



Presentation to the University Committee on Planning and Budget

by

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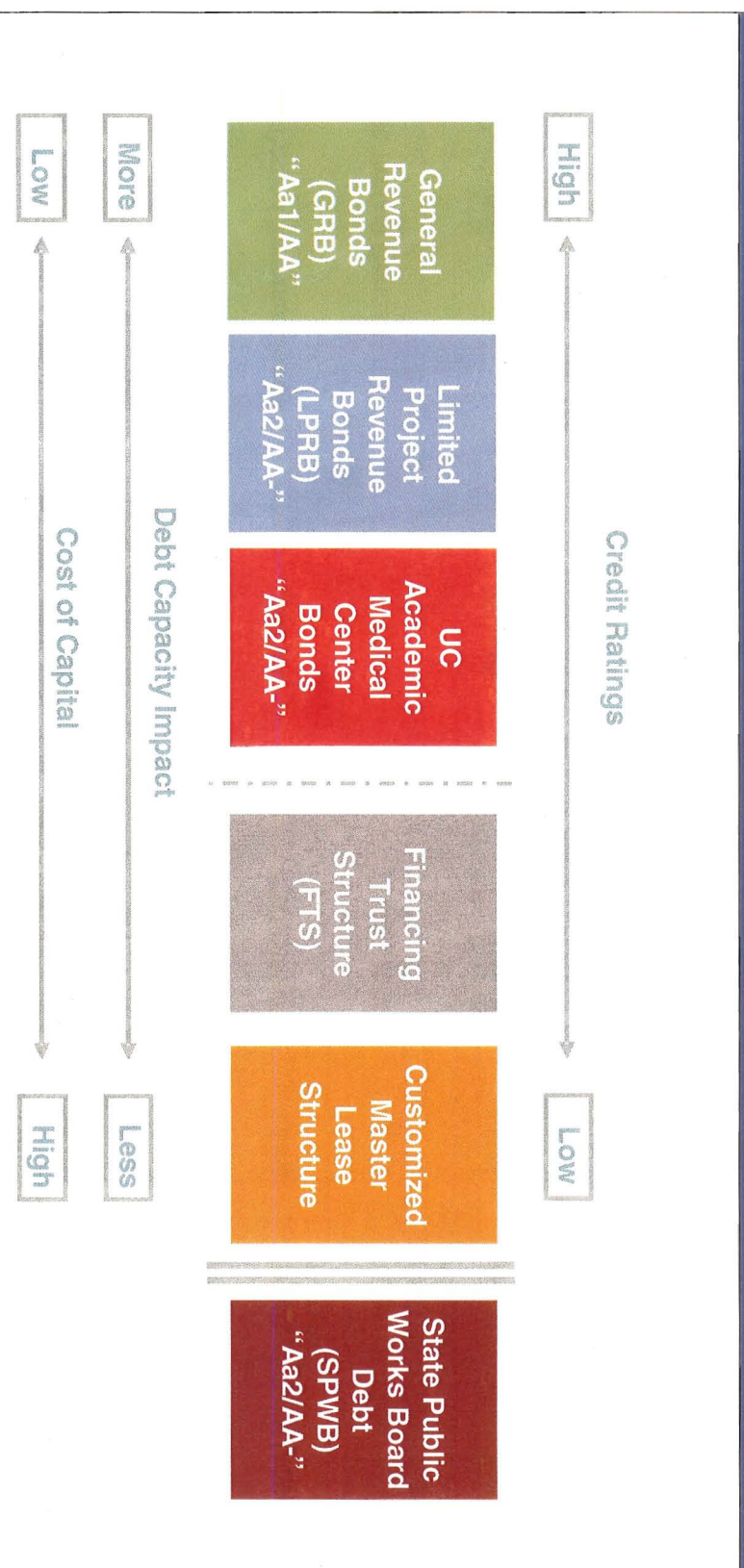
October 6, 2009

Strategic Use of Debt

- Finance long-term capital assets with long-term debt
- Use of full credit spectrum enhances debt capacity
- Use of tax-exempt commercial paper allows for timely funding of capital projects
- Use of taxable commercial paper allows management of cash flow on a cost-effective basis
- Deferral of newly issued debt and restructuring of existing debt achieves more overall level debt service structure
- Currently, there are approximately \$2 billion in Regent approved projects to be financed

