

FINANCE AND CAPITAL STRATEGIES COMMITTEE

January 21, 2021

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

1. CONSENT AGENDA

A. *Approval of Indemnification Terms in Agreements with the United States Department of Energy Western Area Power Administration*

The Committee recommends that:

- (1) The President of the University be authorized to approve the terms of the agreement(s) with the Western Area Power Administration (WAPA), including a provision to indemnify and hold harmless the United States, its employees, agents, or contractors from any loss or damage and from any liability on account of personal injury, death, or property damage, or claims for personal injury, death, or property damage of any nature whatsoever and by whomsoever made arising out of the University's, its employees', agents', or subcontractors' construction, operation, maintenance, or replacement activities under the agreement.
- (2) The President or designee, after consultation with the General Counsel, be authorized to approve and execute any documents necessary in connection with the above.
- (3) The President or designee, in consultation with the General Counsel, be authorized to execute all future documents related to WAPA supply agreements that contain substantially similar indemnification language.

B. *Amendments to Regents Policy 5307: University of California Debt Policy*

The Committee recommends that the Regents adopt the amendments to Regents Policy 5307: University of California Debt Policy, as shown in Attachment 1.

Committee vote: Regents Drake, Estolano, Kounalakis, Leib, Makarechian, Muwwakkil, Park, Pérez, Reilly, and Sherman voting "aye."

Board vote: Regents Drake, Elliott, Estolano, Kieffer, Lansing, Makarechian, Mart, Muwwakkil, Ortiz Oakley, Park, Pérez, Reilly, Sherman, Stegura, and Zettel voting "aye."

2. APPROVAL OF EXTERNAL FINANCING FOR WORKING CAPITAL

The Committee recommends that the Regents approve:

Until December 31, 2021, one or more external finance transactions in an aggregate amount not to exceed \$500 million, plus financing costs and refinancing amounts, for working capital and working capital-related purposes.

Committee vote: Regents Drake, Estolano, Kounalakis, Leib, Makarechian, Muwwakkil, Park, Pérez, Reilly, and Sherman voting “aye.”

Board vote: Regents Drake, Elliott, Estolano, Kieffer, Lansing, Makarechian, Mart, Muwwakkil, Ortiz Oakley, Park, Pérez, Reilly, Sherman, Stegura, and Zettel voting “aye.”

3. BUDGET; SCOPE; EXTERNAL, STANDBY, AND INTERIM FINANCING; AMENDMENT #3 TO THE UC IRVINE 2007 LONG RANGE DEVELOPMENT PLAN; AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, IRVINE CAMPUS MEDICAL COMPLEX, IRVINE CAMPUS

The Committee recommends that:

- A. The 2020-21 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Irvine: Irvine Campus Medical Complex – preliminary plans – \$67,503,000 to be funded from hospital reserves.

To: Irvine: Irvine Campus Medical Complex – preliminary plans, design, construction, and equipment – \$1,073,000,000 to be funded by hospital reserves (\$150 million), gift funds (\$100 million), and external financing (\$823 million).

- B. The scope of the Irvine Campus Medical Complex shall consist of construction of approximately 604,732 gross square feet (gsf) of medical inpatient, ambulatory, and emergency services space, including a 128- to 144-bed hospital (344,643 gsf), and ambulatory care center (223,089 gsf), central utility plant (37,000 gsf); and approximately 521,282 gsf for a parking structure providing approximately 1,350 spaces. Site development shall include landscape and hardscape, two new access roads, and an events plaza between the hospital and ambulatory care center. The square footages noted are subject to change as the design is refined through the progressive design-build process.
- C. The President of the University be authorized to obtain external financing in an amount not to exceed \$823 million plus additional related financing costs to

finance the Irvine Campus Medical Complex project. The President shall require that:

- (1) Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period.
- (2) As long as the debt is outstanding, the general revenues of the UC Irvine Medical Center shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.
- (3) The general credit of the Regents shall not be pledged.

