Capital Markets Finance NewsLetter

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NEW AND NOTEWORTHY

UCSF Mission Bay
Project is expected to be completed in 2015.

Century Bond Update

On February 21, 2012 the University sold $860 million in general revenue taxable bonds maturing on May 15, 2112. The Century Bond yielded 4.858% or 165 basis points over the 30 year Treasury rate of 3.208%. The transaction was sold to over 70 investors including life insurance companies, bond funds, pension funds and hedge funds. The proceeds of the transaction will be used for projects initially at Berkeley, Los Angeles and San Diego with other campuses participating in the transaction at a later date. The University expects that the proceeds will be recycled 3 to 4 times before the final principal maturity of 2112.

Bridge Line Program

For May funding requests, Capital Markets Finance will be implementing "Bridge Line." This is an internal borrowing mechanism whereby The Office of the President extends bridge financing to campuses, medical centers, and/or laboratories (hereinafter, "Participants") for the purpose of providing standby/interim financing for capital and non-capital program needs. This program will exclude non-gift related funding for the University's capital projects. The Office of Capital Markets Finance (CMF) will administer the bridge line financing and funds the bridge line requests through use of the Regents' Commercial Paper (CP) Program and other external lines of credit. The prevailing rate on bridge lines will be set annually and applied to loans extended during the subsequent fiscal year.

Bridge Line Request. In order to participate in the Bridge Line program, a prospective Participant must, at any time during the fiscal year, but at least 60 days prior to desired funding date, submit to CMF the Bridge Line Request no longer than one page signed by the Chancellor/Lab Director (or appropriate delegate). The Bridge Line Request should briefly state:

A. Description of the related project, including name of the project requiring Bridge Line, Regental approval date for the project, a description of the repayment source. If repay ment source is gift funds, provide a description of the gift campaign including current cash on hand, pledges collected, projected gift-raising timeline and a secondary back-up fund source for repayment if gifts are not collected or raised.

B. Desired total Bridge Line amount. The minimum size for any individual loan is $100,000. Loans will be written in even $1,000 increments.

C. Potential risks that could negatively impact repayment of the loan.

D. Feasibility analysis as provided for all Regentally approved Items.

E. An anticipated drawdown schedule.

F. Anticipated loan repayment schedule.

If the project in question at any point requires an augmentation in standby/interim financing, then a new and separate Bridge Line Request must be submitted and the Regental approval submitted. Any unused Bridge Line authorization remaining one year after approval date(s) may be renewed, upon campus request, at the new annual interest rate.

"It is essential to employ, trust, and reward those whose perspective, ability, and judgment are radically different from yours. It is also rare, for it requires uncommon humility, tolerance, and wisdom."
— Dee Hock, Founder & CEO Emeritus, Visa

1st Qtr Market Update 2012

Municipal high grade index yields fell across most of the curve last week as Treasuries rallied and the market did a good job digesting approximately $7 billion in new issue negotiated supply. On the week, the two-year MMD High Grade Index ended flat at 0.36%, the 10-year Index fell nine basis points, to 2.17%, and the 30-year Index declined four basis points, to 3.40%. The short-term tax-exempt SIFMA Index reset two basis points higher at 0.16% as dealer inventory of short-term paper continues to rise.

In other news, it was a big week of taxable bond issuance by higher education institutions, with George Washington University, Northwestern University and Tufts University each coming to market with taxable deals. George Washington ("A1/A+") priced $300 million of 10-year notes at a spread of 112 basis points to the Treasury. Northwestern ("Aaa/AAA/AAA") priced $200 million of 35-year debt at a spread of 80 basis points and Tufts ("Aa2/AA-") priced a $250 million century bond at a spread of 165 basis points. Official price guidance for Tufts was released in the T+170 area and the trade ultimately launched at the tight end of the range at T+165 for a final rate of 5.017%. On a comparative note, UC, rated Aa1/AA/AA+, priced its century bonds on February 21st at T+165 for a final rate of 3.858%.

Treasury yields fell and the yield curve flattened as news out of China signaled slower growth and domestic economic data came in weaker than expected. While the Treasury rally had much to do with the flight-to-quality trade, the outperformance of the long-end of the curve was most likely due to "Operation Twist," as the Fed purchased $2 billion of Treasuries in the 20-30-year part of the curve. On the week, the yield on the two year Treasury note was down one basis point, to 0.35%, the yield on the benchmark 10-year note ended down five basis points, at 2.24%, and the yield on the long-bond dropped 10 basis points, to 3.31%.

Courtesy of Barclays Capital

"Failure is not the worst thing in the world. The very worst is not to try."

-Anonymous

Month End Funding Certificate

January 2012, Capital Markets Finance implemented a standard form for all month end funding requests for reimbursement of capital projects' expenditures from commercial paper and bond funds. The form lists, by financing type, the campus/medical center capital projects approved for external and/or standby/interim financing. Campuses/medical centers indicate the reimbursement amount requested for the capital expenditures incurred during the month for each approved project, and how they would like to treat the interest expense associated with the commercial paper borrowing. Additionally, the form requires that the campus/medical center update the estimated completion date for each listed project.

The Campus/Medical center must certify, for each monthly funding cycle, that all draws requested on the form satisfy the requirements for tax exempt financing. All draws must meet the following criteria:

1. All funds requested in the form reimburse the campus/medical center for expenditures that have been previously paid, but no earlier than 18 months prior to the draw date, or is a preliminary expenditure.
2. All funds requested are for capital expenditures that are eligible for tax-exempt financing, including those to be requested from Taxable CP (unless otherwise provided), and no portion of such funds is used, directly or indirectly, in a trade or business carried on by a nongovernmental person, excluding use as a member of the general public.
3. The campus/medical center will maintain all records pertaining to such capital expenditures, and will produce, upon request from UCOP, all receipts/invoices related to the expenditures being requisitioned.

The certification must be signed by a senior Budget Officer who is familiar with the process of month end funding, and has reviewed the monthly request for capital expenditures reimbursement for each approved project.