The Regents of the University of California Credit Portfolio

University of California Debt Financing Credit Spectrum



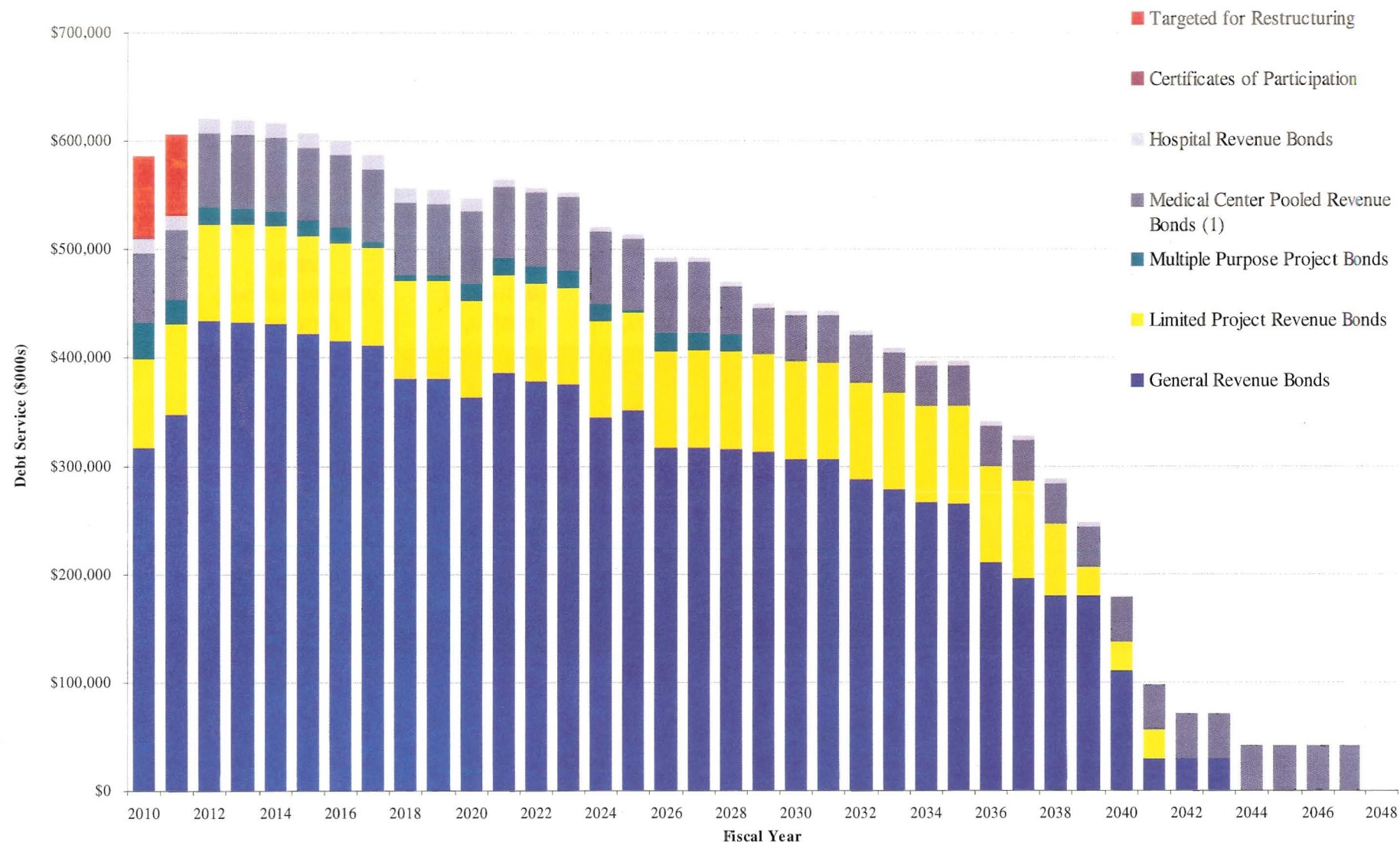
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Debt Portfolio