D. The President be authorized to obtain standby financing in an amount not to exceed \$19,838,000 and interim financing in an amount not to exceed \$75 million plus additional related financing costs to finance the Irvine Campus Medical Complex. The Irvine campus shall satisfy the following requirements:

- (1) Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period.
- (2) Repayment of any standby debt shall be from gift funds. As gifts are received, the medical center will reimburse the standby financing in a timely fashion. If gift funds are insufficient and some or all of the debt remains outstanding, then hospital reserves shall be used to pay the debt service and to meet the related requirements of the authorized financing.
- (3) To the extent additional gifts and other funds are received as cash, the amount of interim financing will be reduced. To the extent additional gifts are received as documented pledges, the interim financing will be converted to standby financing.
- (4) If gifts or pledges are not received within seven years from the initial draw, the interim financing will be converted to long-term external financing or the Medical Center will pay down the interim financing.
- (5) As long as the debt is outstanding, the general revenues of the UC Irvine Medical Center shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.
- (6) The general credit of the Regents shall not be pledged.

E. Following review and consideration of the environmental consequences of the proposed Irvine Campus Medical Complex project and Long Range Development Plan Amendment #3, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff no less than 24 hours in advance of the beginning of this Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation,

the Regents:

- (1) Certify the Subsequent Environmental Impact Report for the Irvine Campus Medical Complex project.
 - (2) Adopt the Mitigation Monitoring and Reporting Program for the Irvine Campus Medical Complex project and make a condition of approval the implementation of mitigation measures within the responsibility and jurisdiction of UC Irvine.
 - (3) Adopt the CEQA Findings and Statement of Overriding Considerations for the Irvine Campus Medical Complex project.
 - (4) Approve Amendment #3 to the 2007 Long Range Development Plan.
 - (5) Approve the design of the Irvine Campus Medical Complex project.
- F. The President be authorized, in consultation with the General Counsel, to execute all documents necessary in connection with the above.

Committee vote: Regents Drake, Estolano, Kounalakis, Leib, Makarechian, Muwwakkil, Park, Pérez, Reilly, and Sherman voting “aye.”

Board vote: Regents Drake, Elliott, Estolano, Kieffer, Lansing, Makarechian, Mart, Muwwakkil, Ortiz Oakley, Park, Pérez, Reilly, Sherman, Stegura, and Zettel voting “aye.”

4. **AMENDMENT #7 TO THE UC SAN FRANCISCO 2014 LONG RANGE DEVELOPMENT PLAN FOR THE COMPREHENSIVE PARNASSUS HEIGHTS PLAN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, AND AMENDMENT #2 TO THE PHYSICAL DESIGN FRAMEWORK, SAN FRANCISCO CAMPUS**

The Committee recommends that, following review and consideration of the environmental consequences of the proposed UC San Francisco (UCSF) Amendment #7 to the 2014 Long Range Development Plan (LRDP), as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff to the Regents no less than 24 hours in advance of the beginning of this Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Regents:

- A. Certify the Environmental Impact Report for the Comprehensive Parnassus Heights Plan;

- B. Adopt the Mitigation Monitoring and Reporting Program and make a condition of approval the implementation of mitigation measures within the responsibility and jurisdiction of UCSF.
- C. Adopt the CEQA Findings and Statement of Overriding Considerations.
- D. Approve Amendment #7 to the UCSF 2014 LRDP.
- E. Receive and accept Amendment #2 of the Physical Design Framework.
- F. Approval of paragraph D above is conditioned on the Chair of the Board of Regents countersigning the Memorandum of Understanding (MOU) between UCSF and the City and County of San Francisco regarding the Comprehensive Parnassus Heights Plan and UCSF's compliance with the MOU.

Committee vote: Regents Cohen, Drake, Estolano, Leib, Makarechian, Muwwakkil, Park, Pérez, Reilly, and Sherman voting “aye.”

Board vote: Regents Drake, Elliott, Estolano, Kieffer, Lansing, Leib, Makarechian, Mart, Muwwakkil, Ortiz Oakley, Park, Pérez, Reilly, Sherman, Stegura, and Zettel voting “aye.”

