THE STATE UNIVERSITY OF NEW JERSEY
RUTGERS

RESOLUTION OF THE BOARD OF GOVERNORS AUTHORIZING RUTGERS, THE STATE UNIVERSITY TO ADOPT A DEBT MANAGEMENT POLICY AND TO TAKE ALL OTHER NECESSARY ACTION IN CONNECTION THEREWITH

WHEREAS, the University deems it necessary to assist the officials of the University with management of the University's debt portfolio and to provide an internal tactical framework for capital planning and debt management; and

WHEREAS, in furtherance of the University's long-term goals for implementing procedures for issuing debt and monitoring debt management, and upon recommendation of the Board of Governors' Committee on Budget and Finance, the University desires to adopt a debt management policy; and

WHEREAS, upon recommendation of the Board of Governors' Committee on Budget and Finance:

NOW, THEREFORE BE IT RESOLVED, **BY THE BOARD OF GOVERNORS OF THE UNIVERSITY**, as follows:

Section 1. This Board hereby adopts the debt management policy in the form attached hereto as Exhibit A (the "Debt Policy").

Section 2. This resolution shall take effect immediately.

Adopted: June 15, 2006

EXHIBIT A

DEPT POLICY

Rutgers, The State University of New Jersey
Debt Policy
May 2006 FINAL

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I. Overview

Purpose

1. Articulate the role of the University's Debt Policy within the strategic planning process.

In support of its mission, Rutgers, The State University of New Jersey (the "University") continually participates in a strategic planning process. The strategic planning process establishes University-wide priorities across the three main campuses: New Brunswick/Piscataway, Newark and Camden. The University develops and manages a comprehensive list of capital projects to support its priorities and objectives as defined in its mission.

As the University prioritizes projects, it also determines the most appropriate funding sources, recognizing that available funds likely always will be insufficient to finance all potential projects; therefore funds must be allocated sparingly and strategically. Debt, along with philanthropy, State grants, internal reserves and other resources, plays a critical role in ensuring adequate funding for capital projects. The University ultimately increases the likelihood of achieving its mission by linking the objectives of its Debt Policy to the objectives set forth in the strategic planning process.

To fulfill its mission, the University will need to make ongoing capital investments and strategic financial decisions that will impact the University's net resources and credit over time.

The University's financial objective is to increase financial resources over time in order to provide greater funding and operational flexibility. This objective requires that the University view debt management within the context of the overall balance sheet, including its long-term investment and short-term cash portfolio. An appropriate amount of debt serves a critical role in achieving this goal and therefore is considered a permanent component of the University's balance sheet and is managed on a portfolio basis.

The University's Debt Policy is intended to be a "living" document that will evolve over time to meet the changing needs of the University.

II. Scope and Objectives

Purpose

1. Detail what is subject to the Debt Policy
2. Describe the role of the Debt Policy
3. Define the goals and objectives of the Debt Policy

<u>Scope</u>

The Debt Policy relates to all forms of debt financing including long-term, short-term, fixed-rate, and variable-rate debt. The policy relates to other forms of financing including both on-balance sheet and off-balance sheet structures, such as leases, and other structured products that impact the credit of the University. The policy also contemplates the use of financial derivatives that may be used in managing the University's debt portfolio and in structuring transactions to best meet the University's financial objectives within an acceptable risk tolerance.

The Debt Policy formalizes the link between the University's strategic planning process and the issuance and management of debt. Debt is considered a limited resource that must be managed strategically in order to best support University priorities. As part of its review of each project, the University evaluates all funding sources to determine the optimal funding structure to achieve the lowest expected long-term cost of capital within acceptable risk parameters and to preserve the greatest amount of future financing flexibility.

<u>Goals and Objectives</u>

The goals and objectives of this policy are to:

(i) Maintain the University's favorable and timely access to capital.

(ii) Establish debt management guidelines to (a) optimize the University's debt mix (e.g., fixed rate vs. floating-rate, direct vs. indirect and traditional vs. synthetic), (b) manage the structure and maturity profile of debt portfolio to meet liquidity objectives and assist in cash optimization, (c) allow for the growth in net assets over time, and (d) make funds available to support future capital projects and strategic initiatives.

(iii) Manage the University's credit to meet its long-term strategic objectives while maintaining the highest acceptable creditworthiness and most favorable relative cost of capital and borrowing terms.

(iv) Manage risk of the University's debt portfolio by managing debt on a portfolio basis rather than a transactional or project-specific basis. The University's continuing objective of achieving the lowest cost of capital will be balanced with the goal of limiting exposure to market shifts. Additionally, it is important that the effect of potential future debt issuance, market conditions and other factors be considered in the management of the overall portfolio.

(v) Define management reporting and approval guidelines.

(vi) Coordinate debt management decisions with asset and cash (liquidity) management decisions and portfolio management strategies.

III. Oversight

Purpose

1. Provide mechanism for Board of Governors and Budget & Finance Committee oversight and review on periodic basis.
2. Provide management flexibility to make ongoing financing decisions within the framework of the Policy.
3. Outline periodic involvement of the Budget & Finance Committee and Investment Committee in specific situations and projects related to the Policy.

The Board of Governors (the "Board"), with the advice and consent of the Board of Trustees, approves the issuance of debt for specific capital projects as recommended by the Budget and Finance Committee ("the B&F Committee"). The Senior Vice President for Administration and Chief Financial Officer (the "SVPA & CFO" or "Management") is authorized to approve the pricing of debt on the day the debt is marketed, subject to the Board-approved financing parameters.