	Rating (Moody's/S&P)	Par Amount	Weighted Average Coupon	Security Pledge
General Revenue Bonds	Aa1/AA	\$5,851,685,000	4.61%	General revenues of the Regents, excluding state appropriations and medical center revenues
Limited Project Revenue Bonds	Aa2/AA-	1,380,840,000	4.91%	Auxiliary project gross revenues, subordinate to General Revenues
Medical Center Pooled Revenue Bonds	Aa2/AA-	1,039,280,000	4.58%	Gross academic medical center revenues
Multiple Purpose Project Bonds	Aa2/AA	162,560,000	4.91%	Project revenues; no additional bonds to be issued under this indenture
Certificates of Participation	Aa1/AA-	975,000	4.00%	Lawfully available funds; no additional bonds to be issued under this indenture
Hospital Revenue Bonds	Aa3	137,090,000	5.16%	Individual medical center revenues; no additional bonds to be issued under this indenture
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		\$8,572,430,000	4.67%	
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Tax-Exempt Commercial Paper	P-1 / A-1+	\$200,300,000		Project revenues
Taxable Commercial Paper	P-1 / A-1+	\$811,005,000		Project revenues

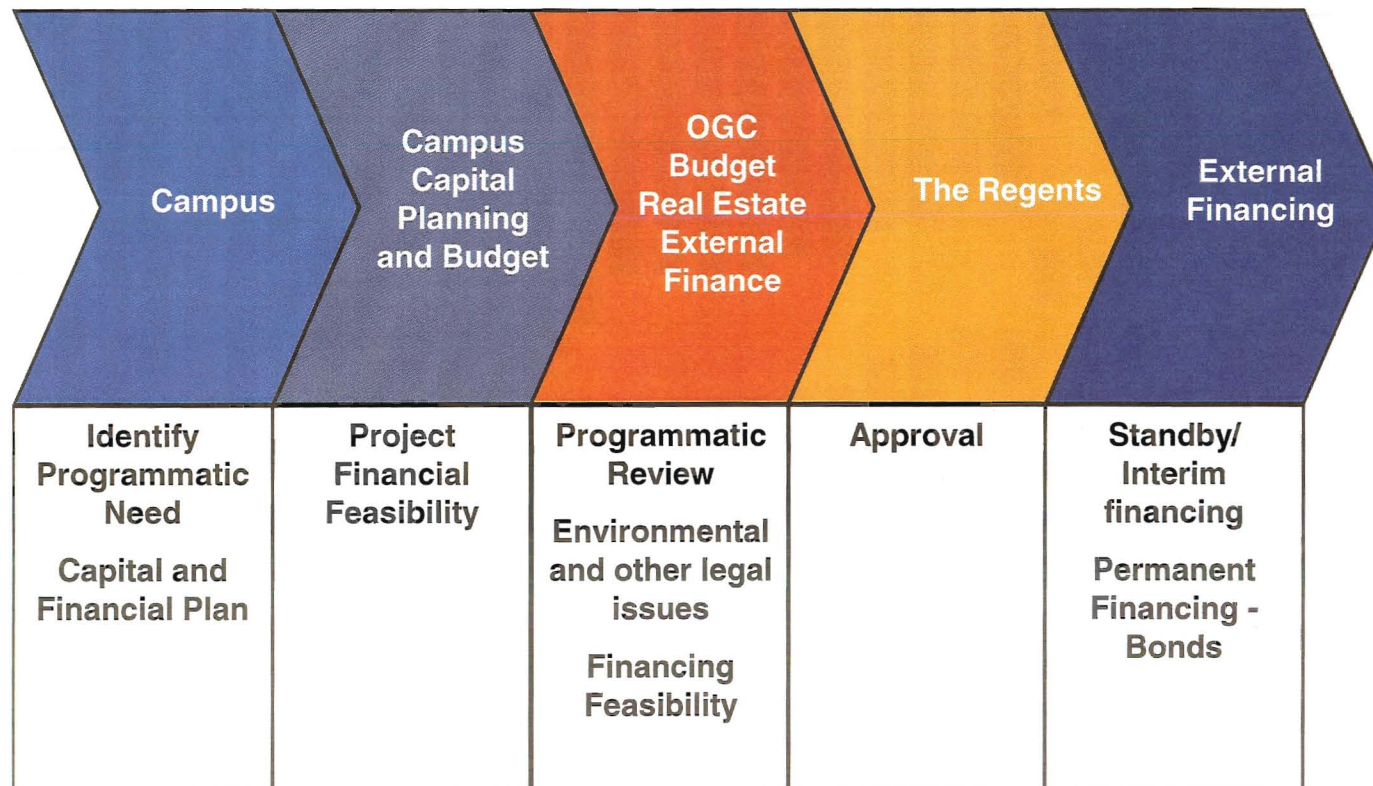
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Debt Service Profile