Additions shown by underscoring; deletions shown by strikethrough

**THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
UNIVERSITY OF CALIFORNIA DEBT POLICY**

I. Purpose/Objective of Policy

The University's Debt Policy (the "Policy") governs the use and management of debt used to finance primarily capital projects as well as certain other uses across the University of California System (the "System"). As such, the Policy provides a framework that guides the capital market activities that are critical to achieving the University's mission of teaching, research, and public service. This framework ensures that the University can do so in an efficient and cost-effective manner while managing risk in the debt portfolio.

Specifically, this Policy seeks to achieve the following objectives:

- Outline the University's strategic approach to debt management;
- Establish guidelines for approving, structuring and managing debt;
- Identify roles and responsibilities for approving and monitoring debt post-issuance; and
- Set reporting standards.

With debt a precious and finite resource, this Policy provides a framework within which to evaluate and manage the tradeoffs between credit ratings, cost of capital and financial flexibility. It is the overarching goal of this Policy to ensure that the University maintains ready access to the debt capital markets to meet the University's financing needs. The active management of the University's credit profile, including the debt structure with respect to maturity and composition, will allow the University to achieve these objectives.

The University's credit strategy and strength are rooted in the System's scope and diversity; therefore, debt is a central function.

The Office of the CFO has oversight over all of the University's capital market activities. As such, the Office of the CFO is responsible for maintaining this Policy and will review it at least every two years and present to the Board of Regents, for approval, any proposed material changes, as appropriate. Nonmaterial changes to this policy may be approved directly by the CFO.

II. Use of Debt Funding

A. Prioritization of Capital Needs. Campuses and medical centers prioritize their capital needs with respect to the essentiality to the University's mission of teaching, research, and public service. Campuses and medical centers also prioritize with respect to affordability, with special consideration given to capital projects that are self-funding or revenue-generating. The ~~Ten-Year~~ Capital Financial Plan, updated annually, lays out the capital plan for each campus and medical center. The Plan includes a general funding plan for each project.

- B. Approval Process. All University external financings must be approved by the Board of Regents, unless provided otherwise under the relevant University governing documents. The Office of the CFO coordinates the external financing approval process, which includes a review of the campus' or medical center's financial strength and ability to assume additional debt.

In addition to the campus and medical center guidelines below, external financing approvals will be considered in the context of the University's overall credit portfolio and any potential impact on the University's credit ratings. As described in Section IV below, the CFO, under the direction of the Board of Regents and/or the President, may delay or deny a request for external financing on the basis of a potential negative impact on the University's credit profile/ratings (even if the campus and medical center guidelines below are met).

The Office of the CFO has worked with the campuses and the medical centers to develop financial models that help assess the viability of future debt financings.

For the campuses, the Office of the CFO has developed the Debt Affordability Model to be used as part of the approval process. ~~The model includes 10-year projections of the campus' operations and planned financings.~~ The Debt Affordability Model produces certain debt metrics that are used in the external financing approval process. During the approval process, the campuses will utilize planning rates to calculate the debt service for the proposed projects. The planning rates will be calculated formulaically based on taxable and tax-exempt benchmark yields. The rates will be reviewed and annually reported to the Regents within the Annual Debt Report on Debt Capital and External Finance Approvals.

Campuses must meet the following requirements in order to receive approval for external financing:

1. Modified cash flow margin¹ $\geq 0\%$; *and*
- ~~4. Debt service coverage ratio² $\geq 1.1x$; *and to operations* $\leq 6\%$; *or*~~
2. ~~Expendable resources to debt \geq~~
3. Monthly liquidity in STIP ≥ 60 days.

In addition, for external financing of auxiliary projects, Campuses must also meet the following requirements:

1. Project debt service coverage $\geq 1.0x$; *and* ~~10x~~
2. Auxiliary debt service coverage $\geq 1.1x$ ~~25x~~.

Medical centers shall provide 10-year projections, or projections over a shorter time horizon as deemed appropriate, of their statement of income available for debt service,

¹ Modified cash flow margin is an income statement-based measure of a campus' debt service coverage, adjusted for certain cash and non-cash items.

