CAPITAL MARKETS FINANCE GUIDE

FEBRUARY, 2011

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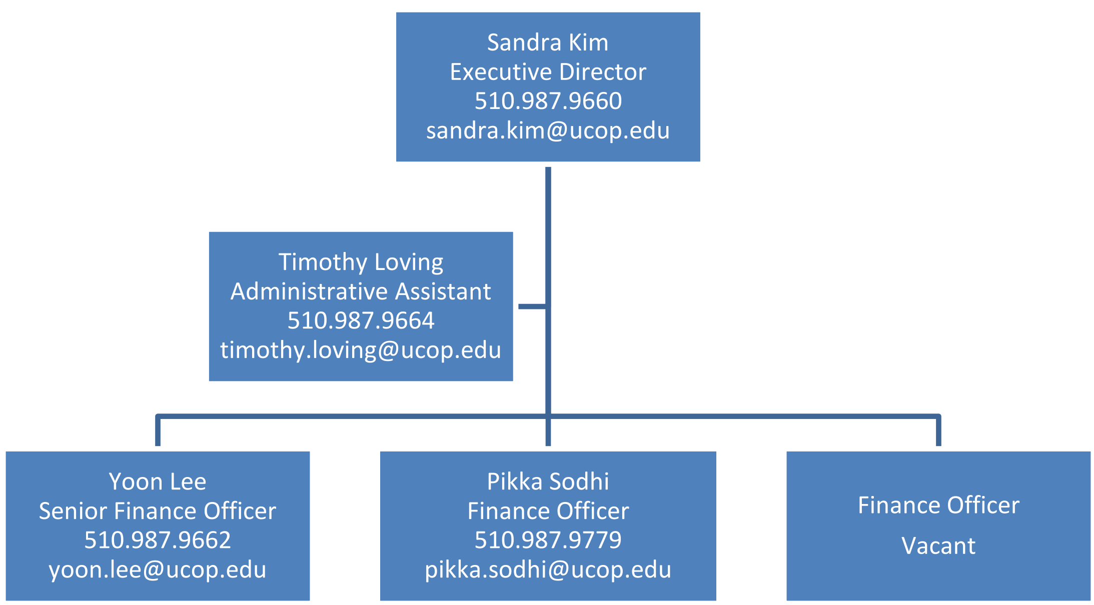
SECTION 1: INTRODUCTION

The Financing Manual is intended to be a general guide for University personnel on external financing of University projects. External financing, as a general matter, is utilized for new construction, acquisition of real estate, and at times for working capital needs. Capital Markets Finance (CMF) at the University of California is responsible for managing the University's debt and loan portfolio. The mission of CMF is to support the capital-raising activities systemwide. The services CMF provides support capital programs for the campuses and medical centers who, in turn, provide services to our faculty and student body. In serving the University's needs, the staff of CMF is dedicated to providing efficient service with the highest standards of excellence. These guidelines are based on Regental policies, federal and state law and regulations, and financing requirements by rating agencies and investors.

Capital Markets Finance

The office of Capital Markets Finance is located at the Office of the President. The mailing address is 1111 Franklin Street, 10th Floor, Oakland, CA 94607. Questions or requests for information on the financing process can be directed to the following:



Questions related to the capital approval process and coordination of finance actions and bond accounting, can be directed to the Executive Director of Budget and Capital Resources (BCR) department and to OP Capital Asset Accounting.

SECTION 2: FINANCING APPROVAL PROCESS

Approval for Financing

All projects requesting approval for external financing must be approved either by the Board of Regents or the President under Delegated Authority. Authority levels for Non-State capital projects and real estate projects can be found on the following links respectively:

http://budget.ucop.edu/nonstate/documents/apprvlflowchrt.pdf

http://www.ucop.edu/facil/resg/documents/authority_real_estate.pdf

For those capital projects approved by the Committee on Grounds and Buildings for inclusion in the Pilot Phase of Process Redesign for Capital Improvement Projects, the President is authorized to approve external financing for amounts up to $60 million. This standing order is operative until March, 2014 unless extended.

Requests for Approval

Requests for external financing approval are contained in the Action portion of the Items under Presidential Authority, Action by Concurrence or the Regents' Item for Action, subject to the above guidelines. If a Capital Improvement Budget is being amended to include a project, the financing request may be combined in a joint Request for Amendment of the Capital Improvement Budget, the Capital Improvement Program and approval of external financing.