The Office of the SVPA and CFO is responsible for implementing this policy on a University-wide basis and for directing the debt financing activities of all campuses of the University. The policy and any subsequent, material changes to the policy are approved by the University's B&F Committee. The SVPA & CFO will provide a Debt Policy update to the B&F Committee on an annual basis.

It is recognized that Management should have the flexibility to manage the University's debt portfolio in order to take advantage of market developments and position the portfolio appropriately over the long-term. In many cases, this will require Management to have the ability to take certain actions in consultation with the Chair of the B&F Committee but without the need for prior consultation with or approval by the B&F Committee or full Board. These actions might include, executing derivative transactions, putting hedging instruments in place, unwinding or terminating derivative and hedging instruments, and authorizing commercial paper draws.

Additionally, it is recognized that the complex nature of financial instruments and their specific applications, opportunities and potential risks may require that in certain circumstances a subcommittee of the B&F committee be formed to focus on specific items and to ensure that the debt portfolio is managed effectively. Further, because the University manages its balance sheet holistically, at times the Investment Committee may be consulted to ensure that the strategies, policies and tactics involved in the management of the debt portfolio are complementary to those being followed in the management of the investment portfolio.

IV. Strategic Debt Allocation

Purpose

1. Recognize that resources are limited.
2. Augment existing capital allocation and prioritization process.
3. Provide priority to mission critical projects with identified repayment source.

Recognizing that financial resources are not sufficient to fund all capital projects across the three main campuses, Management must allocate debt strategically, continuing to explore alternate sources of funding for projects. External support, philanthropy, and direct investment from the State of New Jersey remain critical components of funding for the University's capital projects.

Mission should be the primary driver in prioritizing projects as the decision of which projects to fund is primarily institutional and strategic. However, financial performance (ability to generate revenue) must be taken into consideration as a measure of project affordability. The University recognizes tax-exempt debt financing as an efficient and often low cost way to finance those projects critical to attainment of its strategic goals. In many cases, it may be in the best interest of the University to pursue tax-exempt debt financing rather than using existing resources. The highest and best use of these resources may be investing them with the purpose of building the University's financial strength to create greater financial flexibility for future needs. Those projects with identified revenue streams for the repayment of debt service and incremental operating costs will be strongly considered for debt financing. For example, federal research projects will likely receive priority consideration for external debt financing due to partial reimbursement of operating expenses (including the interest component of applicable external debt service) of research facilities.

V. Debt Affordability and Capacity and Resource Sufficiency

Purpose

1. Monitor Debt Affordability and Capacity through the use of three key ratios:
   a. Debt Burden Ratio
   b. Debt Service Coverage
   c. Viability Ratio
2. Monitor Resource Sufficiency through the Primary Reserve Ratio
3. Clearly communicate with key parties the University's debt management philosophy and ongoing assessment of debt capacity and affordability and resource sufficiency.

Use of Ratios in Monitoring Debt Affordability and Capacity and Resource Sufficiency

A target range for each of the ratios described in this section has been established; however, these targets are meant to be guidelines and not absolute limits, since management must reserve the option to temporarily deviate from desired long-term ratio ranges in order to address strategic priorities.

Debt Affordability and Capacity

In assessing its current debt levels, and when planning for additional debt, the University takes into account both its Debt Affordability and Debt Capacity. Debt Affordability focuses on the University's ability to service its debt through its operating budget and identified revenue streams and is driven by strength and flexibility in income and cash flows. Debt Capacity focuses on the University's financial leverage in terms of debt funding as a percentage of the University's total capital. Debt Capacity primarily is of interest to external parties, such as rating agencies, and impacts the University's credit quality, and resulting financing flexibility and borrowing costs. However, from an internal project planning and debt repayment perspective, it is the debt affordability measure that impacts the operating budget.

As previously noted, not all projects have the same effect on the University's operating budget, as those with incremental revenue sources impose less budgetary impact on the institution's general operating budget, and therefore such projects may represent more attractive debt funding candidates.

It also is recognized that debt may be utilized for purposes other than the specific long-term funding of capital projects, and that when leverage is utilized to achieve other strategic or financial objectives, such as a more cost-effective alternative to leasing or cash funding for equipment, it should not have the same impact on the University's debt affordability and debt capacity as debt issued for long-term capital investments. Therefore, the University will distinguish between "project-related" and "non-project-related" uses of debt.

The University considers many factors in assessing its debt affordability and debt capacity including its strategic needs, market position, alternative sources of funding, and relationship with the State. The University uses three key ratios to provide a quantitative assessment of debt affordability and debt capacity.

Debt Affordability Measures

Debt Burden Ratio

This ratio measures the University's debt service burden as a percentage of total University expenses. The target range for this ratio is intended to maintain the University's long-term operating flexibility to finance existing requirements and new initiatives. The higher this level is, the less flexibility the University has to fund new initiatives or to respond to budgetary pressures.

$$3.0\% < \frac{\text{ANNUAL DEBT SERVICE}}{\text{TOTAL OPERATING EXPENSES}} < 6.0\%$$

The measure is based on aggregate operating expenses as opposed to operating revenues because expenses typically are more stable (e.g. revenues may be subject to one-time operating gifts, investment return fluctuations, variability of State funding, etc.) and better reflect the operating base of the University. This ratio is adjusted to reflect any non-amortizing or non-traditional debt structures that could result in significant single year fluctuations including the effect of debt refundings.

This Policy establishes a range between 3% and 6%. If more than 6% of the University's annual budget were committed to debt service expense, flexibility to devote resources to fund existing and future projects could be diminished. If less than 3% of the annual operating budget were devoted to debt service, the University might be foregoing an opportunity to optimize its funding mix.