² Debt service excludes state-supported debt and debt issued for pension funding.

statement of revenues and expenses, statement of net assets, and statement of cash flows, and meet the following requirements:

1. Net Income Margin³ $\geq 0\%$; *and*
2. Debt service coverage⁴ $\geq 3x$; *and*
3. Days cash on hand ≥ 60 .

The Office of the CFO may review and approve exceptions for campuses and medical centers that are unable to meet the above requirements on a case-by-case basis. In order to be considered for an exception, the campus or medical center must submit a financial model that demonstrates its ability to service the debt, a business case analysis explaining the strategic importance of the project, and a plan for achieving the minimum requirements listed above over time.

In addition to funding projects for the campuses and medical centers, the University also uses debt financing for system-wide initiatives, such as pension funding and the restructuring of State of California Public Works Board debt. While these projects benefit campuses and medical centers throughout the System, the debt is held at the system-wide level and is not attributed to the individual campuses and medical centers in the aforementioned debt models or projections. In lieu of an approval process similar to that outlined for the campuses and medical centers above, external financing for system-wide projects will be reviewed by the CFO, under the direction of the Board of Regents and/or the President, within the context of the University's overall operating performance and balance sheet, and the potential impact to the University's credit profile/ratings.

The University will also track system-wide credit ratios to monitor the strength of its overall credit profile. In particular, the University will measure and report to the Regents annually on the following system-wide targets:

1. Debt Service to Operations $\leq 6\%$; and
2. Spendable Cash and Investments to Debt $\geq 1.0x$.

- C. Execution of Debt Financing. The Office of the CFO coordinates financings for the University, working with internal University counterparts and external parties. Campuses and medical centers are involved in the months leading up to a financing as the Office of the CFO conducts due diligence on each project involved in a financing, which, along with the campus' or medical center's stated preferences, informs the sizing and structure of the bonds. The Office of the CFO also interacts with outside experts, including, but not limited to, financial advisors, financial institutions, the State Treasurer's Office, bond counsel, underwriters, rating agencies, and investors on the execution of the financing. The timing of a debt financing depends on a number of factors that include market conditions, need, and the status of projects in construction.

³ Net Income Margin is net income (net operating income + non-operating income) divided by total operating revenue. Adjustments may be made for certain non-cash expenses related to UCRP and OPEB.

⁴ Adjustments may be made for certain non-cash expenses related to UCRP and OPEB.

- D. Use of Proceeds. In order to ensure compliance with legal, regulatory, governance and policy matters, the Office of the CFO is authorized to oversee the proper use of the proceeds of debt financings throughout the System.

III. Financial Instruments/ Borrowing Vehicles

External Borrowing. The University generally issues debt using one of three different primary credit vehicles: General Revenue Bonds, Limited Project Revenue Bonds and Medical Center Pooled Revenue Bonds. On select occasions and for specific purposes, the University has also utilized third-party debt through vehicles such as the Financing Trust Structure and other third party structures. The credit to be used to finance a particular project will depend on the nature of such project, its potential impact on ratings and market interest rates at the time of the financing. The University strives to make the most efficient use of its differentiated credit structure in order to preserve its primary credit for core projects essential to the University's mission of teaching, research, and public service.

The following paragraphs provide brief overviews of the University's primary credit vehicles.

The General Revenue Bond (GRB) credit serves as the University's primary borrowing vehicle and is used to finance projects that are integral to the University's core mission of education and research. The GRB credit is secured by the University's broadest revenue pledge. It was introduced in 2003 to replace and consolidate several purpose-specific credits. The broad revenue base captures the financial strength of the System and facilitates the capital markets' understanding of the University's credit. The GRB credit carries the highest credit ratings among the University's financing vehicles.