Each Item must also contain a Financial Feasibility Attachment summarizing the financial information for the campus and project and demonstrating compliance with debt metrics analyzed in the context of a campus' financial position.

Financing Feasibility

Projects seeking approval for external financing require approvals by the various offices in the Office of the President, including Capital Markets Finance, Budget and Capital Resources, General Counsel and Real Estate, during the coordination process.

The financial feasibility of all capital projects is analyzed at the campus and is reviewed at OP. A campus must identify the anticipated repayment source (for example, General Revenues of the campus) and a specific fund source (for example, facilities and administrative cost recovery). For projects that use external financing as a source of funds, a campus must demonstrate feasibility using its Debt Affordability Model. Based on its specific General Revenues and related expenditures, debt burden and balance sheet, a campus must demonstrate in its Debt Affordability Model, and summarize in the Financial Feasibility Attachment of the financing approval, the following over a ten year horizon:

a. Debt service to operations ratio of no greater than 6%
   and either
b. Campuswide debt service coverage of no less than 1.75x
   or
c. Expendable resources to debt ratio of no less than 1.0x

In addition, each external financing request should also identify the anticipated repayment source, such as indirect cost recovery, housing revenues, student referendum fees etc. State appropriations (including recharges paid from such funds) are generally not eligible to be designated as a repayment source for external financing. Other funds restricted as to their use and disposition by law, contract, donor or the University are similarly ineligible.

In view of the minimum 1.1x debt service coverage covenant in the Limited Project Revenue Bond indenture, for an auxiliary project such as student housing, a campus must demonstrate additional feasibility with debt service coverage for its auxiliary projects of at least 1.25x.

An example of a summary of the Debt Affordability Model analysis that is attached to the external financing Item is on the following page.

SUMMARY OF FINANCIAL FEASIBILITY

UC Campus	
Project Name	**Housing Project**
Project ID	**948273**
Total Estimated Project Costs	**$57,538,000**

Proposed Sources of Funding	
External Financing	**$56,340,000**
Campus Housing System Reserves	**$1,198,000**
Total	**$57,538,000**

Below are results of the financial feasibility analysis for the proposed project using the campus' debt affordability model. The financial projections take into consideration market conditions, new sources of revenue and all previously approved projects.

Financing Assumptions	
Anticipated Repayment Source	**General Revenues of the UC campus**
Anticipated Fund Source	**Campus Housing Revenues**
Financial Feasibility Rate	**6.00%**
First Year of Principal (e.g. year 10)	**FY 2015-16**
Final Maturity (e.g. 30 years)	**30 years**
Estimated Average Annual Debt Service	**$4,093,000**

	Campus Financing Benchmarks	
Measure	**10 Year Projections (as of 12/15/10)**	**Approval Threshold**
Debt Service to Operations	**3.5% (max)**	**6.0%**
Debt Service Coverage	**3.0x (min)**	**1.75x**
Expendable Resources to Debt	**n/a**	**1.0x**
	Auxiliary Financing Benchmarks	
Debt Service Coverage	**1.7x (min)**	**1.25x**

Financing approval requires the campus to meet the debt service to operations benchmark and one of the two other benchmarks for approval.

Measure	***Definition***
Debt Service to Operations (%)	*Annual Debt Service* / *Total Operating Expenses*
Debt Service Coverage (x)	*Operating Income + Depreciation + Interest* / *Annual Debt Service*
Expendable Resources to Debt (x)	*Expendable Financial Resources (unrestricted net assets + temporarily restricted net assets – net investment in plant)* / *Total Debt Outstanding*

In addition, the financing term for a project should not exceed the accounting useful life of the asset. Campuses should consult with BCR to determine enrollment projections to be used for feasibility purposes.

Financing feasibility rates are set by Capital Markets Finance and will be reviewed periodically. These rates may be obtained from Capital Markets Finance at the following website:

http://www.ucop.edu/capmarketsfin/planning_rates.html

Interest During Construction

Interest during construction is to be calculated at the financing feasibility rate and included as part of the project budget. The amount of interest during construction is a separate line item in the capital budget and any excess amounts above actual interest incurred during construction may not be used for construction project purposes without approval from BCR and an amended Capital Improvement Budget (CIB). See *Section 5: Bond Financing* for additional information.

