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Eastern Washington University Board of Trustees Debt Report

February 2021

Overview

- Debt Policy Review
- Overview of Outstanding Debt
- Highlights of Outstanding Debt
 - Current Bond Debt Profile
 - Annual Bond Payments
- Services and Activities Fee Debt
- Housing and Dining Debt
- Rating/Credit
- Key University Ratios and Comparisons
- External Covenants for Auxiliary Bonds
- University Debt Capacity

Debt Policy Review

- Authority
 - Debt Policy adopted by the EWU Board of Trustees on October 13, 2006
 - Board Authority and Responsibilities:
 - Authority to issue bonds to fund certain capital property
 - To enter into financing contracts to acquire real property
 - To borrow for short term operating expenses
 - Authority to consider and make recommendations to the board concerning the financing of capital projects and other borrowings
 - Administration:
 - Charged with all aspects of managing, issuing and serving debt for the University

- Legal Debt Issuance Authority
 - The University cannot leverage state appropriations nor tuition revenues
 - RCW 28B.10.300 authorizes the University to issue revenue bonds to finance, among other things, housing, dining, parking, student activities and “services of any kind for students,” and to pledge to the repayment of those bonds the rentals, fees, charges and other income derived from the ownership, operation and use of those facilities
 - Example revenues that can be leveraged: Housing and Dining revenues and Student Fee revenues

Debt Policy Review

- Monitoring and Servicing Debt
 - Debt Service payments will be made in an accurate and timely manner
 - The Business and Finance Office will monitor the University's rebatable arbitrage earnings for tax purposes on an annual basis
 - The Business and Finance Office will also evaluate compliance with IRS private use rules and issuance and periodically thereafter
 - The Business and Finance Office will evaluate debt capacity at least bi-annually, and annually present a report to the Board of Trustees on:
 - Debt issued
 - Debt outstanding
 - Estimated debt capacity
 - Credit ratings

Debt Policy Review

- Issuance Criteria

- All debt will be issued in compliance with the University's legislative authorities
- Subjected to the University's overall debt capacity and capital plans
- Consider the impact of additional debt on the University's credit rating
- The University uses the following financial statement ratios to determine institutional viability as part of the criteria:
 - Primary reserve ratio: unrestricted net assets/operating expenses
 - Current ratio: current assets/current liabilities
 - Debt burden ratio: annual debt service/total operating expenses

	FY 2020 Unaudited	FY 2019 Actual	FY 2018 Actual	FY 2017 Actual	FY 2016 Actual	FY 2015 Actual
Primary Reserve Ratio ^{(1) (3)}	0.37x	0.31x	0.40x	0.42x	0.42x	0.40x
Current Ratio ⁽¹⁾	4.27x	3.87x	4.28x	4.98x	3.99x	4.23x
Debt Burden Ratio ⁽²⁾	2.43%	2.25%	2.07%	2.48%	2.03%	2.08%

(1) Higher is stronger.

(2) Lower is stronger.

(3) FY2020, FY2019, and FY2018 Primary Reserve Ratios are adjusted to reflect unrestricted net assets prior to the implementation of GASB 75, and extraordinary one-time events.

Continuing Disclosure Policy

- Under the provisions of Securities and Exchange Commission Rule 15c2-12 (the “Rule”), underwriters are required to obtain an agreement for ongoing disclosure in connection with the public offering of securities
- Unless the University is exempt from compliance with the Rule as a result of certain permitted exemptions, the transcript for each issue will include an undertaking by the University to comply with the Rule
- The Chief Financial Officer of the University will monitor compliance by the University with its undertakings. These undertakings may include:
 - The requirement for annual filing of operating and financial information and
 - Will include a requirement to file notices of listed “material events”
- The 2020 annual filings were completed in the required timeframe, consistent with prior years

