

**Office of the President**

**TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:**

**ACTION ITEM - CONSENT**

*For Meeting of May 18, 2022*

**SECURED LINE OF CREDIT BETWEEN THE REGENTS OF THE UNIVERSITY OF CALIFORNIA AS REPRESENTED BY THE OFFICE OF THE PRESIDENT AND CALIFORNIA ASSOCIATION FOR RESEARCH IN ASTRONOMY**

**EXECUTIVE SUMMARY**

The University of California (UC) seeks approval to establish a lending arrangement with California Association for Research in Astronomy (CARA), an affiliated entity and 501(c)(3) corporation. Under this authority, UC will lend funds to CARA on a fully secured basis, providing liquidity for periods where expected funding from external sources is unavailable or temporarily discontinued. Due to the quality and amount of collateral available to CARA, a lending arrangement between UC and CARA will have a low risk of loss. This arrangement requires Regents' approval pursuant to Bylaw 22.2(c), which reserves to the Regents the authority to approve loans to "other parties," including entities that are affiliated with the University that have the status of a separate legal entity.

**RECOMMENDATION**

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

- A. The President be authorized to obtain external financing in an amount not to exceed \$5 million plus additional related financing costs to establish a fully secured revolving credit agreement with California Association for Research in Astronomy (CARA), pursuant to the following terms:
  - (1) CARA shall maintain revenues in amounts sufficient to pay the debt service and meet the related requirements of the authorized financing.
  - (2) The revolving loan will be secured by collateral of CARA's investment balances, currently held in University of California's Short Term Investment Pool (STIP), Total Return Investment Pool (TRIP), and General Endowment Pool (GEP).

- (3) The revolving loan will have a final expiration date no greater than five years from the date a loan agreement is executed between UC and CARA.
  - (4) Under the revolving loan agreement, funds will be available to access in multiple draws, provided the aggregate principal amount outstanding at any time does not exceed \$5 million.
  - (5) During the term of the revolving loan, current interest on amounts outstanding will be paid monthly.
  - (6) Principal amounts borrowed under the revolving loan can be repaid at any time, and any outstanding amounts on the revolving loan on the expiration date of the revolving loan will be immediately due and payable.
  - (7) The general credit of the Regents shall not be pledged.
- B. The President be authorized to take all necessary actions related to the external financing described above, including, but not limited to approval, execution, and delivery of all necessary or appropriate financing documents.

### **BACKGROUND**

CARA is a nonprofit California public benefit corporation, formed by the California Institute of Technology (“Caltech”) and UC in January 1985 to build and operate the W. M. Keck Observatory (“the Observatory”) near the summit of Mauna Kea in Hawaii.

The principal purpose of CARA is to foster astronomical research and to provide technical direction for the development and operation of astronomical facilities on the island of Hawaii, principally on land owned by the State of Hawaii, leased to the University of Hawaii, and subleased to Caltech. On April 1, 2018, Caltech and UC entered into the Second Amended and Restated Agreement (“the Agreement”) to continue their financial contributions to the operation of the Observatory. Under the Agreement, UC and Caltech are to provide equal financial support beginning on April 1, 2018; the Agreement will continue until terminated under the terms of the Agreement. Under the Agreement, during each of the fiscal years 2021 and 2020, CARA recognized operating revenues for observatory operations of \$7,905,300 from both UC and Caltech.

CARA also receives revenue from contracts with customers in exchange for one or more performance obligations. CARA’s performance obligations under its cooperative agreement with the National Aeronautics and Space Administration (NASA) are the use of the Observatory by NASA, as well as other support and developmental activities. The current NASA cooperative agreement began March 1, 2018, and has a five-year term. During the fiscal years 2021 and 2020, CARA recognized operating revenues of approximately \$4,595,600 and \$4,210,000, respectively, from NASA.

Other operating revenues recognized by CARA include direct revenues from various subcontracts in which CARA provides personnel, equipment, and facilities in support of instrumentation development by UC and Caltech. A portion of CARA's revenue is also derived from cost-reimbursable federal grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. During the fiscal years 2021 and 2020, CARA recognized operating revenues of approximately \$486,700 and \$608,100, respectively, from other sources.

CARA requests to secure a line of credit specifically as a backstop for potential interruptions in the distribution of established funding sources for the project. For example, a government shutdown and subsequent pause in CARA's federal funding contract with NASA would create a short-term need for additional liquidity, which will be used to continue the project's operations. CARA only anticipates using the line of credit as a backstop and does not have an immediate need to draw on the loan. The CARA Board approved the loan in March 2022.

### **REVOLVING LOAN TERMS**

The University will work with outside counsel to put together transaction documents for a securitized loan. The secured revolving loan between UC and CARA will have a final expiration date no greater than five years from the date a loan agreement is executed. If an extension of the loan period is necessary beyond the expiration date, UC and CARA will reevaluate the loan term.

Under the revolving loan agreement, funds will be available to access in multiple draws, provided the aggregate principal outstanding at any time does not exceed an amount of \$5 million. Interest charged on the drawn amount would be based on UC's cost of capital at the time. During the term of the revolving loan, current interest on amounts outstanding will be paid monthly, and principal amounts borrowed under the revolving loan can be repaid at any time. Any outstanding amounts on the revolving loan on the expiration date will be immediately due and payable. The revolving loan will be secured by collateral of CARA's investment balances, which are currently held in UC's Short Term Investment Pool, Total Return Investment Pool, and General Endowment Pool.<sup>1</sup> As of September 30, 2021, CARA held approximately \$33 million of investments with UC.

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<sup>1</sup> There is no corresponding investment fund in existence at Caltech; all investments are held and managed on the UC side of the CARA partnership.