The Limited Project Revenue Bond (LPRB) credit, established in 2004, is designed to finance auxiliary service projects that are of a self-supporting nature, such as student housing, parking, athletic, and recreational facilities. The LPRB credit provides bondholders with a subordinated pledge of gross revenues derived from facilities financed under the structure.

The Medical Center Pooled Revenue Bond (MCPRB) credit serves as the primary financing vehicle for the System's medical centers. These bonds are secured by gross revenues of the medical centers, which are excluded from general revenues pledged for GRBs. The MCPRB credit replaced the Hospital Revenue Bond credit in 2007. Previously, the medical centers issued debt on a stand-alone basis, secured by their individual revenue streams. The pooled credit lowers borrowing costs, facilitates access to the financial markets, and increases debt capacity for the medical centers.

Third-Party Financing Structures. At times, there may be compelling reasons for the University to pursue an alternative financing structure outside of the three primary credit vehicles described above. These situations will be evaluated on a case-by case basis, and should be supported by a business case analysis and financial feasibility study. The analysis must demonstrate that the project will be accretive to the University's financial position and also meet the following guidelines:

1. Each project should meet investment grade rating standards on an individual basis.
2. Projects must demonstrate financial feasibility on an individual basis through pro-forma financial projections that use the assumptions outlined by the Office of the CFO.

While certain third-party financings may be off-balance sheet, depending on the specifics of the structure, they still impact the overall credit profile of the University. Therefore, the CFO, under the direction of the Board of Regents and/or the President, has the authority to deny a third-party financing depending on the nature of the project and its potential impact on the University. To the extent a third-party structure is deemed to be in the best interest of the University, the financing will be executed centrally through, or in close partnership with, the Office of the CFO. The Financing Trust Structure will serve generally as the University's third-party financing tool unless granted an exception by the Office of the CFO.

Commercial Paper and Bank Lines of Credit. The University manages a commercial paper program, which primarily provides interim financing for projects prior to a permanent bond financing. The University also utilizes bank lines to provide bridge financing for projects that are awaiting gifts or other sources of funds and for working capital. In addition, the University has dedicated credit lines which support its commercial paper program and variable rate debt.

Derivative Products. The University maintains a separate policy guiding the use of derivative products.

~~A. ***Internal Lending/Borrowing.*** The Office of the CFO manages the UC Strategic Investment Program (UCSIP), which is a suite of internal loans designed to leverage the University's strong credit rating to fund short-term financing needs. UCSIP is comprised of three loan programs: CapEquip, which funds capital equipment acquisition; C3, which funds operational efficiency initiatives; and STARS, which funds laboratory renovations and equipment purchases tied to faculty recruitment and retention. At times, loans are also made for certain system-wide projects. These loans are funded from the University's commercial paper program, and in the future may also be funded from the University's bank lines of credit. Depending on need, the Office of the CFO will periodically determine an appropriate amount of the University's commercial paper program and bank lines of credit to be reserved for the purpose of funding these internal loans.~~

IV. Financial Performance/Ratios and Credit Ratings/Debt Capacity

The System's credit profile, as viewed by the rating agencies and capital markets, is a function of a number of qualitative and quantitative factors, both financial and non-financial. These include market position, management and governance, state relations and support, as well as the financial strength of the University. Financial strength is a function of both income statement (i.e., operating performance) and balance sheet (i.e., financial resources) strength and is generally evaluated with certain key financial indicators serving as proxies

for an institution's relative health. The resulting credit ratings, in turn, drive debt capacity and impact the University's cost of capital.

- A. Credit Ratings. As described previously, the GRB credit represents the System's senior most lien and is designed to support primarily projects that are core to the University's mission of teaching, research and public service. In order to ensure ongoing access to capital at attractive financing rates in support of its mission, the University will maintain credit ratings in the "AA" rating category for the GRB credit. In order to protect the "AA" ratings on the GRB credit – which will help ensure ongoing access to capital on favorable terms – the University will closely monitor debt affordability, as measured by certain financial metrics, including operating performance. The CFO, under the direction of the Board of Regents and/or the President, may slow down or deny any financings deemed to potentially have an adverse impact on the institution's overall credit profile or that might threaten the University's credit ratings.
- B. Affordability and Financial Equilibrium. The University monitors key credit ratios system-wide and individually for each campus and medical center. The system-wide target metrics, Debt Service to Operations and Spendable Cash and Investments to Debt, will be reported to the Regents within the Annual Report on Debt Capital and External Finance Approvals.