Overview of Outstanding Debt

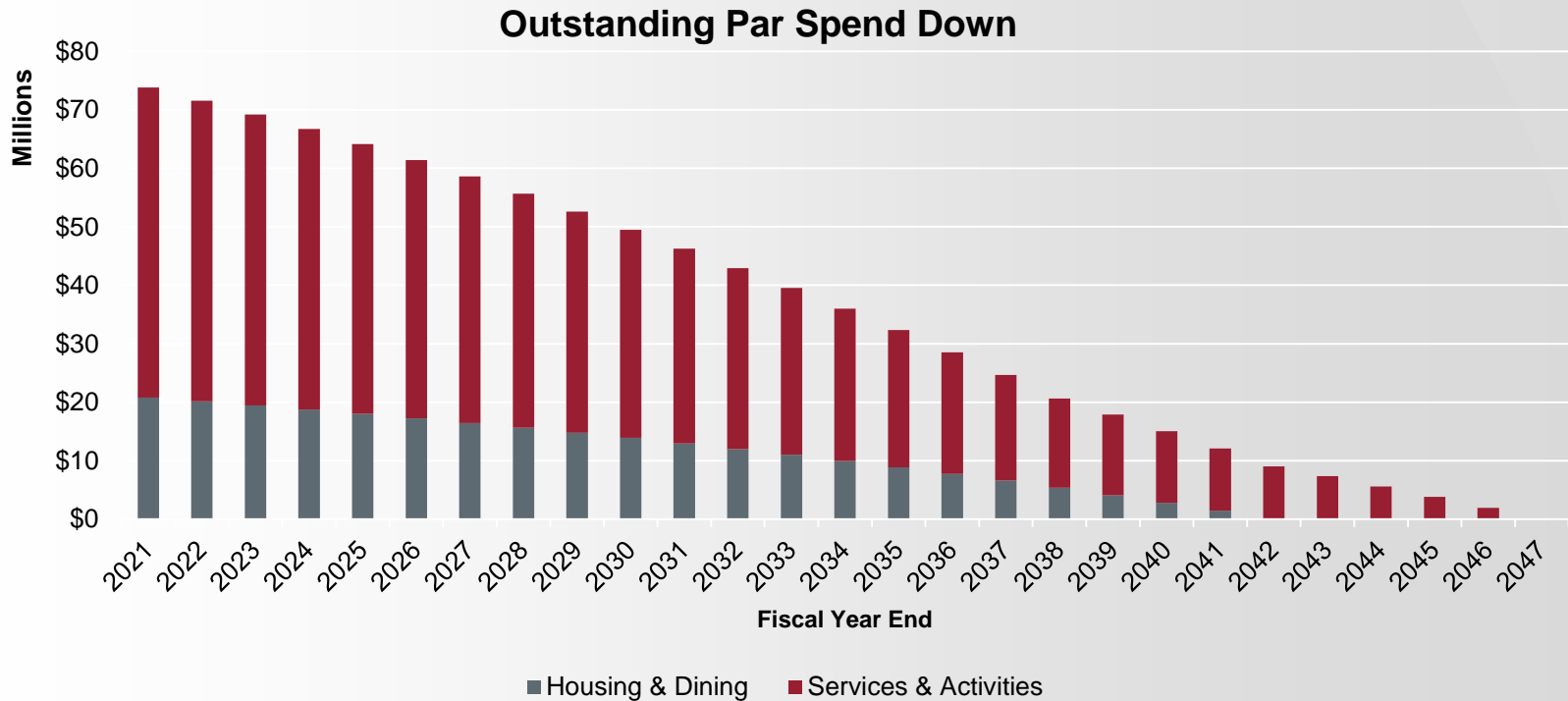
- The University has \$74,480,000 of Bonds outstanding as of February 1, 2021
- Services and Activities Fee Bonds
 - Two issues with \$53,050,000 principal outstanding
 - Two purposes
 - \$19,155,000 for the University Recreation Center construction
 - \$33,895,000 for Pence Union Building renovation
- Housing and Dining System Bonds
 - One series with \$21,430,000 principal outstanding for construction of Snyamncut Hall