Auxiliaries

Auxiliaries are self-supporting enterprises, such as housing, parking, bookstores, etc. Projects can pledge the enterprise's revenues as a specific fund source. The auxiliary must generate sufficient net revenue (revenue after operating expenses) to meet the debt service coverage requirement and other financing related requirements for a total 1.1x coverage with overall coverage of the relevant auxiliary system, such as housing at 1.25x.

Medical Centers

Medical center projects pledge medical center revenues as the source of repayment for its projects. The medical center is required to demonstrate sufficient cash flow for debt service (defined as net income plus depreciation and interest expense) to satisfy financing requirements. Capital Markets Finance should be contacted by the medical centers for any contemplated medical center financings.

Gift Funds

Two types of financing are used for a gift-funded project: standby financing and interim financing. Gift funding for projects is delineated in the following categories:

Gifts received in cash
Pledges received but not collected (this amount is standby financing)
Pledges yet to be raised (this amount is interim financing)
=Total Gift campaign

1. Standby Financing

To the extent a project has received gift pledges, standby financing can be arranged in order to bridge the timing difference between project expenditures and receipt of gift funds. Standby gift financing is currently provided in taxable commercial paper (CP) (depending on availability) and commercial bank lines. This standby financing is arranged on a taxable basis.

The duration of standby financing will match the expected timing for the receipt of gift pledges but generally will not exceed 5 to 7 years. Campuses will be asked to provide annual status reports on the gift campaign and collection.

Standby financing requires a back up source of repayment in addition to the gifts; however, the standby financing will not be counted against the campus' debt capacity.

2. Interim Financing

In addition to standby financing, a campus may need interim financing for pledges yet to be raised for the project. Interim gift financing is currently provided in taxable CP (depending on availability) and commercial bank lines. Interim financing will have the same duration of not to exceed 5 to 7 years and will also be on a taxable basis.

Interim financing also requires a back up source of repayment in addition to the gifts; however, the interim financing will be counted against the campus' debt capacity. In the financial feasibility, the campus shows the projected annual estimated debt service of the interim financing as a future pledge against the source of repayment.

At project completion, the campus may return to the approving authority to request the conversion of interim financing to external financing for the gift/pledge shortfall. However, if the campus did not file an IRS Declaration for project expenditures, including the amount of the gift/pledge shortfall, the external financing cannot be provided on a tax-exempt basis.

Declaration for Reimbursements

Campuses can be reimbursed from external financing for expenses (with the exception of preliminary expenditures) incurred no earlier than 60 days prior to the filing (execution date) of the IRS Declaration of Intent to Reimburse.

Campuses are encouraged to file IRS Declarations as soon as possible and before incurring any expenditures. An example of the filing, Schedule A is available in the link below. Such filing does not obligate the campus to proceed with the project, nor does it limit options to finance the project or to fund it with other resources.

Url to delegation letter: http://www.ucop.edu/ucophome/coordrev/da/da2055.html

Url to Schedule A: http://www.ucop.edu/ucophome/coordrev/da/da2055-att.pdf

Request for Financing Availability

For an externally financed project, the campus must request financing after notification by BCR that the CIB and Capital Improvement Program have been amended. Capital Markets Finance must have on file a copy of the Delegated Approval or Regents' approval of external financing and needs 30 days notice to arrange for financing (if using commercial paper) or 60 days (if a bank line of credit is being negotiated). In many cases, external financing allocations from the University's commercial paper program can be allocated in a few days.

Process to Request Financing Availability

Before funds are needed (or the availability of financing is confirmed, for construction bid purposes), the following should be provided to Capital Markets Finance:

- Written request for financing signed by appropriate campus personnel
- Letter amending campus Capital Improvement Program (from BCR)
- Declaration of Intent to Reimburse (Schedule A)
- Drawdown schedule

Capital Markets Finance will confirm when the interim financing is available. No financing will be provided until the appropriate approvals are in place for the amendment of the CIP and the formal approval (Regents, delegated) has occurred.

Request for Reimbursement

Each reimbursement request by the campus is an affirmation that the expenditures are proper project expenditures. Requests for reimbursements are processed monthly by Capital Markets Finance.

- Funds from financing are provided to the campus on a monthly basis to reimburse for actual expenditures.

- Negative STIP expense incurred by the project CANNOT be reimbursed from financing, and must be funded by a different source of funding if charged to the project by plant accounting.

