I T Y

Underlying Rating History (as of November 1, 2018)

Stephen F. Austin State University		
RFS		
Date	Moody's	Fitch
Sep-18	"A1" Stable Outlook	"AA -" Stable Outlook
Sep-16	"A1" Stable Outlook	"AA -" Stable Outlook
July-11	↑	"AA -" Stable Outlook
April-10		"AA -" Positive Outlook
March-10	"A1" Stable Outlook	"A+" Positive Outlook
January-09	↑	"A+" Positive Outlook
August-98	"A2" Stable Outlook	

Ratings reports were not released for the time periods shaded in gray

Moody's & Fitch Credit strengths:

- Strong level of unrestricted liquid reserves, well above the FY 2017 A1 median of 126 days
- Aaa rated State of TX provides material operating support
- Consistently positive operating performance
- FY17 Maximum annual debt service (MADS) coverage was a solid 2.0x
- Stable enrollment over time
- Above average debt burden – FY17 MADS = to 8.3% of operating revenue, yet mitigated by 44% of debt paid by state TRB debt service reimbursement

Sensitivities:

- Enrollment pressures reflect the competitive student market , assumes continued sound operating margins and consistent balance sheet resources
- As of September 2018, Fitch estimates the available funds (cash and investments less non-expendable Restricted Net Assets) to the proposed new debt ratios would remain adequate for the current AA- rating category

Source: Moody's and Fitch

Adjustment in Rating

WHAT COULD MAKE THE RATING GO UP

- Consistently more robust operating performance relative to peers
- Demonstrated enhancement to student market position given strong competition
- Substantial financial resource growth

WHAT COULD MAKE THE RATING GO DOWN

- Enrollment declines contributing to a material deterioration in operating performance
- Significant decline in liquidity
- Material increase in debt without offsetting revenue increase, including student fees or state supported debt service

Source: Moody's

Moody's Key Ratios – SFA vs Texas Public Universities

	Stephen F. Austin State University, TX	Midwestern State University, TX	Texas A&M University System, TX	Texas Southern University, TX	Texas State Technical College System, TX	Texas State University System, TX
Moody's Current Senior Most Rating	A1	A1	Aaa	Baa3	A1	Aa2
Key Ratios	FY 2016	FY 2017	FY 2017	FY 2017	FY 2017	FY 2017
Operating Revenue (\$, in millions)	204	89	4,381	196	170	1,265
Total Cash & Investments (\$, in millions)	182	89	14,292	89	54	962
Annual Change in Operating Revenue (%)	0.1	2.6	1.6	7.3	10.0	1.1
Operating Cash Flow Margin (%)	11.9	12.6	13.4	17.4	10.2	17.2
Revenue Diversity (%)	61.4	55.4	33.0	54.4	58.4	54.9
Spendable Cash & Investments to Operating Expenses (x)	0.7	0.7	1.6	0.2	0.3	0.7
Monthly Days Cash on Hand (x)	182.0	134.4	357.7	63.7	110.0	203.8
Spendable Cash & Investments to Total Debt (x)	1.0	0.4	1.6	0.2	0.3	0.8
Total Debt-to-Cash Flow (x)	6.0	14.5	7.5	6.2	8.7	5.1

	Stephen F. Austin State University, TX	Texas Tech University System, TX	Texas Woman's University, TX	University of Houston System, TX	University of North Texas System, TX	University of Texas System, TX
Moody's Current Senior Most Rating	A1	Aa1	Aa3	Aa2	Aa2	Aaa
Key Ratios	FY 2016	FY 2017	FY 2017	FY 2017	FY 2017	FY 2017
Operating Revenue (\$, in millions)	204	1,894	207	1,293	926	18,542
Total Cash & Investments (\$, in millions)	182	2,413	324	1,598	651	40,661
Annual Change in Operating Revenue (%)	0.1	0.6	2.1	2.4	1.1	4.6
Operating Cash Flow Margin (%)	11.9	13.4	13.6	14.2	14.1	15.9
Revenue Diversity (%)	61.4	29.6	58.5	54.4	45.6	13.0
Spendable Cash & Investments to Operating Expenses (x)	0.7	1	1.4	0.9	0.6	1.3
Monthly Days Cash on Hand (x)	182.0	262.5	514.7	133.3	204.0	181.7
Spendable Cash & Investments to Total Debt (x)	1.0	2.0	1.8	0.8	0.7	2.4
Total Debt-to-Cash Flow (x)	6.0	3.4	5.6	7.0	5.6	3.4