Modified Debt Burden Ratio

The University will also monitor internally a modified version of the debt burden ratio in which depreciation expense and sponsored research expense are excluded from operating expenses. We believe that while external parties monitor the traditional debt burden ratio and it is important to understand how much of the University's expenses are used for debt service, the modified debt burden ratio gives a clearer cashflow picture since non-cash expense items are excluded from the operating expense base.

$$\frac{\text{ANNUAL DEBT SERVICE}}{\text{TOTAL OPERATING EXPENSES - (DEPRECIATION EXP + SPONSORED RESEARCH EXP)}}$$

Debt Service Coverage

This ratio measures the University's ability to cover debt service requirements with revenues available for operations. The target range established is intended to ensure that operating revenues are sufficient to meet debt service requirements and that debt service does not consume too large a portion of income while the University if optimizing its use of debt for project funding.

$$2.0x < \frac{\text{OPERATING GAIN/(LOSS) + NON-OPERATING REVENUE + DEPRECIATION}}{\text{ANNUAL DEBT SERVICE}} < 5.0x$$

This ratio is adjusted to reflect any non-amortizing or non-traditional debt structures that could result in significant single year fluctuations including the effect of debt refundings.

Due to the volatility inherent in the change in net assets from year to year, the University will monitor internally a rolling three-year average for the debt service coverage ratio.

Debt Capacity Measures

Viability Ratio

This ratio indicates one of the most basic determinants of financial health by measuring the availability of liquid and expendable net assets to aggregate debt. The ratio measures the medium to long-term health of the University's balance sheet and debt capacity and is a critical consideration of universities with the highest credit quality.

Many factors influence the viability ratio, affecting both the assets (e.g., investment performance, philanthropy) and liabilities (e.g., timing of bond issues), and therefore the ratio is best examined in the context of changing market conditions so that it accurately reflects relative financial strength.

The University has established a target minimum ratio of 0.65x to ensure that sufficient balance sheet strength is maintained at all times to preserve an acceptable credit rating and future access to the capital markets for funding on acceptable

Because the University manages the balance sheet on a portfolio basis, and believes that the appropriate use of leverage assists in the maximization of net assets over term, it also is recognized that having too little balance sheet leverage also may not be desirable. Therefore, a target maximum ratio also is established of 3.0x.

$$0.65\text{x} < \frac{\text{UNRESTRICTED NET ASSETS} \; + \text{RESTRICTED EXPENDABLE NET ASSETS}}{\text{AGGREGATE DEBT}} < 3.0\text{x}$$

<u>Resource Sufficiency</u>

The appropriate level of resources needed to enable the University to achieve its long-term strategic objectives is evolutionary and must be continuously monitored by University leadership. The ratio presented below measures how financially sound the University is and the ability to achieve and sustain a level of resources sufficient to realize strategic goals. All financial decision making directly affects resource sufficiency as the decision to use either resources or debt has different long-term consequences for the University.

Primary Reserve Ratio

This ratio measures the financial strength of the University by comparing expendable net assets to total expenses. This ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could function using its expendable reserves without relying on additional net assets generated by operations. Over time, the ratio indicates whether the University has increased its overall wealth as compared to its growth in operations. The target range for this ratio is intended to ensure that wealth is increasing at least in proportion to the rate of growth in operating size and that the University's financial condition is not in fact weakening.

$$0.40\text{x} < \frac{\text{UNRESTRICTED NET ASSETS} \; + \text{RESTRICTED EXPENDABLE NET ASSETS}}{\text{TOTAL EXPENSES}} < 0.60\text{x}$$

A ratio 0.40x or higher is preferable as it illustrates the University's ability to cover approximately 5 months of expenses from reserves. However, the University recognizes that reserves may be required for capital expansion or to implement changes in mission and therefore the ratio may experience a temporary decline, below the 0.40x level.

Use of Ratios in Managing University Credit Ratings

The ratios and limits are not intended to track a specific rating, but rather to help ensure the University's maintenance of a competitive financial profile and adequate funding capacity and resource sufficiency for current and future facilities needs and reserves.

The Debt Policy is shared with external credit analysts and other parties in order to provide them with background on the University's philosophy on debt and management's assessment of debt capacity and affordability, which is subject to ongoing review to remain consistent with Rutgers' evolving needs and objectives.

VI. Portfolio Management of Debt

Purpose

1. Permit decisions regarding debt issuance and structure to be made on a portfolio basis, rather than on a project-by-project basis.

2. Review of all potential funding sources for projects:
   -Tax-exempt University-issued debt.
   -Taxable Debt
   -Commercial Paper Program
   -University-issued vs. State-issued

3. Manage variable-rate exposure of the debt portfolio.
   a. Limit variable-rate exposure.
   b. Manage the overall liquidity requirements associated with outstanding debt.

4. Manage derivative products for hedging interest rate exposure.

5. Consider alternative financing sources.

The University manages debt on a portfolio basis rather than on a project-by-project basis while taking into account the University's cash and investments. Management makes decisions regarding project prioritization, debt portfolio optimization, and financing structures within the context of the overall needs and circumstances of the University's three main campuses.

Funding Sources

The University recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, risks, and costs. All potential funding sources are reviewed by management within the context of the Debt Policy and the overall portfolio to ensure that any financial product or structure is consistent with the University's goals and objectives. Regardless of what financing structure(s) is/are utilized, a full understanding of the transaction, including (i) quantification of potential risks and benefits, (ii) analysis of the impact on University creditworthiness and debt affordability and capacity, and (iii) impact on the University's cash and investments and net revenues are performed.