(1) Assumes fixed payor swap rate for interest rate on underlying floating rate bonds

Project Approval Process

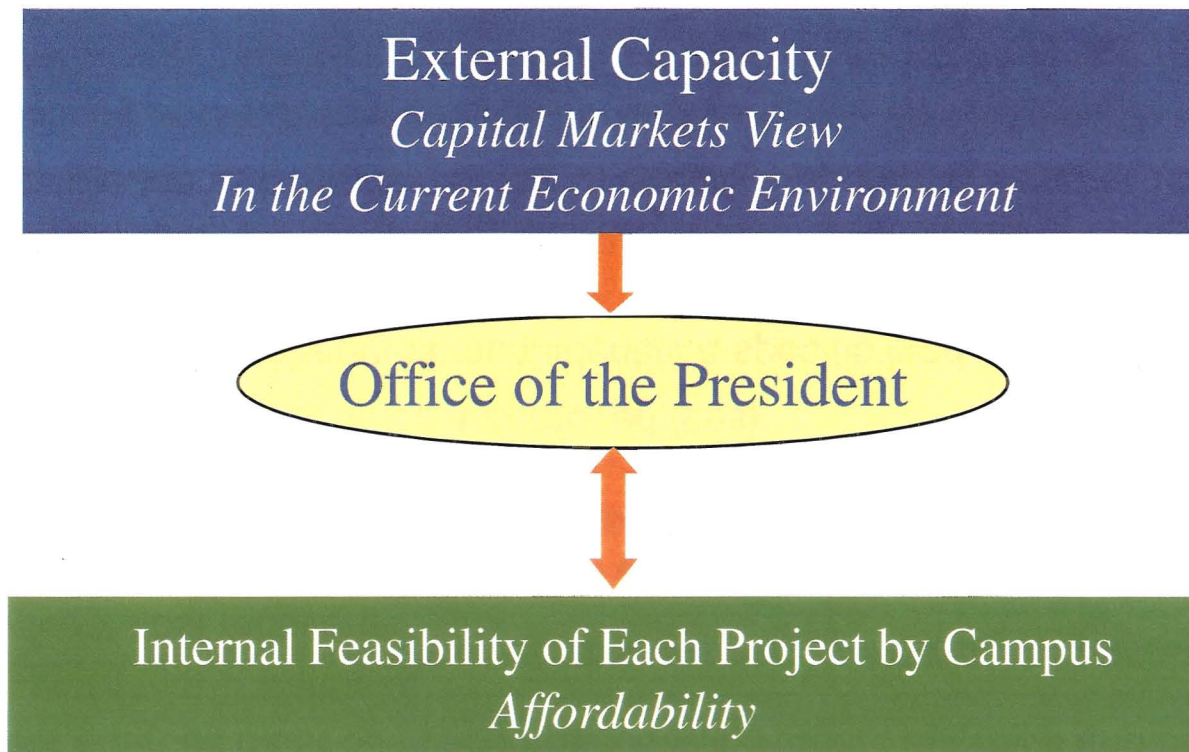


Sources of Repayment

- Repayment sources must be in accordance with Regent approval and bond indentures.
 - Student tuition and fees
 - Indirect cost recovery
 - Sales and Services – Educational activities
 - Sales and Services - Auxiliary enterprises
 - Unrestricted investment income
 - Other (Section 28, student approved fees)
- Each external financing request must identify a specific fund source to be pledged to repay the obligation.
 - For non-revenue generating facilities with an administrative component, a campus may pledge its allocation of the University Opportunity Fund or Education Fund.
 - Auxiliary enterprises (housing, parking, student centers) pledge their respective revenues generated from the entire enterprise as the source of repayment for its financing.
 - Medical center projects pledge medical center revenues as the source of repayment for its projects.
- State appropriations 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.

