ISSUANCE OF GENERAL REVENUE PLEDGE REFUNDING BONDS AND POLICY REVISION

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Series 2015 Bonds - Background

• The University anticipates issuing up to $330mm of bonds in March 2015
  – Proceeds of the financing will refund certain outstanding debt and commercial paper and restructure some existing long-term debt

• In November 2014, we reviewed with the BOV the following debt optimization objectives:
  – Take advantage of historically low long-term fixed rates
  – Consider “averaging in” more variable rate debt over time
  – Target a medium-term goal of better matching short-term assets and short-term liabilities to reduce balance sheet risk

• In February 2015, we will ask the BOV Executive Committee to:
  – Approve an Authorizing Resolution for the bond issue
    • Under the University’s Debt Policy, the EVP/COO along with the Chair of the Finance Committee, have the authority, under Board-approved parameters, to approve pricing on the debt
  – Approve minor revisions to the University’s Debt Management and Interest Rate Risk Management Policies
The proposed financing will achieve many of our debt restructuring goals, including:

– **Reducing portfolio put / self liquidity risk:**
  - Eliminating remarketing risk associated with Series 2003A Bonds (currently supported w/ self liquidity)
  - Reducing the need to hold redundant liquidity

– **Managing remarketing risk:**
  - Limits maturities that need to be refinanced in the future to $100mm - $150mm
  - Minimum intervals of 2 years to mitigate future interest rate risk

– **Limiting bank exposure**
  - No increase in credit support necessary to incur variable rate debt, and may decrease level of credit support needed to support commercial paper program

– **Managing interest rate risk**
  - Reduces balance sheet risk by better balancing short-term assets and short-term liabilities
  - Maintains capacity for future variable rate issuance in potential higher interest rate environment
Revisions to Policies

• Debt Policy Revisions
  – Add ratio target for Debt Burden Percentage (i.e., debt service/operating expenses) as required under State Restructuring Act performance measures

• Interest Rate Risk Management Policy Revisions
  – Update list of authorized individuals
  – Strengthen counterparty credit exposure limits