Tax-Exempt Debt

The University recognizes that Tax-Exempt debt is a perpetual component of the University's capitalization due in part to its substantial cost benefits. Therefore, the University manages the debt portfolio to maximize its utilization of tax-exempt debt relative to taxable debt whenever possible. In all circumstances, however, individual projects continue to be identified and tracked to ensure compliance for all tax and reimbursement purposes.

Recognizing the inherent benefit of tax-exempt interest rates, the University prefers to consider maximizing the external maturity of any tax-exempt bond issue, subject to prevailing market conditions and applicable regulations without compromising desired operating flexibility.

Taxable Debt

While all of the University's capital projects may not qualify for tax-exempt debt, taxable debt should only be used in appropriate cases as it generally represents a more expensive source of capital relative to tax-exempt issuance. Generally, the University evaluates the use of alternate resources in lieu of taxable debt to fund non-exempt purposes based on economic benefit. Additionally, unlike tax-exempt debt, taxable debt is not managed as a perpetual component of the University's capitalization.

Commercial Paper

Commercial paper provides the University with interim financing for projects, in anticipation of the receipt of funding either in the form of future philanthropy or other external receipts or the issuance of long-term debt for permanent financing. The use of commercial paper also provides greater flexibility regarding the timing and structuring of individual bond transactions. The University recognizes that the amount of commercial paper is limited by the Debt Policy ratios, the University's variable-rate debt allocation limit, and the University's available liquidity support.

As a flexible financing vehicle, the commercial paper program can also be utilized for other purposes, such as equipment financing and cash optimization/liquidity management strategies. These alternate uses of debt for purposes other than the long-term financing of capital projects may be treated differently in their effect on the University's debt capacity and affordability ratios.

Variable-Rate Debt Allocation

The University recognizes that a degree of exposure to variable interest rates within the University's debt portfolio is desirable in order to:

(i) take advantage of repayment/restructuring flexibility;

(ii) benefit from historically lower average interest costs; and

(iii) provide a "match" between debt service requirements and the projected cash flows from the University's short-term investments.

Management monitors overall interest rate exposure, analyzes and quantifies potential risks, and coordinates appropriate fixed/variable allocation strategies. The portfolio allocation to variable-rate debt may be managed or adjusted through (i) the issuance or redemption of debt (potentially new issues and refundings) and (ii) the use of interest rate swaps and other derivative products.

The amount of variable-rate debt outstanding (adjusted for derivatives including the effect of any outstanding options being exercised) shall not exceed 40% of the University's outstanding debt. This limit is based on the University's desire to: (i) limit annual variances in its debt portfolio, (ii) provide sufficient structuring flexibility to management, (iii) keep the University's variable-rate allocation within acceptable external parameters, and (iv) utilize variable-rate debt (and/or derivatives) to optimize debt portfolio allocation and minimize costs. Note that outstanding commercial paper is not included in this calculation, since CP represents either a.) interim project financing, rather than long-term portfolio strategy, or b.) funding for non-project related purposes, which may have other objectives or impacts on the University's overall financial profile.

$$\frac{\text{VARIABLE-RATE DEBT (DERIVATIVE ADJUSTED)}}{\text{TOTAL DEBT OUTSTANDING, EXCLUDING CP}} \quad < 40\%$$

Although the University believes that over the long-term up to 40% of the debt portfolio may be outstanding on a variable rate basis, during some periods it may be desirable to maintain a higher fixed rate allocation.

Tax Exposure Ratio

This ratio measures the amount of tax exposure the University is willing to maintain at any given time. This represents the University's view of the relationship between tax-exempt and taxable rates and the likelihood this relationship will change over time. Under current tax regulations, the University receives a benefit by issuing tax-exempt debt in the form of a lower interest rate. The normal relationship of tax-exempt to taxable rates is approximately 67% or (1- marginal tax rate) although in different market conditions this relationship may change temporarily. If the benefit of tax-exemption was to end due to changes in tax laws, the University's floating rate tax-exempt obligations would be priced at higher taxable rates and swaps in which the University receives an index based on LIBOR to offset payments on their tax-exempt debt obligations would be unable to match their receipts to their required payments.

The University's outstanding variable rate debt plus any swaps outstanding with a taxable basis (LIBOR-based swaps) plus variable rate debt expected to be issued within the next 2 years shall not exceed 50% of the University's total debt portfolio (including expected new debt issuance and exercising of any outstanding derivative options).

$$\frac{\text{TAX-EXEMPT VARIABLE RATE DEBT + LIBOR-BASED SYNTHETIC FIXED RATE DEBT}}{\text{TOTAL DEBT OUTSTANDING}} < 50\%$$

Derivative Products

Management recognizes that derivative products may enable more opportunistic and flexible management of the debt portfolio. Derivative products, including interest rate swaps and rate locks, may be employed primarily to manage or hedge the University's interest rate exposure. The University utilizes a framework to evaluate potential derivative instruments by considering (i) its current variable-rate debt allocation and tax exposure, (ii) existing market and interest rate conditions, (iii) the impact on future financing flexibility, and (iv) the compensation for assuming risks or the costs for eliminating certain risks and exposure.

Guidelines for the Use of Interest Rate Exchange Agreements were approved by the Board in 2002 and continue to guide Management's use of derivative products as well as the process and reporting requirements Management must follow in regard to these transactions.

Risks of derivative products include, but are not limited to, tax risk, interest rate risk, liquidity risk, counterparty credit risk, basis risk, termination risk, and any other potential risks either imposed or removed through the execution of any transaction.

