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Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

ACTION ITEM

For Meeting of May 18, 2022

ESTABLISHMENT OF UNIVERSITY OF CALIFORNIA CENTRALIZED DEBT MANAGEMENT MODEL, APPROVAL OF EXTERNAL FINANCING AND AMENDMENT OF REGENTS POLICY 5307: UNIVERSITY OF CALIFORNIA DEBT POLICY

EXECUTIVE SUMMARY

This item provides an overview of the University of California's (the University or UC) proposed transition from a pass-through to a centralized debt management model, requests approval for external financing for projects financed under the new model and amendments to the Debt Policy to support the change. The University's debt program has grown significantly over the last decade and is expected to continue to grow with the capital needs across the campuses. The new debt management model will allow UC to be nimbler and better optimize its debt portfolio. Campuses will borrow at a pre-determined internal loan rate and the University will manage external financings with the goal of keeping the rate as stable as possible.

RECOMMENDATION

The President of the University recommends that the Finance and Capital Strategies Committee recommend that the Regents:

A. Authorize the President to:

(1) Issue an aggregate principal amount not to exceed $2 billion plus financing costs under the University's General Revenue Bond Indenture in Fiscal Year 2022-23 for projects financed with the centralized debt management model. As long as the bonds are outstanding, the following requirements shall be satisfied:

a. The campuses receiving such proceeds shall maintain revenues in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

b. The general credit of the Regents shall not be pledged.

(2) Take all necessary actions related to the action described above, including, but not limited to approval, execution, and delivery of all necessary or appropriate financing documents.

B. Amend Regents Policy 5307: University of California Debt Policy, as shown in Attachment 1.

BACKGROUND

As of December 31, 2021, the University had over $25 billion of debt outstanding in its core credits: General Revenue Bond (GRB), Medical Center Pooled Revenue Bond (MCPRB), and Limited Project Revenue Bond (LPRB), including almost $21 billion outstanding in the GRB and LPRB credits. The significant size of the University's debt portfolio requires active management by the Office of the Chief Financial Officer (CFO) to maintain a low cost of capital, while also preserving financial flexibility and ensuring compliance with legal, regulatory, governance, and policy requirements.

As noted in the University's Annual Report on Debt Capital and External Financing Approvals as well as previous Regents items, the University continually evaluates the debt portfolio for potential strategies to optimize the program. As a part of that work, the Office of the CFO began evaluating implementing a centralized debt management model during the summer of 2021. The approach is widely used by the University's peer research universities, including The Ohio State University, Stanford University, and the University of Texas. The Office of the CFO worked with external and internal constituents to evaluate the tradeoffs of this model and believes it will be the best model for the University to manage expected future issuances. It will simultaneously allow campuses to budget for projects' debt costs more precisely, while also providing UC with more flexibility to make the overall best decision on debt structure at the time of pricing.

Existing Debt Management Model

The University of California currently manages its debt portfolio using what is known as a pass-through model. Under the pass-through model, bonds are structured to meet the amortization needs of each underlying project financed through a transaction. Debt service is passed through from the Office of the President to the campuses and medical centers, and payments from campuses and medical centers match what the University pays investors. Pass-through models are common among institutions of higher education with small-to-medium sized debt portfolios because they are the most straightforward approach to managing debt.

For a large institution, such as UC, the pass-through model has two significant challenges that have become magnified as the University's debt portfolio has grown:

1. Interest Rate Risk for Projects: Projects currently carry interest rate risk because the debt service they will pay is unknown until the bonds are priced. This introduces budgetary uncertainty in the project planning process and creates inequities in financing costs among campuses depending on when they access the markets.

2. Reduced Capital Markets Flexibility: The University typically must issue 30-year, amortizing bonds because most campuses desire the budgetary certainty of long-term, fixed rate debt for their projects, and the bonds must be structured to match. Since the University has limited flexibility to adjust the structure to meet investor demand, the cost of capital increases to sell the bonds. The current model also limits the use of products such as variable rate bonds, put bonds, and bullet maturities that can lower the University's cost of capital, but do not have a repayment or risk profile that is appropriate for individual projects.

Centralized Debt Management Model

The proposed model will decouple external financings from internal project loans. The University will use proceeds of external financings, such as the issuance requested in this item, to make project loans to the campuses at an internal loan rate (ILR) that is designed to remain stable over an extended period, regardless of interest rate fluctuations in the capital markets. The centralized debt management model will be used for projects that would currently be financed under the GRB or LPRB credits.

The new model will address the two primary disadvantages of the existing pass-through model. Decoupling internal loans from external debt service will allow the University to structure bonds in response to investor demand and to use a wider range of products, potentially allowing the University to achieve a lower cost of capital than if it continued the current approach. The University can take advantage of capital markets opportunities and prudently manage risks that may not be appropriate for any project or campus to take itself.

In addition, the centralized model will help to create more budget certainty for campuses. Campuses will no longer be exposed to interest rate risk because all project loans will be made at the ILR rather than be based on the results of any individual external financing. The stable ILR should be particularly valuable for campuses in a rising rate environment, such as the current market. Using the ILR will also provide equitable treatment of projects by applying a blended cost of capital to projects, rather than differential pricing based on the market at the time of external financing.

