Capital Markets Finance Newsletter

THE WAIT IS OVER, WE'RE BACK!

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Market Update

Taxable and tax-exempt rates remained low during the third quarter of fiscal year 2012-13 due to lingering global concerns and reduced municipal supply. Compared to the beginning of the calendar year, the 5-year MMD High Grade Index was unchanged, at 0.84%, the 10-year Index rose 13 basis points, to 1.91%, and the 30-year Index rose 23 basis points to 3.09%. Municipal bond funds ended the quarter with a second consecutive week of outflows, at $42 million and negotiated new issuance volume remained manageable, at $2.2 billion.

Treasury yields remained largely unchanged as concerns regarding the Eurozone persisted. The yield on the two-year Treasury note fell one basis point versus the beginning of the year, to 0.24%, the yield on the benchmark 10-year note rose one basis point, to 1.85%, and the yield on 30-year the long-bond rose 6 basis points, to

In economic news, initial jobless claims rose 28,000 to 385,000 in the week ending March 30, the highest level in five months. Claims came in above economists' expectations of 357,000.

Source: Barclays, U.S. Department of the Treasury

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UC Bond Update

On March 14th, 2013 the University closed General Revenue Bonds Series AF, AG and AH. Series AF and AG were issued for a total of $1.3 billion to refund outstanding debt, substituting newer bonds that have a lower interest rates for older bonds issued years ago in a time of higher interest rates. This transaction was both tax-exempt and taxable, and the combined true interest cost was 3.19% for debt that has a final maturity of 2039. The present value savings in debt service costs was $201 million, which will lower costs ascribed to over 200 projects on all 10 of our campuses constituting significant cashflow savings on debt service annually. In addition the University remarketed its Series AA-2 bonds ($286.515 million) that were issued to decrease funding costs related to UCRP. The bonds were remarketed to July 1, 2019 at a rate of approximately 1.80%.

Update – TM1 Debt Management Module

The IRS regulations generally deem that tax exempt financing cannot be used to pay for the prepayment of services. These services may include software, licenses, maintenance and other service arrangements that are prepaid at the time of the execution of a capital lease transaction. However, there is an exception when the prepayment is common or, to be more precise, when the prepayment terms offered by the service provider (vendor) are substantially the same terms as terms offered to and accepted by a substantial percentage of persons/companies who are similarly situated, but who are taxable companies that do not have the benefit of tax exempt financing.

To determine whether the prepayment is eligible for tax exempt financing, the following due diligence needs to be performed by the campus or the medical center:

1. Campus/medical center must be assured that the offering of the prepayment is a standard business practice for the service provider, and the University is essentially being treated in a manner similar to other companies in a similar situation. It is more favorable for the University and other non-profit companies to be treated the same as for-profit companies. If a service provider negotiates customized arrangements with customers, it will be less likely to be eligible for tax exempt financing.

2. The Procurement Office at the campus or medical center should request information from the vendor regarding the number of similar contracts that have been completed by the service provider and what percentage it represented of all contracts? This information is to obtain data to support the above that the offering of the prepayment is a standard business practice.

3. Of the executed contracts, it is important that a substantial percentage of similar contracts be entered into by for-profit companies. The campus should ask the vendor for the ratio or the number of governmental non-profit companies vs. for-profit companies? At least 30% of similar contracts should be entered into by for-profit companies. Please contact Capital Markets Finance if the percentage is lower.

"Surround yourself with the right people; people who are on the move, focused, determined and ambitious to achieve more!"

\- Ricardo Housham