Debt Affordability

The University's Revised Debt Affordability Model Seeks to Better Align^{*}
the University's Internal Processes with the System's External Debt Capacity,
While Affording the Campuses Greater Flexibility and Accountability



The Regents of the University of California General Revenue Bonds Series Q & R

\$300 million Series Q Tax-Exempt Bonds &

\$1.0 billion Series R Taxable BABs

- Build America Bonds (BABs) were included in the American Recovery and Reinvestment Act (ARRA)
 - UC receives an ongoing subsidy of 35% of its interest payment from the US Treasury
- Over \$200 million in orders from California and national retail investors for Series Q with strong institutional investor interest for the remainder
- Orders for Series R totaled over \$2.1 billion and included participation from bond funds, retail investors, corporations, insurance companies, asset managers, and international investors.



**All-in subsidized rate of 3.97%
with a final maturity of May 15, 2043**

Closed: August 27, 2009

Provided permanent financing for approximately 70 projects, including 12 seismic and life safety related projects, nine deferred maintenance projects, nine energy efficiency projects, student housing and other campus facilities, classrooms and research buildings

Examples:

Statewide Energy Partnership

Anna Head Housing (Berkeley)

Student Athlete High Performance Center (Berkeley)

Physical Sciences Expansion (Davis)

Robbins Hall (Davis)

Social & Behavioral Sciences (Irvine)

Life Sciences Replacement (Los Angeles)

Police Station (Los Angeles)

Weyburn Terrace Housing (LA)

Parking Lots (Merced)

Health Sciences Surge (Riverside)

Health Sciences Grad/Prof Housing (San Diego)

Cogen Plant Expansion (San Diego)

Cardiovascular Research Institute (San Francisco)