The ILR will be derived by analyzing both the University's current cost of capital (~3.75 percent) and the expected future cash flows with the intent of establishing a stable borrowing cost for the campuses.

Centralized Debt Management

The new model is proposed to be implemented on July 1, 2022, and would be overseen by the Office of the CFO, which has oversight over the University's capital markets activities. Responsibilities would mirror current oversight of the debt portfolio and include administering and tracking loans, structuring external financings, managing interest rate risk, and providing financial guidance to campuses. An Advisory Committee that includes Office of the CFO leadership and certain campus leadership will also evaluate the performance and advise on the

use of reserves if balances exceed those needed to appropriately manage risk and ensure solvency.

Maintaining a stable ILR requires building reserves to absorb interest rate fluctuations. Balances and reserves are expected to grow over time due to the timing difference between internal loan repayments and external debt payments, strategic use of expected lower cost alternative products (such as variable rate debt), external refinancing opportunities, and positive investment returns on invested balances. Balances will be invested in consultation with the UC Investments Office based on the expected investment horizon. The balance will be evaluated annually to determine whether the amount is sufficient to maintain the University's financial strength. Reserves above what the Advisory Committee determines as necessary will be used to reduce the ILR across all campuses or be returned to campuses. The ILR will also be evaluated annually to determine if any strategic changes, including raising or lowering the ILR, are necessary.

External Financing

Implementation of the centralized debt management will require external financing to fund the initial projects financed with the new model. This action item requests approval for external financing in an aggregate amount not to exceed $2 billion, which is the estimated amount of long-term financing that will be needed for campus projects in Fiscal Year 2022-23. The authorization of the item by the Regents at the May 2022 meeting would only constitute approval for the financing. It would not constitute approval for the use of the bond proceeds. The use of proceeds will comply with all applicable University policies with respect to capital projects, including, without limitation, environmental review. Campuses will continue to be required to obtain the applicable Regental, Presidential, or delegated approval of external financing to access bond proceeds.

Debt Policy Update

The University's Debt Policy outlines the University's strategic approach to debt management; establishes guidelines for approving, structuring, and managing debt; identifies roles and responsibilities for approving and monitoring debt post-issuance; and sets reporting standards. The overarching goal of the Debt Policy is to ensure that the University maintains access to the debt capital markets to support its mission and financial health. The Policy helps to ensure that the University can do so in an efficient and cost-effective manner, while also managing risk in the debt portfolio.

The Debt Policy provides a framework to evaluate and manage the tradeoffs between cost of capital and financial flexibility. The active management of the University's credit profile allows UC to continue to achieve these objectives. The Office of the CFO has oversight over all the University's capital markets activities. In order to ensure compliance with legal, regulatory, governance, and policy requirements, the Office of the CFO also oversees the use of proceeds of debt financings.

The recommended amendments to the Debt Policy relate to the use of the ILR. Campuses currently use a market-based planning rate determined by the Office of the CFO for the purposes

of projecting future debt service and demonstrating compliance with the Debt Policy. The amendments replace the planning rate with the ILR.

Attachments:
Attachment 1: The Proposed University of California Debt Policy

ATTACHMENT 1

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. <u>Prioritization of Capital Needs.</u> 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 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 campuses 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 based on 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 Debt Affordability Model produces certain debt metrics that are used in the external financing approval process. During the approval process, the campuses will utilize the Internal Loan Rate (ILR) ~~planning rates~~ to calculate the debt service for the proposed projects. The ILR is the rate at which UCOP makes long-term loans to the campuses for capital projects and is set by the Office of the CFO based on the aggregate cost of capital for existing and anticipated campus projects. ~~The planning rates will be calculated formulaically based on taxable and tax-exempt benchmark yields.~~ The ILR ~~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 margin[1] ≥ 0 percent *and*
2. Debt service coverage ratio[2] ≥ 1.1x; *and*
3. Monthly liquidity in STIP and TRIP ≥ the greater of 90 days or the minimum rating agency liquidity requirement.

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

1. Project debt service coverage ≥ 1.0x; *and*
2. Auxiliary debt service coverage ≥ 1.1x.

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, statement of revenues and expenses, statement of net assets, and statement of cash flows and meet the following requirements in order to receive approval for external financing:

[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.

1. Net Income Margin[3] ≥ 0 percent *and*
2. Debt service coverage[4] ≥ 3x; *and*
3. Days cash on hand ≥ 90[5].

The Chief Financial Officer of each of the medical centers will also review all proposed debt financed projects as a part of a peer review process.

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 ≤ 6 percent and
2. Spendable Cash and Investments to Debt ≥ 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.

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[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.

[5] Prior to June 30, 2023, days cash on hand shall be greater or equal to 60 days. Following June 30, 2023, the minimum amount of days cash on hand shall increase over a three-year period based on the following schedule:

- 70 days effective on July 1, 2023
- 80 days effective on July 1, 2024
- 90 days effective on July 1, 2025

The timing of a debt financing depends on a number of factors that include market conditions, need, and the status of projects in construction.

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 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 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.

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 several 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. 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 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.

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 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 source (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, 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. 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, considering all costs of issuance.

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.