- Projects cannot be reimbursed for expenses (with the exception of certain preliminary expenditures) incurred more than 60 days prior the date of the Declaration of Intent to Reimburse.

Post Bid Award Information

After construction bids have been received and/or as the construction schedule changes, updated project information should be sent to Capital Markets Finance, including updated drawdown schedules. Drawdown schedules by the campuses for any project that is to be funded by Capital Markets Finance should be updated *at minimum* every 6 months.

SECTION 3: PRIVATE ACTIVITY

Private Activity Guidelines

Although most University projects are eligible for tax-exempt financing, some projects do not qualify because of the nature of the activity in the project. It is important to recognize the factors that can influence the applicability of the tax-exempt status. These restrictions are applicable for the term of the debt obligation, and failure to adhere to these rules at any point before the debt is fully retired can make the entire bond issue in which the project was financed retroactively taxable.

There are two general tests to determine private activity:

(a) more than 10% of the space financed on a tax-exempt basis is occupied by a private party; and
(b) more than 10% of the debt service is revenue generated in space financed by a private party.

A project is **ineligible** for tax-exempt financing if it meets **both** tests.

Private parties and activity include, but are not limited to:

- Private universities
- Non-profit and tax-exempt organizations
- Federal government, which for tax purposes is defined as a private party
- Management contracts outside of the safe harbor
- Conferences, seminars, clinics and camps managed by third parties
- For profit companies
- Research contracts outside of the safe harbor

Private Activity Limitations

The IRS limitation for private activity is the lesser of 10% or $15 million per bond issue.

With changes in tax regulation in 2006, bonds issued after such date have private activity allocations of the lesser of 10% or $15 million per campus. This allocation methodology is subject to review and change by tax counsel with each new issuance. Capital Markets Finance should be contacted with any questions about specific bond issues and private activity.

Leases to Private Parties

Leases to any non-governmental third parties (including the federal government) are considered private activity.

Management Contracts

Contracts for third party management of facilities are considered to be private activity unless the contracts are structured to meet the following conditions:

1. No compensation for the contract can be tied to net profits.
2. The service provider cannot be given or deemed to have an ownership interest in the financed facility, including a facility lease of all or a portion of the space financed by tax-exempt bonds.
3. The maximum term of the contract is related to the compensation structure and must be in one of the following categories:

Fee Arrangement	Maximum Term, including all renewal options	Conditions
95% fixed fee	15 years	Contract term, including renewal options cannot exceed 80% of the useful life of the bond financed property.
80% fixed fee	10 years	Contract term, including renewal options cannot exceed 80% of the useful life of the bond financed property.
50% fixed fee	5 years	Must be cancelable without penalty at the end of the third year.
100% of contract is per unit or per-unit and fixed fee	3 years	Must be cancelable without penalty at the end of the second year.
Percentage of revenue or expenses (but not both)	2 years	Applies only to providers of services to third parties or to the start up phase of a new facility. Must be cancelable without penalty at the end of first year.

Other general provisions are as follows:

- In all cases, the compensation is measured on an annual basis.
- Fixed payments can increase if tied to an external standard, such as CPI.
- Automatic renewal options by the service provider are included in the maximum term.
- Automatic renewal options exercisable by UC and automatic renewal options cancelable by either party do not count toward the maximum term.
- Productivity awards or penalties based on changes in revenues or expenses, but not both, are not considered to be based on profit.

If a project has any space subject to a management contract, campuses should contact Capital Markets Finance to discuss the contract's terms and to determine the tax-exempt eligibility of the project.

Space used by private parties

Space used or allocated to private parties on an informal basis is also considered private acitivity, unless such use can be characterized as used by the general public. An example would be office space set aside for the use of visiting non-governmental researchers or other personnel.

Research Contracts

Research contracts that are not in compliance with University Office of Technology Transfer (OTT) guidelines may be considered to be private activity if they are outside of the research safe harbors. For specific information, contact the Capital Markets Finance or the Office of Technology Transfer for additional guidance.

Change in Use

After tax-exempt financing (interim and permanent) is arranged for a project, campuses must comply with the limitations on private activity for the term of the financing. The campus must contact Capital Markets Finance and receive approval, prior to changing the use of a tax-exempt financed facility to, or increasing the use by private parties.