The University analyzes and quantifies the cost/benefit of any derivative instrument relative to achieving desirable long-term capital structure objectives. In addition, management discloses the impact of any derivative product on the University's financial statements per GASB requirements and includes their effects in calculating the Debt Policy ratios.

The University recognizes that a variety of derivative products are available that can assist in lowering the expected interest expense related to the debt portfolio. The University should consider the utilization of such products provided that:

- The transaction does not impose unacceptable risk to the University;
- The University is appropriately compensated for the assumption of any risk;
- Management understands the risks and benefits of any transaction that is considered;
- Management presents the expected benefits and risks associated with any proposed transaction to appropriate members of the B&F Committee; and
- The University receives independent legal and financial advice concerning the merits of the prospective derivative transactions.

Specifically, the University will address the following issues and provide the following information to the B&F Committee with respect to any proposed transaction:

- A discussion of how the transaction relates to potential exposure in other areas of the University (e.g., counterparty exposure in the endowment).
- A review of various risks inherent in the transaction. The risks will be discussed for the individual transaction, as well as in the context of the overall debt portfolio and asset-side transactions.
- The expected economic benefit of the transaction, as well as sensitivity analyses highlighting potential exposure in various interest rate environments.

At a minimum, the legal documentation for any transaction will require:

- Full collateralization of exposure in the event that the counterparty's credit falls below "A".
- The ability for the University to terminate the transaction at any time, at market value, with no greater than five days' notice to the counterparty.

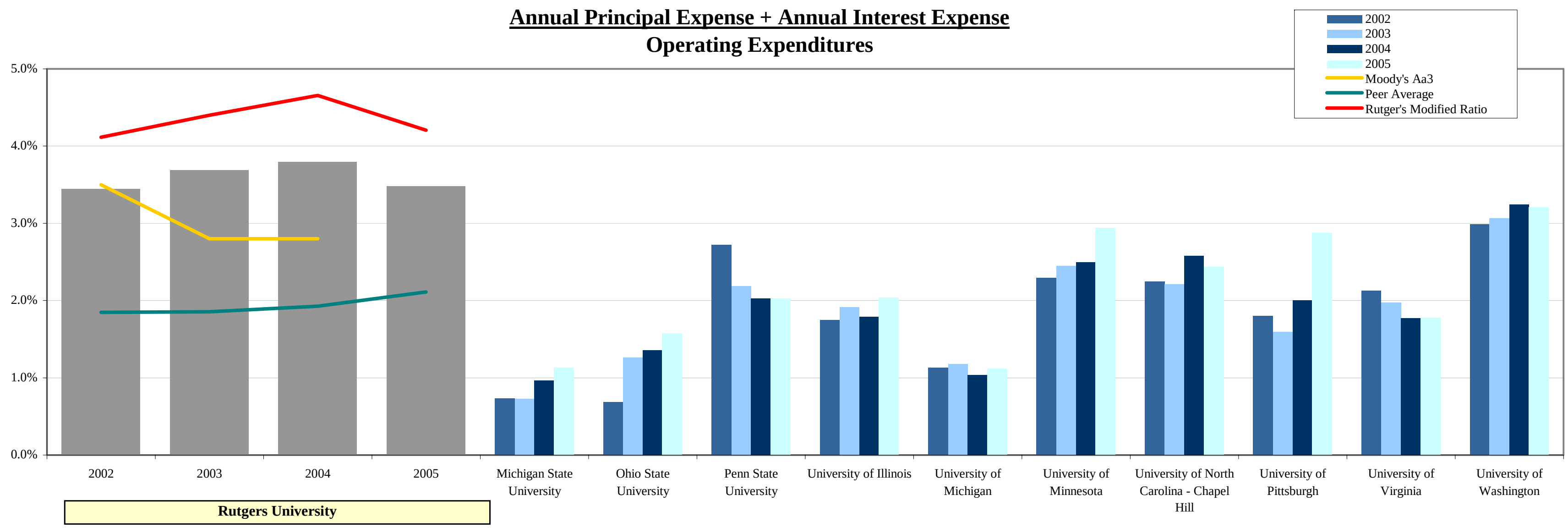
Other Financing Sources

Given limited debt capacity and substantial capital needs, opportunities for alternative and non-traditional transaction structures may be considered, including off-balance sheet financings. The University recognizes these types of transactions often can be more expensive than traditional University debt structures; therefore, the benefits of any potential transaction must outweigh any potential costs.

All structures can only be considered once the economic benefit and the likely impact on the University's debt capacity and credit has been determined. Specifically, for any third-party or developer-based financing, management ensures the full credit impact of the structure is evaluated and quantified.

DEBT BURDEN RATIO

The Debt Burden ratio is based on aggregate operating expenses as opposed to operating revenues because expenses typically are more stable (e.g. revenues may be subject to one-time operating gifts, investment return fluctuations, variability of State funding, etc.) and better reflect the operating base of the University. This ratio is adjusted to reflect any non-amortizing or non-traditional debt structures that could result in significant single year fluctuations including the effect of debt refundings. The University will also monitor a modified version of the ratio in which depreciation expense and sponsored research expense are excluded from operating expenses. The modified ratio gives a clearer picture of cashflow since non-cash expenses items are excluded from the operating expense base.