Source: Moody's Financial Ratio Analysis

Timetable Of Issuance of Bonds

Sunday & Monday Oct 28 & 29	BOR Meeting – Approve Bond Resolutions
Week of November 4	Distribute first draft of POS to full working group
Monday, November 19	2nd draft of POS - including FY18 financials
Tuesday, November 20	FY18 AFR due to state
Week of November 26	Moody's and Fitch rating meetings/calls
Week of December 17	Receive Moody's & Fitch ratings (need before Jan. BRB app due, BRB not needed if Fitch rating remains AA-)
Tuesday, December 26	BRB Notice of Intent Due (only in the event of a Fitch downgrade)
Tuesday, January 1	BRB Application Due (only in the event of a Fitch downgrade)
Tuesday, January 8	BRB Planning Session (only in the event of a Fitch downgrade)
Thursday, January 17	BRB Board meeting (only in the event of a Fitch downgrade) Due diligence call (negotiated sale)
Friday, January 18	Electronic distribution POS (NOS if competitive sale)
Wednesday, January 23	Midafternoon – prepricing call
Thursday, January 24	Price Bonds
Thursday, February 14	Receive approval from AG & deliver of the bonds

Proforma Interest Rates

Rate	Market Yields ⁽¹⁾	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20
US 30-Year Treasury	3.37	3.34	3.43	3.51	3.56	3.64	3.70
US 10-Year Treasury	3.19	3.17	3.26	3.33	3.36	3.41	3.44
US 5-Year Treasury	3.02	2.95	3.05	3.14	3.20	3.26	3.32
US 2-Year Treasury	2.85	2.89	3.02	3.12	3.20	3.25	3.31
US 3-Month Libor	2.42	2.61	2.79	2.95	3.09	3.17	3.24
Fed Funds Rate - Upper Bound	2.25	2.45	2.70	2.90	3.05	3.10	3.05
Fed Funds Rate - Lower Bound	2.00	2.22	2.44	2.65	2.80	2.86	2.82

(1) Market Yields as of October 12, 2018

Source: Bloomberg Bond Yield Forecast Data

Bond Resolution to be presented on October 29, 2018

BOR will consider a bond resolution which authorizes the following:

- The issuance of revenue financing system bonds in one or more series in the aggregate principal amount not to exceed \$125,000,000 includes estimated project costs of ~\$115mm plus flexibility for capitalized interest, costs of issuance and market changes.
- Any series of bonds must have a final maturity not later than October 15, 2053
- Bonds may be issued as tax-exempt and/or taxable in accordance with federal tax law
- Bonds may be sold in the public market using a competitive or negotiated method of sale or by private placement/direct loan
- Bond proceeds may be used for acquiring, purchasing, constructing, improving, renovation, enlarging or equipping University property, buildings, structures, facilities, roads or related infrastructure, including the Fine Arts Expansion Initiative, Welcome Center and One Stop Shop, Basketball Practice Facility and Residence Hall and Dining Hall. Bond proceeds may also be used to (i) capitalize interest to the extent determined necessary and in accordance with state law and (ii) pay the costs of issuance of the bonds
- Permits bond proceeds to reimburse SFA funds for the projects prior to issuance of the bonds
- Delegates to VP for Finance and Administration of the University or such other official of the University appointed by the Board to finalize pricing terms and issuance of the bonds
- Delegation for pricing of the bonds valid for one year from date of adoption of Bond Resolution
- Bond Resolution structured to ensure flexibility and compliance with all state and federal tax laws including submission of applications to appropriate governmental entities including Texas AG