Every project is evaluated for private activity and private use as a stand-alone project. Projects do not borrow unused private activity or private payment from other projects. Periodic surveys are conducted to determine the non-university use of each project that has received tax-exempt financing.

SECTION 4: COMMERCIAL PAPER

Overview

In January 1996, the Regents approved the establishment of a $550,000,000 University Commercial Paper Program (CP Program) to provide interim financing for University capital projects and hospital working capital. The CP Program was established in October 1996 and replaced a significant portion of the interim financing previously provided by bank loans. In 2008, the Regents approved an increase in the CP Program to $2 billion. The CP Program has a tax-exempt portion used for projects and real estate acquisitions eligible for tax-exempt financing and a taxable portion used for projects ineligible for tax-exempt financing, hospital working capital, and general University working capital purposes. The pledged sources of repayment for the CP Program are from the revenues pledged for the projects financed in the CP Program.

General provisions of the current Program are as follows:

- All projects must comply with Regental policies, and internal requirements and required approvals (see *Section 2: Financing Approval Process*).
- CP is only for interim financing of projects awaiting permanent long term financing. Commercial paper is not a permanent financing vehicle for any project.
- Completed projects may be warehoused in CP, but are subject to principal repayments if permanent financing occurs more than one year after project completion.
- CP interest rate cannot be used for financing feasibility purposes or for the calculation of interest during construction.

Funding Process

See *Section 2: Financing Approval Process*

For projects under construction, commercial paper funds will be provided to reimburse campuses for incurred expenses and for the interest expense to be capitalized to the project. The interest expense paid each month is allocated based on a proportionate share of borrowing. Commercial paper can be issued from one to 270 days, so the amount of commercial paper maturing and interest expense actually paid in any month will vary.

SECTION 5: BOND FINANCING

Overview

The timing of a bond sale is generally dependent on two factors: the capital markets and the status of construction of the projects. When a tentative sale date has been established for a bond sale, Capital Markets Finance, UC General Counsel, and Bond Counsel develop the documents which are required to proceed with and finalize the issue.

Campuses will be advised of the upcoming bond issue and all projects under interim financing will be discussed for inclusion in the bond issue. The amount of interest to be capitalized for a project still under construction will be based on the remaining construction period. Campuses may be asked about using bond financing even though the project may be one year or more to project completion. Real estate acquisitions, as a general matter, will be included in the next available bond sale.

Documents related to the bond sale include:

- Preliminary Official Statement and Final Official Statement
- Indenture
- Various Closing Documents, including the Tax Agreement

Preliminary Official Statement and Final Official Statement

To comply with federal securities laws, a Preliminary Official Statement is distributed to the rating agencies and potential investors several weeks prior to the bond sale date. It summarizes the major provisions of the Indenture, and financial information on the University. After the bond sale, the document is revised to include principal maturity amounts, interest rates and other information resulting from the sale and is distributed as the Official Statement.

Indenture

The Indenture sets forth the legal relationship between the Regents, the bondholders, and the Trustee (as fiduciary agent for the bondholders). The Indenture includes all the covenants and other requirements for the Regents and Trustee, identifies the revenues available to the bondholders to repay the obligation and creates a security interest in those revenues, as well as events of default and their remedies. Covenants in the Indenture may include:

- An annual earnings test or rate covenant
- Maintenance of the financed facilities
- Provision of a specified minimum level of insurance
- Provision of annual reports, financial reports of the University and/or on the revenues and expenses of the financed projects.

These commitments are required to provide security for the bondholders.

On the day of closing, if applicable, projects with outstanding debt will be refinanced with the bond proceeds. After the closing, projects are allocated their share of the bonds, including costs of issuance and project debt service schedules are prepared. Information on these costs, the debt service schedules and other accounting information is provided to the campus plant accountants by Corporate Accounting.

Bond Ratings

Rating agencies are organizations that provide potential investors with an analysis of the credit strength of bonds (and other debt) that have been scheduled for sale. The measure of strength is the rating assigned to the issue. Bond ratings range from AAA (the highest possible) to C (default category).

The best known of these agencies are Standard and Poor's, Moody's Investors Service and Fitch, and most of the University's bonds are rated by both agencies. Each agency reviews the University of California and its overall financial position as well as the bond issue to be rated, including its sources of revenues, indenture requirements, and other factors.

