

Issues Related to: Liquidity Measures

Finance & Operations Committee
June 10, 2010

UNIVERSITY OF MINNESOTA

Variable Rate Demand Bonds (VRDBs)

- Bondholders have the option to put the bonds back to (demand repayment from) the University on a weekly basis.
- When bonds are tendered for payment, the remarketing agent re-sells, or remarkets, the bonds to another buyer.
- If bonds are not remarketed, they are presented for payment
 - to a bank, when a standby bond purchase agreement exists (SBPA),
 - to the University, in the case of self-liquidity.

Existing Support for Variable Rate Debt

- 1999A – SBPA with US Bank, expiration June 2012 - \$116,900,000
- 2001C – SBPA with JPMorgan Chase Bank, expiration March 2012 - \$121,550,000

| | <u>Amount Outstanding</u> |
|------------------------------|---------------------------|
| • 2001B – self-liquidity* | \$ 850,000 |
| • 2003A – self-liquidity* | \$ 62,700,000 |
| • CP Notes – self-liquidity* | <u>\$ 273,850,000</u> |
| | \$ 337,400,000 |

* Supported by Line of Credit with Wells Fargo Bank for \$130,000,000

Self-Liquidity Program Supported by Hybrid Bank Line of Credit (LOC) – Moody's requirements:

- University must maintain adequate sources of liquidity to meet unremarketed tenders of VRDBs or failed rollovers of CP.
- LOC is dedicated to funding unremarketed tenders of bonds or CP by making a loan to the University, and is not used for any other purpose.
- Bank providing the line has the highest short-term rating (P-1).
- University must have sufficient cash and investments to replace the line on a timely basis in the event that the line expires.
- Experienced treasury management and established procedures are in place enabling direct draws on the line to meet tenders.
- Automatic termination events or condition precedent to drawing on the line are limited to those that represent situations of severe credit stress and are consistent with Moody's methodology for traditional SBPAs.

Moody's Approach to Rating Internally-Supported Variable Rate Debt (4 Factors)

- Sources of liquidity
 - Quantity (total amount)
 - Quality (various asset classes)
 - Accessibility (term)
- Debt Structure – term of the variable rate debt (daily, weekly, CP, or long-term)
- Cyclicity/volatility of cash flow and other cash needs – how volatile cash holdings are over the course of a year; the use of cash to fund operations and capital; other potential calls on cash
- Debt and treasury management – depth; sophistication and experience of treasury staff; understanding of stress scenarios; contingent funding plans

Moody's Self-Liquidity Worksheet – as of 4/30/10

| | ASSETS | \$ Amount (\$000) | Discount % | Discounted \$ |
|----|---|----------------------|------------|----------------|
| | DAILY LIQUIDITY – investments which can be liquidated on a same-day basis | | | |
| 1 | Money Market Funds-SEC 2a-7 compliant and AAA-rated by Moodys | 198,191 | 0% | 198,191 |
| 2 | Money Market Funds – SEC 2a-7 compliant but not rated by Moody's | | 10% | |
| 3 | Checking and deposit accounts at P-1 rated bank | | 0% | |
| 4 | Repurchase Agreements – Overnight and Collateralized by Treasuries/Agencies; P-1 rated Counterparty | | 10% | |
| 5 | US Treasuries & Aaa-rated Agencies with less than 3 year maturity which have daily liquidity | 365,184 | 10% | 328,666 |
| 6 | US Treasuries & Aaa-rated Agencies with greater than 3 year maturity which have daily liquidity | 101,811 | 15% | 86,539 |
| 7 | Short-term investment funds at P-1 rated bank <i>which have been reviewed and approved by Moody's</i> | | 0% | |
| 8 | Subtotal | 665,186 | | 613,396 |
| | WEEKLY LIQUIDITY | | | |
| 9 | Fixed Income: Other Investment Grade Publicly Traded Holdings | 8,294 | 66% | 2,820 |
| 10 | OTHER SOURCES OF SELF LIQUIDITY – Bank LOC | 130,000 | 0% | 130,000 |

Debt Totals Used in Coverage Ratios – as of 4/30/10

| Debt Totals Used In Coverage Ratios | \$ Amount (000s) | Description of Test | \$ Asset Values Used in Ratios (000s) (Values from Slide 6) | With lines of credit | Without lines of credit |
|---|---------------------------|---|---|----------------------|-------------------------|
| <u>Short Term Demand Debt</u> + VRDBs in weekly mode | 63,550 | Test #1: Daily liquidity divided by Short Term Demand Debt | 613,396 + 130,000 = 743,396 / 238,550 | 3.12 | 2.57 |
| | | | + Maximum amt of CP that can mature within 5 business days | | |
| | <u>175,000</u> 238,550 | Test #2: Daily + weekly liquidity divided by Short Term Demand Debt | 613,396 / 238,550 | 3.13 | 2.58 |
| | | | 613,396 + 2,820 + 130,000 = 746,216 / 238,550 | | |
| <u>Stress Test Debt</u> + VRDBs in weekly mode | 63,550 | Test #1: Daily liquidity divided by Stress Test Debt | 613,396 + 130,000 = 743,396 / 386,650 | 1.92 | 1.59 |
| | | | + Full authorized amt of CP program (\$159,100 + \$70,000 + \$61,000 + \$33,000 = \$323,100) | | |
| | <u>323,100</u> 386,650 | Test #2: Daily + weekly liquidity divided by Stress Test debt | 613,396 / 386,650 | 1.93 | 1.59 |
| | | | 746,216 / 386,650 | | |
| | | | 616,216 / 386,650 | | |