University's Moody's Bond Ratings

- A1 - Student Fee Revenue Bonds
- A1 - Housing and Dining System Revenue Bonds

Current Bond Debt Profile

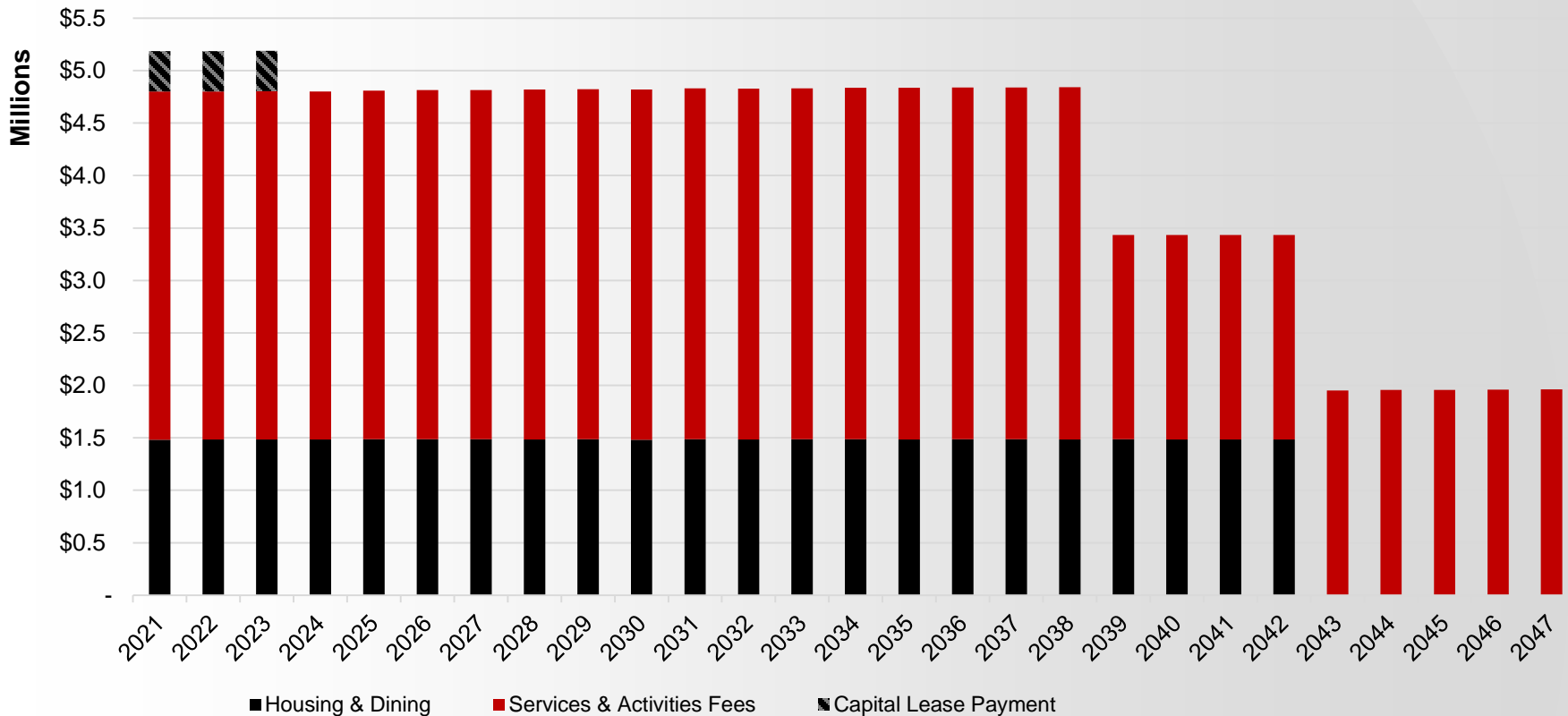
- Outstanding principal of \$74,480,000 includes Student Services and Activities Fee Revenue bonds and Housing and Dining Revenue bonds
- Principal balance declines from \$74,480,000 at Feb 1, 2021 to \$49,485,000 at the end of FY 2030
 - Ten year pay down is 34% of outstanding par (\$24,995,000)



Annual Bond Payments

- In addition to Bonds, the University has a capital lease obligation for Brewster Hall through June 2023, with annual lease payments of approximately \$385,000
 - Housing and Dining Bond Average Annual Debt Service (FY 2021-2042): \$1,485,000
 - Services and Activities Fee Bond Average Annual Debt Service (FY 2021-2038): \$3,335,000, declining to \$1,955,000 thereafter