Bond Sizing and Drawdown Schedules

Capital Markets Finance determines the appropriate amount of bond funding based on an evaluation of eligible projects, which are then aggregated for a bond issue. Each project is "sized" to cover the following components:

- Project construction costs, including interest expense incurred in commercial paper
- Capitalized interest, if under construction
- Costs of issuance ("COI")

Eligible Projects for Financing

The first priority for bond financing are completed projects and project acquisitions. For completed projects, bonds are sized to provide sufficient funds to refinance the project cost (which includes interest capitalized to the project), and fund its allocable share of the costs of issuance. Bond proceeds are then used to repay the interim financing.

Projects under construction that are more than 50% completed are reviewed for bond financing. For projects under construction, bonds are sized to provide sufficient funds to refinance existing interim financing, provide construction funds to complete the projects, provide capitalized interest funds, and fund its allocable share of any debt service reserve and costs of issuance.

Projects less than 50% complete, at the request of the campus and review and approval of Capital Markets Finance, may also be included in a bond issue. At a minimum, projects must have awarded all construction contracts to be eligible for bond financing.

All projects must have complied with Regental policies and have received all necessary approvals, including environmental reviews and approval, prior to the distribution of the Preliminary Official Statement.

Projects Under Construction: Construction Account

For projects under construction, campuses will be asked to provide updated draw schedules that (1) reconcile to the amount of interim financing borrowed for construction and capitalized interest, and (2) show by month the additional construction funding required to complete the project.

The project will have sufficient funds to meet its construction funding requirements **based on the draw schedule that was submitted**. Because bond funded construction accounts are required to be net funded, it is assumed that there will be interest income earned on the initial deposit from the bond proceeds. The initial deposit and the estimated interest income will then be sufficient for the remaining project draws. The estimate for the interest income is based on the final draw schedule provided by the campus. Differences between actual draws and the submitted draw schedule will have an impact on the funds available for construction. A draw schedule that is significantly different from what actually occurs may lead to insufficient availability of construction proceeds.

Should a project have insufficient bond-funded construction funds due to project overruns, it is unlikely that there will be additional bond funds available to fund the shortfall. Campuses will generally fund shortfalls with internal funds or seek project augmentation for the CIP and for additional financing. Should a project have excess bond funds upon completion, the excess funds will be used to pay the project's interest expense once all of the projects financed in the bond series have been completed and after any IRS rebate has been satisfied.

Projects Under Construction: Capitalized Interest Account

For projects under construction, an amount of bond funds will be borrowed and allocated to a "Capitalized Interest Account," from which interest payments on the bonds will be made for up to approximately the estimated project completion date[1], or until such funds are exhausted. Once all of the funds in the project's capitalized interest account have been expended, the campus is responsible for making subsequent debt service payments regardless of the completion status of the project.

If a project is completed earlier than anticipated by the draw down schedule submitted prior to the bond sale, the capitalized interest fund may have excess funds. Such excess funds will be used for debt service (other than Build America Bonds) unless otherwise discussed with Capital Markets Finance.

Costs of Issuance

Costs of issuance (COI) are allocated on a proportionate share to each project and are funded by bond proceeds or cash contributions by the campus. The amount of COI, if financed, is included in the par amount of bonds allocated to the project. Costs of issuance generally include: legal expenses, printing, bond rating, trustee fee, and other miscellaneous expenses.

Allocation of Bonds and Debt Service

Par Amount of Bonds

The par amount of bonds allocated to a project will be comprised of the following as necessary:

- Amount to refinance existing debt
- Net construction fund
- Net original issue discount/premium
- Capitalized interest account
- Costs of issuance

Debt service for a project is allocated based on the project's proportionate share of the bonds.

Early payoff of project debt

To arrange for an early "pay off" for a project financed in a revenue bond, the campus will have to transfer funds to the Office of the President, which will be invested in STIP (at a rate of interest lower than the bond interest rate) to make the debt payments until sufficient bonds can be called by the bond trustee to prepay the project. The campus is responsible for the deficiency caused by the STIP interest income being less than the debt service until the allocated project bonds are retired in full. The campus is also responsible for all costs related to the prepayment.

[1] Capitalized interest may be provided for longer periods upon discussion and approval of tax counsel.