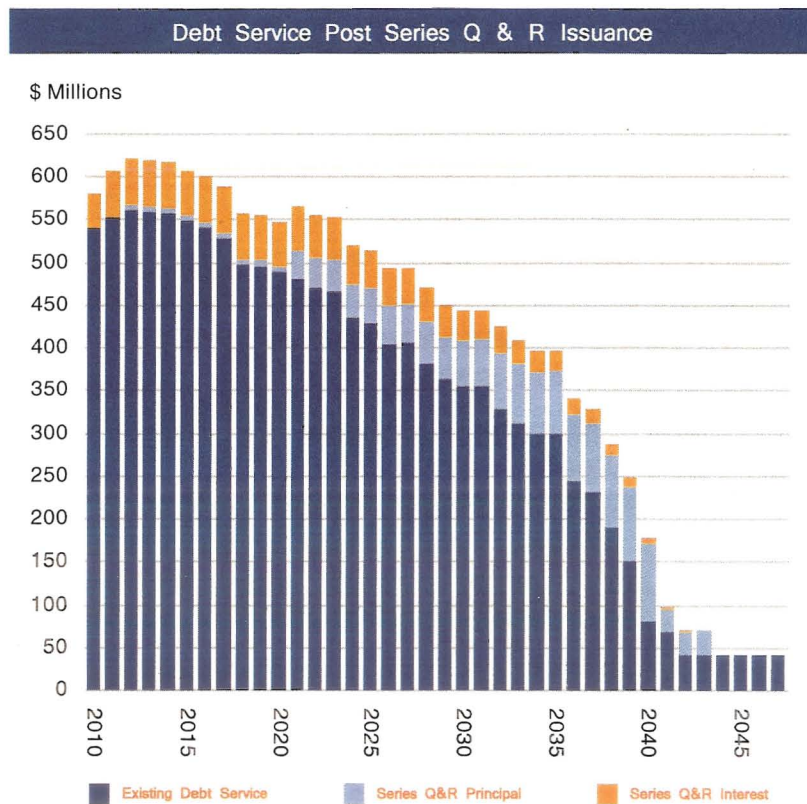
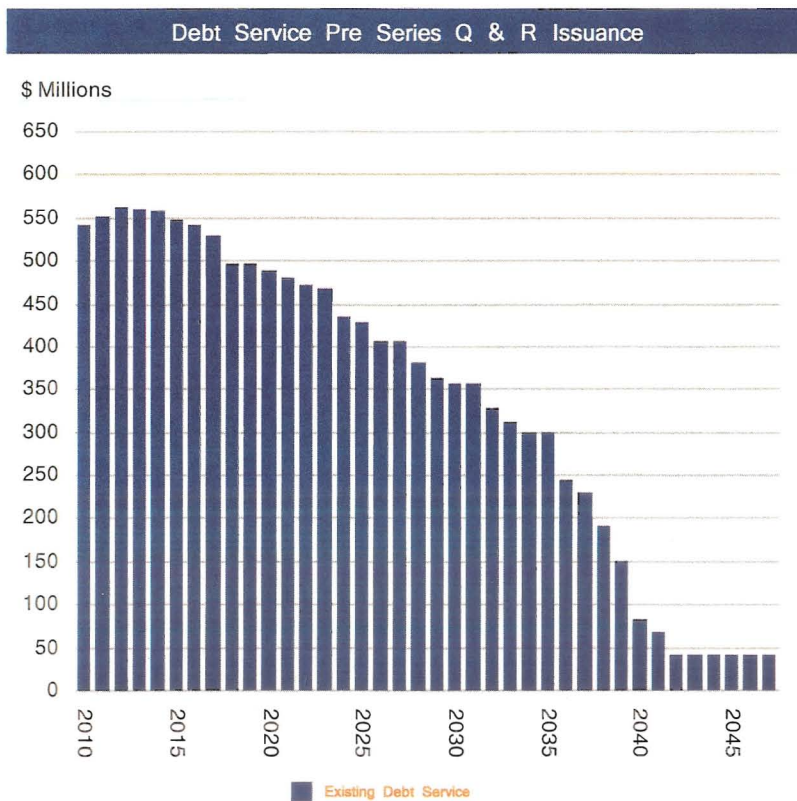
North Hall Data Center (Santa Barbara)

Cowell Student Health (Santa Cruz)

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Debt Service Structure

Due to the existing front-loaded debt service structure, Series Q & R were structured with a deferred principal amortization to minimize debt service increases prior to 2021.



Commercial Paper Program

- Commercial paper is a short-term security issued for purposes of interim financing.
- The paper is primarily sold to money market funds. The maturity of commercial paper ranges from 1 to 270 days.
- Commercial paper is generally the most flexible and cost-effective interim financing vehicle in the market as broker-dealers can adapt to changing financial market conditions and find the most efficient maturities for the paper.
- The Regents CP Program has a total authorization of \$2 billion
 - Today, \$1.5 billion is currently rated
- CP is most traditionally used by the University for interim capital financing
 - Also authorized for use for hospital working capital, University working capital and equipment