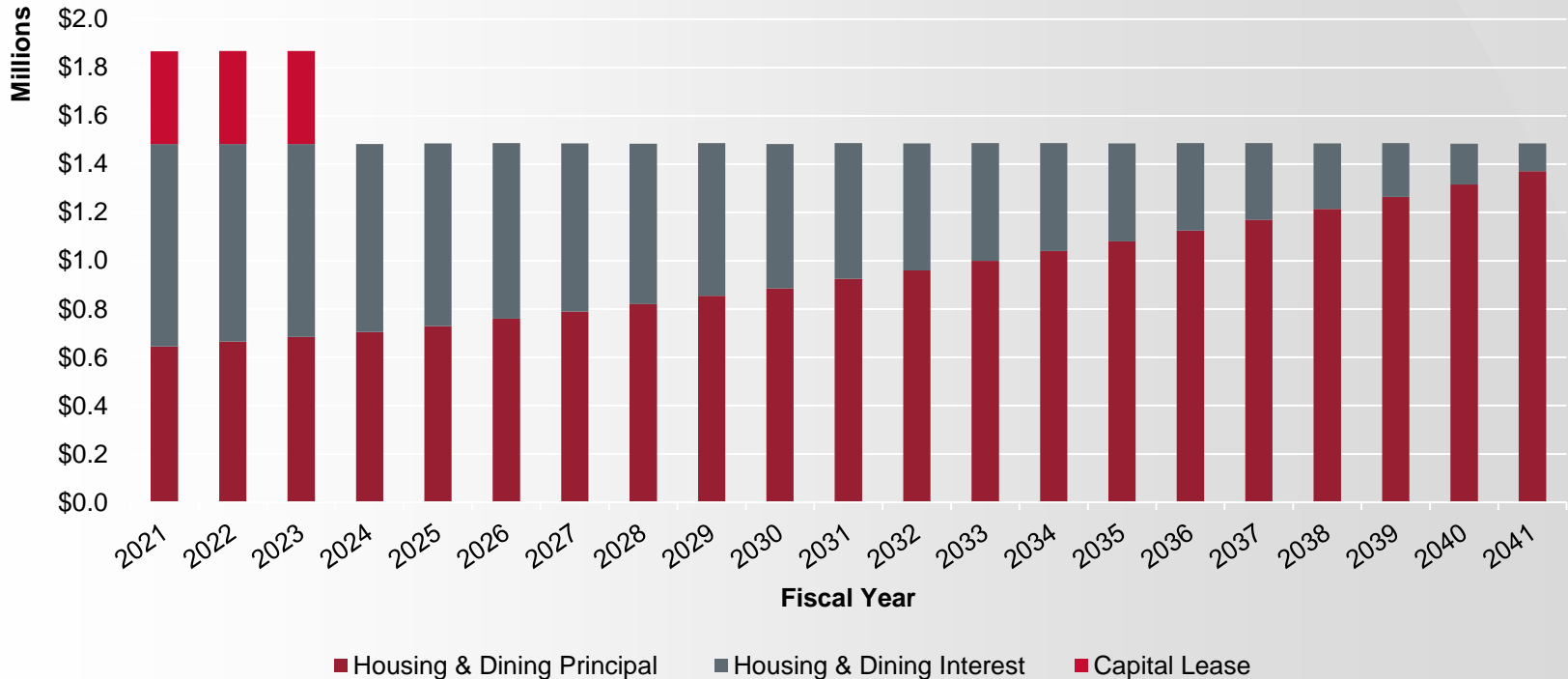
Annual Debt Service Payments



Housing and Dining Annual Bond Payments

- Total outstanding bond principal: \$21,430,000
- Average annual bond debt service: \$1,485,000 (FY2021– FY2042)
- Additionally, the University has a capital lease obligation for Brewster Hall through June 2023, with annual lease payments of approximately \$385,000