Refundings

Capital Markets Finance periodically reviews refinancing opportunities with the objective of lowering the overall cost of borrowing to provide debt service savings to the University. In a refunding, the University will issue a new refunding bond that will provide sufficient proceeds to 1) redeem or defease all or a portion of the prior bond, and 2) pay for costs of issuance.

The amount of the refunding bond debt service will then be allocated to the projects. In most cases, the par amount of the new, refunding bond will be higher than the par amount of the refunded bonds, and the debt service payments will be lower if the refunding bonds have at least the same maturity as the refunded bonds. A project which has been refunded to lower the interest expense will actually have higher bond par to repay if the project is not financed to maturity.

SECTION 6: UNIVERSITY OF CALIFORNIA BONDS

General Revenue Bonds. The General Revenue Bond (GRB) credit serves as the University's primary borrowing vehicle and is utilized to finance projects that are integral to the University's core mission of education and research. The GRB is secured by the University's broadest revenue pledge and was introduced in 2003 to replace the Multiple Purpose Projects (MPP) bond program and consolidated series from several purpose-specific credits including MPP Revenue Bonds, Research Facilities Revenue Bonds, Housing System Revenue Bonds and UCLA Central Chiller/Cogeneration Facility COPs.

Limited Project Revenue Bonds. The Limited Project Revenue Bond (LPRB) credit, established in 2004, is used to finance primarily auxiliary services such as student housing or parking. The LPRB credit provides the University's bondholders with a subordinated pledge of gross revenues derived only from facilities financed under the structure.

Medical Center Pooled Revenue Bonds. The Medical Center Pooled Revenue Bond credit serves as the primary financing vehicle for academic medical center debt. The Bonds are secured by revenues of the five medical centers and going forward will replace the individual hospital credits.

Financing Trust Structure. The Financing Trust Structure is utilized for debt that is issued by a conduit issuer, but for projects in which the University has an economic interest. The FTS credit was created to reduce the financing cost of non-core projects but with a lesser impact on the University's debt capacity. The bonds are secured solely by gross revenues of the projects financed and share a common debt service reserve fund.

Multiple Purpose Projects Bonds ("Pool Bonds"). Since 1986, this was the primary debt instrument used to finance University projects, but has been subsequently replaced by the General Revenue Bond structure. These bonds were secured by net revenues from the projects they financed. No new debt is expected to be issued under this credit.

Hospital Revenue Bonds. These bonds are secured by individual medical center revenues. This structure has been replaced by the University's Medical Center Pooled Revenue credit and any existing debt is expected to be gradually refinanced under the pooled revenue credit. No new debt is expected to be issued under these credits.

State Public Works Board Debt. Classified as capital lease obligations on the University's balance sheet, these obligations are secured by an annual appropriation of the State of California to the University. Any shortfall in the State's appropriation of the annual debt service amount on these obligations requires the University to pay debt service from lawfully available funds. There has not been such a shortfall in the past and the University has not had to pay any debt service on the SPWB bonds.

SECTION 7: OTHER FINANCING MECHANISMS

Commercial Loans

Prior to 1996, the University used commercial loans from banks as its primary mechanism for interim financing for projects. The Regents commercial paper program has replaced most of the taxable commercial loans with tax-exempt commercial paper beginning in 1996 but will continue to use commercial loans on a selective basis.

Commercial loans still typically finance the following types of projects:

- Projects that do not have a long-term financing requirement. Typical projects are those with cash flow timing related financing requirements, such as reimbursement programs associated with the Federal government for earthquakes.
- Projects not eligible to be refinanced by commercial paper.

Commercial loans are negotiated by Capital Markets Finance on a project by project basis. Typical loan structures and covenants are as follows:

- Established as non-revolving loans. Once funds are borrowed and repaid, such amounts may not be borrowed again.
- Loan maturities are generally no longer than 5 to 7 years, and may require full principal amortization over the loan term.
- Interest rates are variable and are established as a spread over a floating index. The rate can be fixed for short periods of time such as from one to three months. Typical indices are LIBOR (London Interbank Offer Rate), Certificates of Deposit, Federal Funds Rate, and the Eurodollar rate. The prime rate is a daily floating rate offered by each bank.
- Interest expense paid on commercial loans will be charged to the campus financial control. Should the interest expense be capitalized to the project and an appropriate expense to be financed, the campus must include such amount in the next reimbursement request.