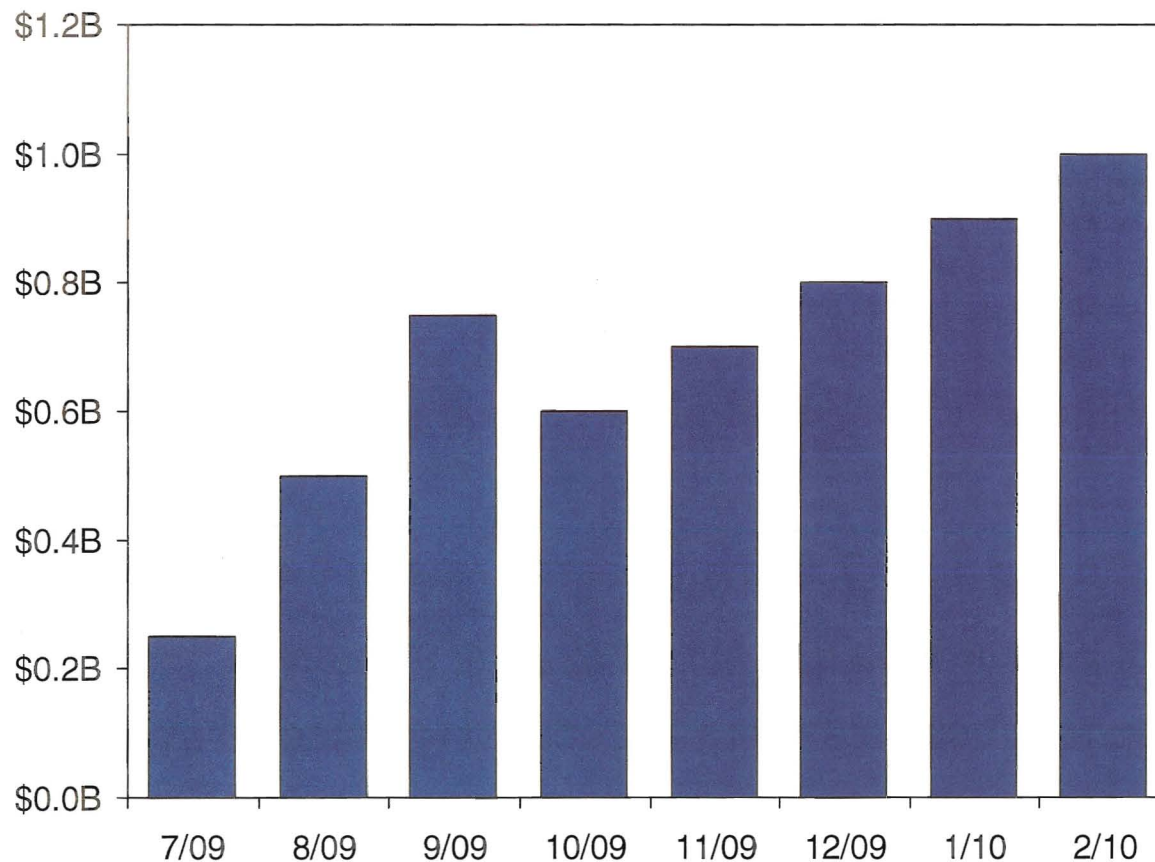
State of California General Obligation Bonds

On August 4, UC completed a \$199.915 million General Obligation Bond transaction with the State of California.

- UC purchased State GO bonds which the State is obligated to redeem on or before November 1, 2012
- UC funded the purchase of the GO bonds with the issuance of taxable commercial paper
- The transaction enabled the State to resume funding of 18 time-sensitive and high priority voter-approved GO bond funded projects on eight UC campuses that had been delayed by the State's diminished ability to access the capital markets
 - Seven UC instructional and research were over 90% complete, needing only equipment funding to be placed in service
 - Other projects included ten telemedicine projects and a Biomedical Sciences Facility on the Santa Cruz campus that was in danger of losing its construction bid package
- GO bond interest earnings will be first applied to pay interest expense on the commercial paper
 - The State is paying a 3.183% interest rate on the bonds to UC, which was 1.00% higher than the market index rate for State GO bonds of similar maturity on the day of pricing
 - Currently, taxable commercial paper rates are approximately 0.3%