Housing and Dining Debt Service



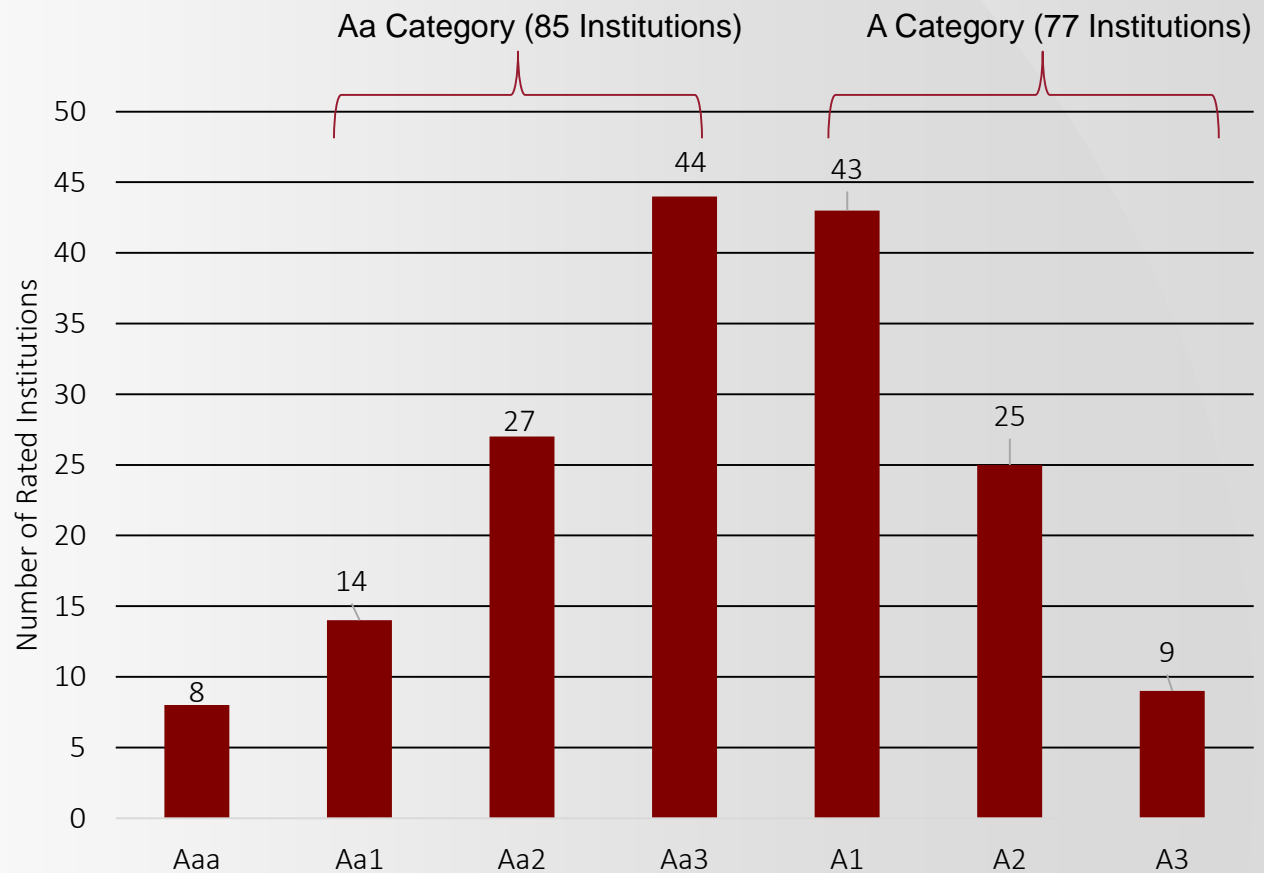
Most Recent Rating Activity

- Moody's affirmed the University's A1 rating (stable outlook) for all outstanding bonds on April 18, 2019.
- Moody's highlighted the following strengths and challenges
- *Strengths:*
 - Sound state support for both capital and operations and sustained student demand support good operating performance and strong debt service
 - Unrestricted liquidity remains solid
 - Growing presence in Spokane, WA including expanding health sciences offerings
- *Challenges:*
 - High dependence on student charges and tuition pricing limits for in-state undergraduates, the university's primary student population, which could constrain revenue growth prospects despite steady demand