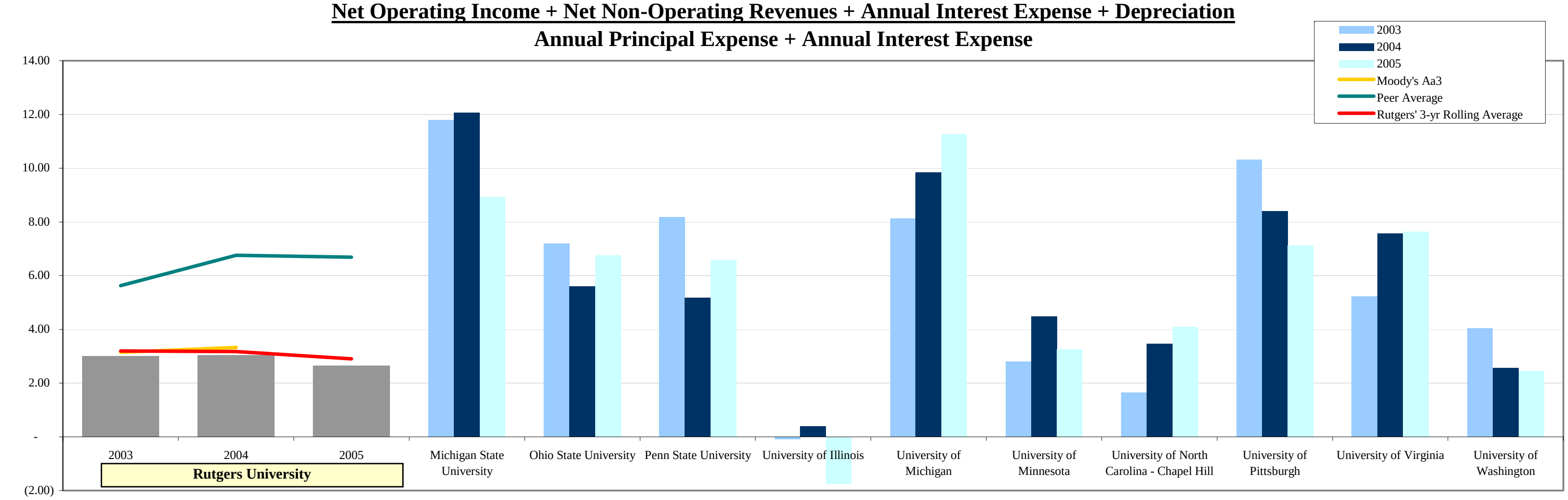


	Ratings (Moody's/S&P)	FY2005 Interest	FY2005 Principal	FY2005 Operating Expenditures	2002	2003	2004	2005
Rutgers University	**Aa3/NR**	**29,187**	**20,170**	**1,416,475**	**3.4%**	**3.7%**	**3.8%**	**3.5%**
Rutgers' Modified Ratio		**29,187**	**20,170**	**1,173,740**	**4.1%**	**4.4%**	**4.7%**	**4.2%**
Michigan State University	Aa2/AA	12,952	2,880	1,400,481	0.7%	0.7%	1.0%	1.1%
Ohio State University	Aa2/AA	28,938	18,206	2,989,679	0.7%	1.3%	1.4%	1.6%
Penn State University	Aa2/NR	31,293	27,425	2,896,385	2.7%	2.2%	2.0%	2.0%
University of Illinois	Aa3/NR	46,800	25,229	3,530,765	1.7%	1.9%	1.8%	2.0%
University of Michigan	Aaa/AA	22,879	22,341	4,047,791	1.1%	1.2%	1.0%	1.1%
University of Minnesota	Aa2/AA	33,129	32,305	2,228,708	2.3%	2.4%	2.5%	2.9%
University of North Carolina - Chapel Hill	Aa1/AA+	22,644	18,920	1,703,724	2.2%	2.2%	2.6%	2.4%
University of Pittsburgh	Aa2/AA	18,527	20,700	1,365,302	1.8%	1.6%	2.0%	2.9%
University of Virginia	Aaa/AAA	16,837	14,690	1,775,745	2.1%	2.0%	1.8%	1.8%
University of Washington	Aa1/NR	38,299	50,828	2,781,477	3.0%	3.1%	3.2%	3.2%
Moody's Aa3					**3.5%**	**2.8%**	**2.8%**	**n/a**
Peer Average					**1.8%**	**1.9%**	**1.9%**	**2.1%**

DEBT SERVICE COVERAGE

This ratio measures the University's ability to cover debt service requirements with revenues available for operations. The target range established is intended to ensure that operating revenues are sufficient to meet debt service requirements and that debt service does not consume too large a portion of income while the University if optimizing its use of debt for project funding.