By exercising fiscal discipline, the University strives to achieve financial equilibrium, which is key to the long-term financial health and viability of the System. The University monitors its operating margin system-wide, while campuses are required to monitor their modified cash flow margin and medical centers must monitor their net income margin. In order to obtain external financing approval, campuses must demonstrate positive modified cash flow margins and medical centers must demonstrate positive net income margin, with the goal of leading the University to a positive operating margin system-wide.

The medical centers comprise a substantial portion of the University's operations, and their operating performance has a direct impact on the University's overall credit profile. As such, a deterioration of the medical centers' operating performance may have a negative impact on the ratings of all of the University's credits, not just the MCPRBs. Should the medical centers' operations decline over time, thereby threatening the University's credit profile as a whole, the CFO, under the direction of the Board of Regents and/or the President, has the authority to reassess debt financings for system-wide projects or for future contemplated medical center projects. Still, the University's differentiated credit structure is designed to allow the ratings on the MCPRB credit to move without adversely impacting the GRB ratings.

~~The University also monitors its debt service burden, both system-wide and for the campuses. The University's debt service must not exceed 6% of its operating budget.⁵~~

⁵ Also see Section II. B. Approval Process.

~~The University also monitors leverage as measured by expendable resources to debt. The University is focused on its negative unrestricted net asset (UNA) position, and strives to improve it by addressing its pension and OPEB liabilities. In order to protect the System's credit, the University may consider deferring debt financing for system-wide initiatives while its UNA position remains negative. In addition, the University may also~~ The University may consider delaying debt funded system-wide projects if its pension liability ratio falls below 70% funded on an actuarial value of assets basis. At the direction of the Board of Regents and the President, external financings that would improve the University's pension funding status may be excluded from this policy. Campuses similarly monitor their expendable resources to debt ratios via their debt affordability models.

Irrespective of campuses and medical centers meeting certain thresholds and metrics, the CFO, under the direction of the Board of Regents and/or the President, has the authority to slow down or to deny projects if the financings jeopardize the University's credit ratings.

V. Structure

The issuance of debt entails a number of structural considerations that need to be evaluated on both an issue-specific as well as on an overall portfolio basis: tax-exempt versus taxable debt; fixed versus variable rate debt; amortization/final maturity; and ultra-long dated structures.

The structure of the System's overall debt profile has direct bearing on the University's credit profile. As such, structural decisions are a central function and are made by the Office of the CFO. Whenever possible and not to the detriment of the System overall, the campuses' and medical centers' preferences with respect to structure for a particular project/financing will be accommodated.

A. Tax-exempt versus Taxable Debt. Given its status as a public institution, the University has the option to raise capital in the tax-exempt debt market, which generally offers a lower cost of capital than the taxable market. However, unlike taxable debt, tax-exempt debt is subject to certain restrictions, including, but not limited to, private use and useful life constraints. In addition, the University is required to monitor the use of assets financed with tax-exempt debt generally over the life of the debt to ensure ongoing compliance with legal requirements. This introduces a significant administrative burden as well as risk given the University's large, complex and stratified/decentralized operations. Therefore, especially as it relates to the research and medical services enterprises, which historically have seen the most private use, the University may at times opt to issue taxable debt for increased operational flexibility.

In addition, at times, market conditions are such that the yield/cost differential between tax-exempt and taxable debt is compressed, affording the University an opportunity to access less restrictive taxable capital at little to no incremental yield.

The University will evaluate the issuance of tax-exempt versus taxable debt in the context of the nature of the assets to be financed and prevailing market conditions.

