

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
September 18, 2013
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR AN
EXEMPT FACILITY PROJECT

Prepared by Richard C. Fischer.

Applicant: The Regents of the University of California

Allocation Amount Requested: \$235,000,000

Project Name: University of California Public Works Bond Refinance Project

Locations: In addition to the office of the President in Oakland, the University of California (UC) currently operates general campuses located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, Santa Barbara and Santa Cruz; a health science campus located in San Francisco; and more than 200 laboratories, research stations and institutes, affiliated schools, activity locations, and a statewide Division of Agriculture and Natural Resources.

Project Sponsor Information:

Name: The Regents of the University of California
Address: 1111 Franklin Street, 10th Floor
Oakland, California 94607
Contact: Sandra H. Kim
Phone: (510) 987-9660

Project Financing Information:

Bond Counsel: Orrick, Herrington & Sutcliffe LLP
Bond Rating: Moody's Aa3; Standard & Poor's AA-
Bond Sale: Public Competitive Sale
Bond Interest Rate: Fixed Rate

Project Sponsor's principal activity: The applicant's principal activity is offering quality higher education to the public for which it serves.

First Tier Business (Yes/No): No

Authority: The applicant stated that UC has historically issued tax-exempt bonds for the purpose of financing capital improvements to its university system. These tax-exempt bonds primarily have been issued as "governmental bonds," based on the expectation that the amount of "private business use" (Private Use), within the meaning of Section 141(b) of the Internal Revenue Code of 1986 (Code), of the projects financed by such bonds will be less than the private use limitations set forth in such Code section. The State Public Works Board (SPWB) also has issued its Lease Revenue Bonds to finance UC facilities. UC currently has \$2.4 billion of outstanding SPWB Bonds. The FY 2013-2014 state budget legislation included a provision authorizing UC for State Ceiling requests. Section 141(b)(1) of the Code sets limits the amount of Private Use that may exist with respect to a bond issue to 10% of such bond issue. Section 141(b)(5) of the Code caps the amount of Private Use of a bond issue to 10%, topping out at \$15,000,000. Section 141(b)(5) of the code also contemplates an exception to the cap of \$15,000,000, by allowing a dollar-for-dollar increase based on the amount of State Ceiling applied. Still maintaining the 10% rule and using the Section 141(b)(5) exception, a \$2.568 billion in bond issue would allow \$235,000,000 of Private Use if State Ceiling allocation is obtained.

Sources of Funds:

Tax-Exempt Bond Proceeds	\$ 235,000,000
Other Sources	<u>\$2,567,742,596</u>
Total Sources	\$2,802,742,596

Uses of Funds:

Bond Issuance Expenses (including discount)	\$ 26,769,170
Refunding Escrow Deposits	\$2,743,684,866
Other Fund Deposits	<u>\$ 32,288,560</u>
Total Uses	\$2,802,742,596

Description of Proposed Project: According to the application, the proposed project proceeds will be used to retire existing SPWB debt used to fund previous and ongoing capital improvements at the UC-owned facilities across the state. The proposal to restructure SPWB debt issued for UC would allow UC to achieve an estimated \$80 million in savings compared to current SPWB debt service for the next ten fiscal years and additional positive cash flow savings, estimated at \$30 million through fiscal year 2029-30. The savings target is predicated upon market conditions, but will be achieved by maximizing useful life on the underlying financed projects to fiscal year 2052-53 and a conservative level of short fixed rate, floating rate debt, and interest rate hedges (adhering to the University's swap policy). The approach will make more level the debt service obligations, so the debt obligations are more evenly distributed year over year. Debt service savings vis-a-vis existing SPWB debt service will be directed toward the annual increase in employer contributions toward the University's retirement program.

Environmental impact:

- 1) Air Quality: None indicated.
- 2) Water Quality: None indicated.
- 3) Energy Efficiency: None indicated.
- 4) Recycling of Commodities: None indicated.
- 5) Safety and Compliance: None indicated.
- 6) Consumer Costs Savings and Efficiencies: Yes.

Local government support: The Applicant indicates that UC is a public corporation established by the Constitution of the State of California. UC is governed by a 26 member Board of Regents, 18 of whom are appointed by the Governor and approved by a majority vote of the State Senate (currently for a 12 year term), one student Regent, who is appointed by the board to a one year term, and seven ex officio Regents who are members of the board by virtue their elective or appointed positions. The ex officio Regents are the Governor of the State, Lieutenant Governor of the State, Speaker of the Assembly, State Superintendent of Public Instruction, President of the Alumni Association of the University, Vice President of the Alumni Association of the University and the President of the University.

Legal Questionnaire: No information was disclosed that raised any question regarding the financial viability or legal integrity of the applicant.

Recommendation: Staff recommends transfer of \$235,000,000 from the Undesignated Reserve Pool to the Exempt Facility Pool and that the Committee approve \$235,000,000 in tax-exempt bond allocation to fund the University of California Public Works Bond Refinance Project.