Moody's Rating Distribution of Public Higher Education Institutions

Moody's	
Aaa	
Aa1	
Aa2	
Aa3	
A1	
A2	
A3	

Moody's rating carries a stable outlook



Moody's Scorecard Results - 2019

Metric	% of Total Score	Value	Indicated Score
Market Profile (30%)			
Operating Revenue	15%	\$221,454	A
Annual Change in Operating Revenue	5%	3.18%	Baa
Strategic Positioning	10%	Very Good	A
Operating Performance (25%)			
Operating Cash Flow Margin	10%	6.0%	A
Maximum Single Contribution	15%	62.0%	A
Wealth & Liquidity (25%)			
Total Cash and Investments	10%	\$182,930	Aa
Spendable Cash & Investments to Operating Expenses	10%	0.71x	Aa
Monthly Days Cash on Hand	5%	267 days	Aaa
Leverage (20%)			
Spendable Cash & Investments to Total Debt	10%	1.99x	Aa
Total Debt to Cash Flow	10%	6.04x	Aa

Note: Data based on MFRA data

Key University Ratios⁽¹⁾

Moody's Revised Methodology

Ratio, as defined by Moody's	FY 2019 Moody's "A1" Medians	FY 2020 EWU	FY 2019 Moody's Actual EWU	FY 2018 Moody's Actual EWU	FY 2017 Moody's Actual EWU	FY 2016 Moody's Actual EWU
Spendable Cash & Investments to Total Debt (Higher is Stronger)	1.2x	2.2x	1.9x	1.8x	1.8x	2.8x
Total Debt to Cash Flow (Lower is Stronger)	5.9x	3.7x	6.0x	4.8x	3.7x	2.7x
Debt Burden Ratio (Lower is Stronger)	4.8%	2.4%	2.2%	2.2%	2.4%	2.1%

(1) "Moody's Actual" data based on Moody's "Annual Comment on Eastern Washington University" dated April 23, 2019

Auxiliary Coverage

- Housing and Dining System revenue bond covenants require net revenue be the greater of:
 - Amounts sufficient to provide for payment of debt service and reserve funds;
 - At least 1.25 times debt service
- Student Services and Activities Fee revenue bond covenants require the University to collect student services and activities fees for as long as any bonds are outstanding, to provide the greater of:
 - Amounts sufficient to provide for payment of debt service and reserve funds;
 - At least 1.25 times debt service
- Monitored at least annually

	FY 2020 Unaudited	FY 2019 Actual	FY 2018 Actual	Required Coverage	Basis
Services and Activities Fee	3.09x	2.99x	3.03x	1.25x	Gross Revenue
Housing & Dining	2.20x	2.31x ⁽¹⁾	3.54x	1.25x	Net Revenue

⁽¹⁾ 2019 H&D coverage is lower due to one time transfers for capital cost of the PUB. Without this transfer coverage would be 3.92x

Note: Higher ratio is stronger

University Debt Capacity

- Debt capacity is not a defined concept, but is based upon a combination of considerations, reflecting two principles:
 - Ability to support annual debt service
 - Overall burden on the University, measured relative to annual revenue and unrestricted net assets
- Capacity is viewed relative to target bond ratings
 - Higher bond ratings generally correlate to lower capacity
 - The University can increase its capacity if it is willing to move down in rating categories
- Debt capacity can be influenced by the addition of new revenue
 - For the housing system, this could come through increased occupancy
 - For student fees, this could come through new student-imposed fees and/or budget changes that redirect revenue from programs to debt
 - Increase operating expenses could reduce debt capacity, e.g. the new lease payments for the catalyst building

University Debt Capacity

- Housing and Dining System:
 - Revenue bonds can be used only for improvements to the Housing or Dining Systems, including related services
 - \$21,430,000 of debt outstanding
 - Additional debt capacity will depend on the updated housing and dining long term plan
- Student Fee Revenue:
 - Revenue bonds can be used only for purposes directly related to student services (i.e., student recreation center, student union building) and not for general public or general University purposes
 - \$53,050,000 of debt outstanding
 - Additional debt capacity will depend on level of new fees