- B. Fixed versus Variable Rate Debt. The issuance of debt across the yield curve can be valuable both from a portfolio management point of view as well as from an investor diversification perspective. Variable rate or short-term debt may provide a lower cost of capital, but introduces risk in the form of uncertainty from a rate reset and/or rollover/refinancing perspective. Fixed rate debt, meanwhile, offers budget certainty, albeit at a higher cost.

Long-term tax-exempt debt is most commonly issued with a 10-year par call option, whereas variable rate debt generally can be called on any interest payment date, either for refinancing or retirement purposes, offering additional optionality. The University may consider longer or shorter call options depending on market conditions and the characteristics of specific projects.

Long-term taxable debt is most commonly issued with make-whole call features. The University may consider issuing taxable debt with a par call option depending on market conditions and the characteristics of specific projects.

Most forms of variable rate debt afford investors the opportunity to put the debt back to the University upon a predetermined notice period. This feature requires the University to have liquidity support to provide a backstop in case investors exercise their option. The liquidity can stem from either internal sources (i.e., STIP/TRIP) or external lines of credit. Either way, the liquidity requirement carries a cost, implicit or explicit, that needs to be factored into the structuring decision. In addition, the University's liquidity is finite and serves many other purposes, placing a natural limit on the amount of variable rate debt in the overall debt portfolio.

The University will aim to limit exposure to variable/short-term debt to a prudent percentage and diversify among short-term instruments. The University will not assume any additional variable rate or short-term debt that would require incremental external liquidity or an increase in the STIP and/or TRIP portfolios without properly evaluating the potential impact on credit ratings, cost, or implication for the STIP and/or TRIP portfolios.

In order to minimize debt service, the University may also choose to issue “put bonds” or other debt structures which either mature or require rollover prior to the anticipated final maturity of the debt. In these cases, the University will seek to diversify rollover and refinancing dates, taking into consideration the entire debt portfolio, in order to minimize rollover risk and maintain market access.

- C. Amortization/Maturity. The maturity and amortization of debt will be instructed by both the nature and the anticipated cash flow pattern, if applicable, of the project(s) being financed as well as by prevailing market conditions at the time of the financing. In addition, the University will evaluate financings within the broader context of the

institution's overall debt portfolio to ensure that debt service payments are managed in aggregate.

- D. Ultra-Long-Dated Structures. At times, market conditions may provide for the issuance of ultra-long-dated debt (i.e., debt with a maturity of 50 years and beyond), affording the University the opportunity to lock-in capital at an attractive cost for an extended period of time. While such a structure can provide for valuable portfolio diversification, it demands prudence and internal discipline to ensure that future obligations can be met. As a result, the University requires internal borrowers to demonstrate a strategic need/rationale for these structures and to set aside funds at closing sufficient to accrete to the final principal repayment.

The availability of ultra-long dated debt is limited from both a market and credit perspective and the University will evaluate opportunities as they arise.

VI. Refinancing Opportunities

The University continually monitors its debt portfolio to identify potential savings opportunities that may exist through a refinancing of existing debt. The University works with its financial advisors to evaluate refunding opportunities within the context of market conditions, refunding efficiency, and overall level of rates. Refunding opportunities are evaluated on a net present value basis, taking into account all costs of issuance. ~~Because tax law limits the number of refunding's for tax-exempt issuances, the University's evaluation takes into account the amount of time to the call date and the time to maturity.~~

In addition, at times, the University may choose to refinance debt for non-economic reasons, including to restructure the debt portfolio or to address legal covenants contained in the bond documents.

VII. Reporting

- A. Internal Reporting. The Office of the CFO will be responsible for periodic reporting on the University's debt capital program. These updates will be made available on the Capital Markets Finance website or in the form of special reports to the Board of Regents, as appropriate.
- B. External Reporting. The University's annual financial statements are filed annually with the Municipal Securities Rulemaking Board's EMMA website, in compliance with the University's obligations under its various continuing disclosure agreements. The University is also responsible for providing notices of certain enumerated events under these agreements such as rating changes and bond defeasances.