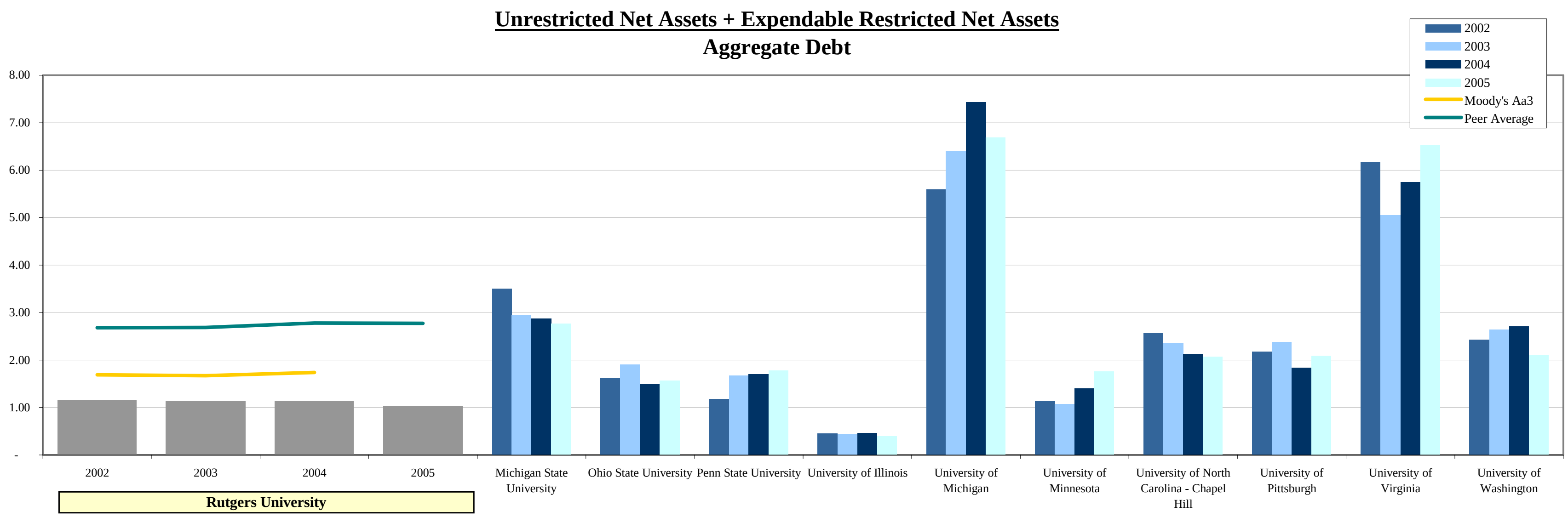
$$\frac{\text{Net Operating Income + Net Non-Operating Revenues + Annual Interest Expense + Depreciation}}{\text{Annual Principal Expense + Annual Interest Expense}}$$



				FY2005					
	Ratings (Moody's/S&P)	Net Operating Income	Net Non-Operating Revenues	Depreciation	Interest	Annual Debt Service	2003	2004	2005
Rutgers University	**Aa3/NR**	**(467,457)**	**488,352**	**88,160**	**22,423**	**49,357**	**3.01**	**3.05**	**2.66**
Rutgers' 3-yr Rolling Average							**3.20**	**3.17**	**2.91**
Michigan State University	Aa2/AA	(374,561)	438,366	64,636	12,904	15,832	11.81	12.06	8.93
Ohio State University	Aa2/AA	(434,906)	636,852	145,976	(29,168)	47,144	7.20	5.60	6.76
Penn State University	Aa2/NR	(202,250)	430,678	158,211	-	58,718	8.19	5.18	6.58
University of Illinois	Aa3/NR	(1,106,541)	744,415	175,978	59,068	72,029	(0.09)	0.41	(1.76)
University of Michigan	Aaa/AA	(465,678)	700,403	253,733	21,738	45,220	8.14	9.84	11.28
University of Minnesota	Aa2/AA	(748,062)	807,729	127,091	27,470	65,434	2.80	4.49	3.27
University of North Carolina - Chapel Hill	Aa1/AA+	(524,899)	613,628	60,102	21,823	41,564	1.65	3.47	4.11
University of Pittsburgh	Aa2/AA	78,433	101,070	82,985	17,217	39,227	10.32	8.40	7.13
University of Virginia	Aaa/AAA	(245,880)	367,448	104,454	14,660	31,527	5.24	7.58	7.63
University of Washington	Aa1/NR	(448,508)	452,989	178,704	35,060	89,127	4.04	2.57	2.45
Moody's Aa3							**3.15**	**3.33**	**n/a**
Peer Average							**5.63**	**6.75**	**6.69**

VIABILITY RATIO

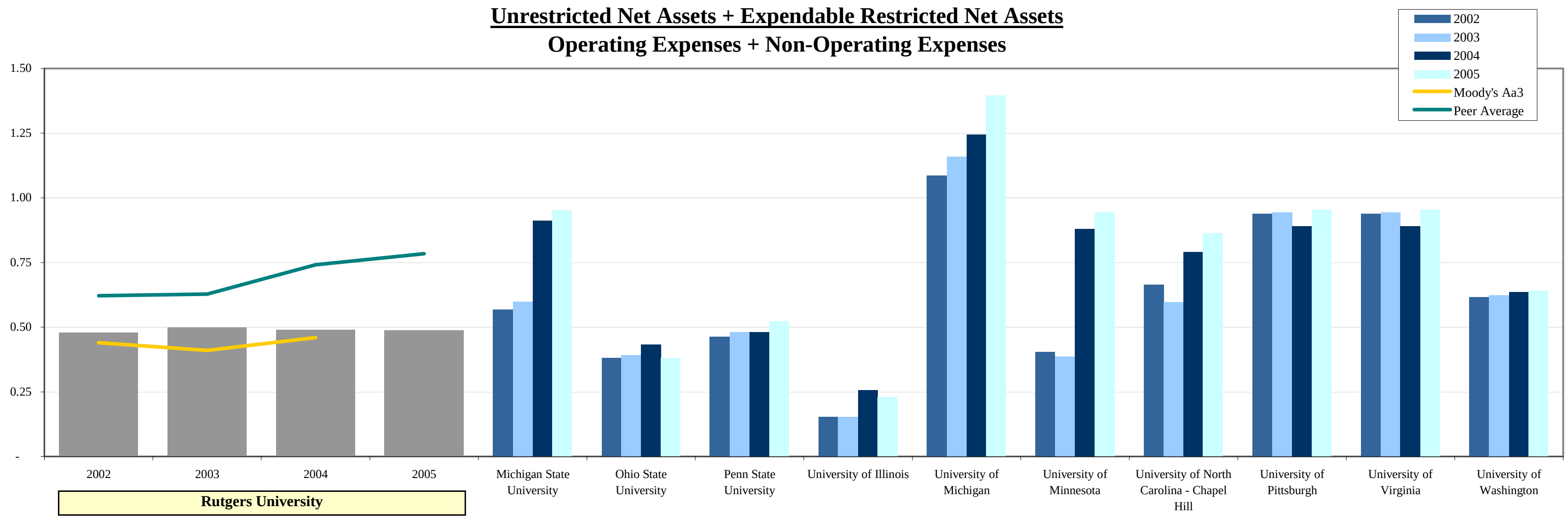
The Viability Ratio is one of the most basic determinant of financial health. It is the availability of expendable net assets to cover debt. Many factors influence the viability ratio, affecting both the assets (e.g., investment performance, philanthropy) and liabilities (e.g., timing of bond issues), and therefore the ratio is best examined in the context of changing market conditions so that it accurately reflects relative financial strength. For example, a viability ratio that is acceptable and entirely appropriate in one market condition may be relatively stronger or weaker in other market environments.