Private Placements

Private placements are negotiated tax-exempt financing loans used on a project by project basis for those projects that do not meet the eligibility conditions for a long-term revenue bond, due to the term of financing request or the inability of the project to qualify for a bond rating on its own merits. Private placements may be negotiated with insurance companies, finance companies bond funds, and individual investors, and have several restrictions as to the ability of the debtholder to assign or sell their portion of the debt. Private placements also do not have customary disclosure documentation or receive a bond rating. For these reasons, private placement will have a higher rate of interest than a publicly sold bond and may also have more restrictive covenants.

Capital Leases

Campuses have been delegated the authority to enter capital leases for the acquisition of assets. Campuses must comply with BUS 43 guidelines and use the current form of the Standard Lease Purchase Agreement without any modifications. Any modification to the Standard Lease Purchase Agreement must be approved by General Counsel. Leases over $50,000 require approval by Capital Markets Finance.

Campuses may be asked to consider converting a capital lease request to a Finance Action to be approved under appropriate authority. Capital leases are considered as part of a campus' indebtedness.

Cap Equip Program

CapEquip is an internal loan program whereby UCOP extends low fixed-rate loans to campuses, medical centers, and/or laboratories (hereinafter, "Participants") for the purpose of acquiring capital equipment. Capital Markets Finance administers the program and plans to fund loans through use of the Regents' Commercial Paper (CP) Program. The rate on the loans is set annually and applies to loans extended during the subsequent fiscal year.

SECTION 8: THIRD PARTY FINANCING

Objectives

The objective of third-party financing is to generate cost efficiencies by enabling third party ownership of campus facilities. However, depending on how the arrangement with the third party is structured, the transaction may be required to be recorded as a capital lease or the separate legal entity may be required to be consolidated into the campus' financial statements. Capital Markets Finance, Real Estate Services and OP Financial Accounting can assist in the evaluation of these transactions early in the process.

Financing Trust Structure

Certain third party projects requiring tax-exempt financing are financed under a financing trust structure (FTS). The FTS is a master security structure for multiple projects on different campuses with different owners. It provides economies of scale for project financing by using pooled debt service reserve funds.

Third-party financing has been used for University housing facilities. All projects are stand-alone and self supporting. The project is developer-owned and the developer receives an appropriate return for risk. The University receives market rate ground rent under a negotiated ground lease agreement.

Process

Campuses must seek and receive approval from the Office of the President before issuing a Request for Proposal (RFP).

SECTION 9: UC DEBT INFORMATION SYSTEM

Overview

The UC Debt Information System (UCDIS) is a web-based system designed to be a repository of both Debt Instrument and Project information. The three primary types of data in UCDIS are Properties, Amortization, and Weighted Average Coupon information. The primary purpose of UCDIS is to provide information on the University's debt issues. UCDIS also processes debt service payments and assists in the preparation of bond audit schedules. There are over one hundred debt instruments and over one thousand projects in the system.

Debt Instruments and Projects

Debt Instruments are the debt types the University issues under. The debt instruments in UCDIS are the General Revenue Bonds, Hospital Bonds, Limited Project Revenue Bonds, Medical Center Pooled Revenue Bonds, Multi-Purpose Project Bonds, State Public Works Board Bonds, Third-Party Development Bonds, and other Bank Loans (payments processed at UCOP).

Properties, Amortization Schedules, and Weighted Average Coupon

Each debt instrument in the system has a property table, an amortization table, and a weighted average coupon table. Each individual project in the system has a property table and an amortization table assigned to it. The property table has information about the debt instrument or project. The amortization table displays debt service for each debt instrument or individual project. The weighted average coupon table displays the coupon interest rates and reports the weighted average coupon at any given date. UCDIS has the ability to download data by campus for all active projects into excel files.

Reports

UCDIS has two main reports. The first report is "Approved Project Debt". This report displays the debt service for ten or fifteen years for all active projects by UC Campus in five broad categories. The categories are Education and General, Auxiliary – Housing, Auxiliary – Parking, Auxiliary – Other, and Hospitals. The primary use of this report is for budget, planning, and debt capacity analysis. The second report is "Summary of Outstanding Debt and Weighted Average Coupon". This report displays each debt instrument series (issued and active), reporting on the oustanding par value, weighted average coupon, the minimum and maximum coupons, and the minimum and maximum maturity dates. The primary purpose of this report is to calculate the cost of debt outstanding by coupon (interest rate) at any date going forward.