Cash Flow Deferrals from the State

**Estimated Monthly Cumulative Cash Shortfall
Due to State Deferrals**



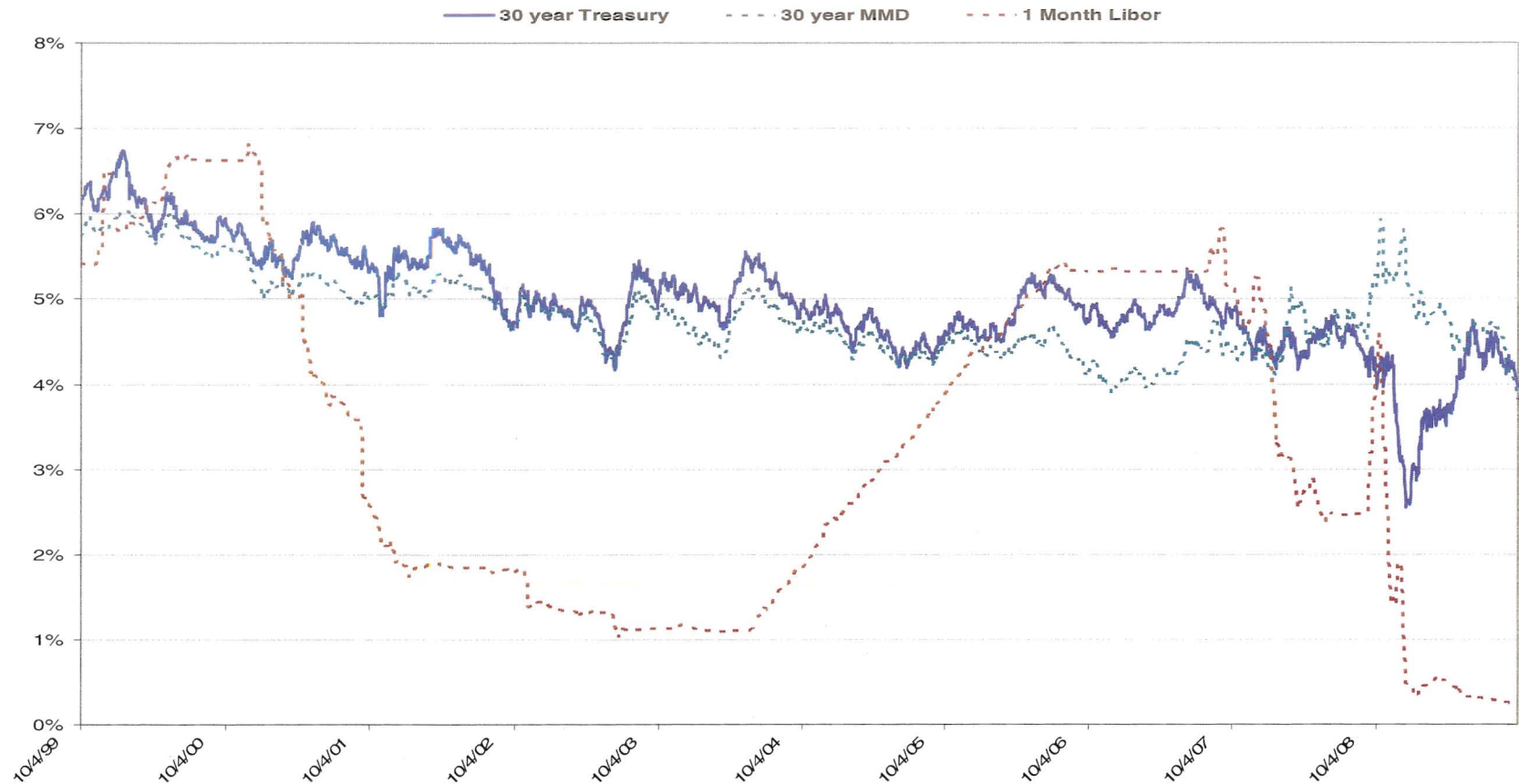
Key findings

- Deferrals include:
 - \$750 million in July to September 2009
 - Up to \$500 million thereafter
- Full repayment not expected until May/June 2010

Commercial Paper and Working Capital

- Use taxable CP to manage the State cash flow deferrals:
 - Preserves STIP flexibility at a time when it is most needed
 - More fiscally prudent than long-term borrowing for working capital
- Issue taxable CP and use proceeds on a monthly basis to make up for State deferrals
- Pay back taxable CP as State reimbursements come in
- Sufficient CP capacity provided by August General Revenue Bond and upcoming Medical Center Pooled Revenue Bond issue

Market Update



- Short-term rates are at historic lows.
- Long-term rates have also declined.
- The issuance of Build America Bonds (BABs) by municipal bond issuers has driven down long-term municipal rates
 - BABs are taxable bonds
 - The U.S. Treasury provides 35% of the interest payment to the issuer