	Ratings (Moody's/S&P)	FY2005 Unrestricted Net Assets	FY2005 Restricted Expendable Net Assets	FY2005 Aggregate Debt	2002	2003	2004	2005
Rutgers University	**Aa3/NR**	**356,469**	**333,853**	**672,612**	**1.16**	**1.14**	**1.13**	**1.03**
Michigan State University	Aa2/AA	707,598	627,309	484,023	3.50	2.95	2.87	2.76
Ohio State University	Aa2/AA	675,587	462,574	727,540	1.61	1.90	1.50	1.56
Penn State University	Aa2/NR	1,184,823	329,067	848,938	1.18	1.67	1.70	1.78
University of Illinois	Aa3/NR	168,134	327,405	1,243,359	0.46	0.44	0.46	0.40
University of Michigan	Aaa/AA	3,280,515	2,369,729	844,539	5.59	6.41	7.42	6.69
University of Minnesota	Aa2/AA	364,387	807,257	666,951	1.14	1.07	1.40	1.76
University of North Carolina - Chapel Hill	Aa1/AA+	475,631	736,632	585,897	2.56	2.36	2.12	2.07
University of Pittsburgh	Aa2/AA	765,711	538,071	626,782	2.18	2.37	1.84	2.08
University of Virginia	Aaa/AAA	1,139,029	1,567,246	415,122	6.16	5.05	5.75	6.52
University of Washington	Aa1/NR	796,186	989,261	845,937	2.43	2.64	2.70	2.11
Moody's Aa3					**1.69**	**1.67**	**1.74**	**n/a**
Peer Average					**2.68**	**2.69**	**2.78**	**2.77**

PRIMARY RESERVE RATIO

This ratio measures the financial strength of the University by comparing expendable net assets to total expenses. This ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could function using its expendable reserves without relying on additional net assets generated by operations. Over time, the ratio indicates whether the University has increased its overall wealth as compared to its growth in operations.



	Ratings (Moody's/S&P)	FY2005 Unrestricted Net Assets	FY2005 Restricted Expendable Net Assets	FY2005 Operating Expenditures	2002	2003	2004	2005
Rutgers University	**Aa3/NR**	**356,469**	**333,853**	**1,416,475**	**0.48**	**0.50**	**0.49**	**0.49**
Michigan State University	Aa2/AA	707,598	627,309	1,400,481	0.57	0.60	0.91	0.95
Ohio State University	Aa2/AA	675,587	462,574	2,989,679	0.38	0.39	0.43	0.38
Penn State University	Aa2/NR	1,184,823	329,067	2,896,385	0.46	0.48	0.48	0.52
University of Illinois	Aa3/NR	195,239	614,391	3,530,765	0.15	0.15	0.26	0.23
University of Michigan	Aaa/AA	3,280,515	2,369,729	4,047,791	1.09	1.16	1.25	1.40
University of Minnesota	Aa2/AA	481,726	1,619,106	2,228,708	0.40	0.39	0.88	0.94
University of North Carolina - Chapel Hill	Aa1/AA+	496,284	975,376	1,703,724	0.66	0.60	0.79	0.86
University of Pittsburgh	Aa2/AA	765,711	538,071	1,365,302	0.94	0.94	0.89	0.95
University of Virginia	Aaa/AAA	1,394,674	1,894,282	1,775,745	0.94	0.94	0.89	0.95
University of Washington	Aa1/NR	796,186	989,261	2,781,477	0.62	0.62	0.64	0.64
Moody's Aa3					**0.44**	**0.41**	**0.46**	**n/a**
Peer Average					**0.62**	**0.63**	**0.74**	**0.78**

VARIABLE RATE EXPOSURE AND TAX EXPOSURE

As of May 2006

Variable Rate Exposure

$$\frac{\text{Variable Rate Debt (Derivative Adjusted)}}{\text{Total Debt Outstanding, Excluding CP}}$$

($000)	Traditional Variable Rate	Synthetic Variable Rate	Total Debt	%
FY2005	$ 15,275	$ -	$ 672,612	2.27%
FY2005 w/Swap Option Exercised	$ 105,375	$ -	$ 672,612	15.67%

Tax Exposure

$$\frac{\text{Tax-Exempt Variable Rate Debt + LIBOR-Based Synthetic Fixed Rate Debt}}{\text{Total Debt Outstanding, Excluding CP}}$$

($000)	Tax-Exempt Variable Rate Debt	LIBOR-Based Synthetic Fixed-Rate Debt	Total Debt	%
FY2005	$ 15,275	$ -	$ 672,612	2.27%
FY2005 w/Swap Option Exercised	$ 105,375	$ -	$ 672,612	15.67%