

NUMBER: BTRU 1.30
SECTION: Board of Trustees
SUBJECT: Capital Planning Policy
DATE: April 20, 2007
REVISION: April 23, 2010
Policy for: All Campuses
Procedure for: All Campus
Authorized by: Thomas L. Stepp
Issued by: Board of Trustees

I. Policy Statement

A. Purpose

To fulfill its mission, the University of South Carolina, including the Senior and Regional Campuses, makes ongoing strategic capital investments in academic, student life, athletic, housing, parking and other plant facilities using an appropriate mix of funding sources including state capital improvement bonds and appropriations, state institution bonds, revenue bonds, internal reserves, and private giving.

The two-fold purpose of this policy is to 1) define procedures for the systematic and thorough consideration of the University's capital needs, and determination of priorities; and 2) provide guidance on the strategic use of debt, including the appropriate mix of funding sources. Capital assets are an integral component of the University and should be developed and preserved accordingly. Debt is a valuable source of capital project financing, and the amount of debt incurred affects the financial health of the University reflected in its credit rating. This policy provides a discipline and framework that will be used by management to evaluate the appropriate use of debt in capital financing plans.

B. Scope

The scope of the Capital Planning Policy will include all capital-related activities for each of the University's eight campuses. That is, all activities related to project approval, construction, renovation, and major maintenance of the University's capital assets are subject to this policy. Moreover, the policy governs space allocation decisions.

C. Strategic Planning Integration

All capital planning activities implemented through this policy are fully integrated with other University strategic planning activities. The Vice President for Finance and Planning, through his/her role as co-chair of the Capital Planning Committee is responsible for integrating capital planning throughout the strategic planning process.

II. Procedures

A. Capital Planning Committee / Capital Operations Planning Subcommittee

In accordance with the USC *Faculty Manual*, the Capital Planning Committee (CPC) will advise the President on all capital matters. To assist the CPC, the Capital Operations Planning Subcommittee (COPS), made up of senior staff members designated by CPC co-chairs will review, evaluate and propose plans to meet needs established by the CPC. All capital requests and related materials will be considered by the CPC within the capital budget cycle described below. Other capital-related issues will be considered by the CPC within their established meeting schedule.

B. Capital Budget Cycle

One of the primary responsibilities of the CPC will be the development of the long-term Capital Plan annually and updated continuously. The plan will be developed based on requests from within the University, and presented to the Board of Trustees (BOT) for consideration and approval. The schedule is intended to coincide with the State's Annual Permanent Improvement Process which takes place in the spring of each year.

Annual Capital Plan:

The Plan will be developed each year for consideration by the BOT. The Plan will also serve as the basis for the preparation of the State's Comprehensive Permanent Improvement Plan (CPIP), which is due to the Commission on Higher Education (CHE) on March 1st of each year.

The Plan will be developed within the context of a 30-year timeframe, but will focus primarily on the upcoming five years as follows:

Year 1 of the Plan will include the immediately following fiscal year, from July 1 to June 30, and should include all permanent improvement projects (as previously defined) expected to be implemented with funds already available or funds expected to become available that fiscal year. The purpose of Year 1 of the Plan is to focus on the University's expectations for permanent improvements for the year except for emergencies and other unanticipated critical needs. The first year of the Plan excludes new requests for Capital Improvement Bond funds.

Year 2 of the Plan includes the University's request for Capital Improvement Bond (CIB) funding from the state and projects that are expected to be executed in Year 2. From a practical perspective, Year 2 projects not being funded with CIB funds will have their respective planning work done during Year 1. Projects proposed for the first two years must be described in enough detail to allow a reviewer to gain a clear understanding of what the proposed projects are and why they are needed. It is especially important that projects that are proposed to be financed by CIBs be fully and clearly described because these proposals are treated as requests for bond authorizations.

Year 3 of the Plan will include those projects that are being proposed for feasibility study in Year 1 and have a reasonable indication that they will be considered by the Administration for future completion.

Years 4 and 5 of the Plan will include those projects under consideration in the short term, but not contemplated for completion within the next three years. Projects proposed for plan Years 4 and 5 may be listed with an estimate of costs and an indication of the anticipated source of funds.

Years 6 through 30 of the 30 Year Timeframe will be presented based on known financial information (eg: debt service schedules) and reasonably estimated additional financial information (eg: tuition revenue and facilities maintenance expenditures). Also, any projects that are being considered by the Administration as long-term investments (eg: an academic building that is expected to be needed in the future to accommodate anticipated need or enrollment growth) will be included.

Capital Request Submission Process:

University units will submit proposals to the Capital Planning Committee as a component of their strategic planning process in the spring of each year. However, note that while operating budget requests submitted in the spring are considered by the Board in June of that year, capital projects will be considered by the CPC over the course of the summer and fall and will be presented to the Board for consideration the following February.

For purposes of this policy, a Capital Project is defined in SC Code Section 2-47-50 as follows:

1. acquisition of land, regardless of cost;
2. acquisition, as opposed to the construction, of buildings or other structures, regardless of cost;
3. construction of additional facilities and work on existing facilities for any given project including their renovation, repair, maintenance, alteration, or demolition in those instances in which the total cost of all work involved is five hundred thousand dollars or more;

4. architectural and engineering and other types of planning and design work, regardless of cost, which is intended to result in a permanent improvement project. Master plans and feasibility studies are not permanent improvement projects and are not to be included;
5. capital lease purchase of a facility acquisition or construction; and
6. equipment that either becomes a permanent fixture of a facility or does not become permanent but is included in the construction contract shall be included as a part of a project.

In addition, any project that has a value over \$250,000 requires Board of Trustee approval. Projects less than \$250,000 can be completed at the discretion of the various University units.

Projects should be submitted using the format provided in Appendix B. The primary proposal should be limited to no more than three pages. Additional supporting material should be kept to a minimum.

In addition to projects considered as a part of the Annual Capital Plan, interim capital needs of the University will be considered by the CPC. In these cases, the unit will submit the proposed project to the CPC for consideration. The CPC will meet on a periodic basis to review the Plan and consider any interim project requests. The meetings of the CPC will be coordinated with the meetings of the Board and other regulatory state agencies (Commission on Higher Education, Joint Bond Review Committee, and Budget & Control Board) so that projects can be considered in as efficient time frame as possible. Projects being considered through this process will necessarily be required to have specifically identifiable sources of funds to complete the project prior to being submitted. As these projects are submitted to the Board for approval, they will be described within the context of the Annual Capital Plan and the related 30 year timeframe.

Institutional Capital Project Fund and Renovation Reserve Fund:

The CPC will consider an annual plan for the use of these funds each year as a component of the Annual Capital Plan. A Recommendation will be developed by the Facilities Department and submitted to the CPC for review and approval. Projects included in these plans will be placed in a priority order by the CPC and then completed to the extent possible, based on the availability of funds. University units wishing to have projects funded with one of these sources will submit their request to the Vice President for Finance and Planning by October 1st of each year.

Consideration of University Space Allocation:

The CPC will annually consider the allocation of University space and make recommendations to the President for his consideration. University units that have space needs will submit those requests to the Provost or Vice President for Finance and Planning by October 1st of each year. The CPC will consult with the Registrar's office, or other effected units, in the consideration of space reallocations.

C. Guidelines for Setting Priorities

In order to develop recommendations for consideration by the President, the CPC will consider the following priorities in evaluating all capital requests or related issues:

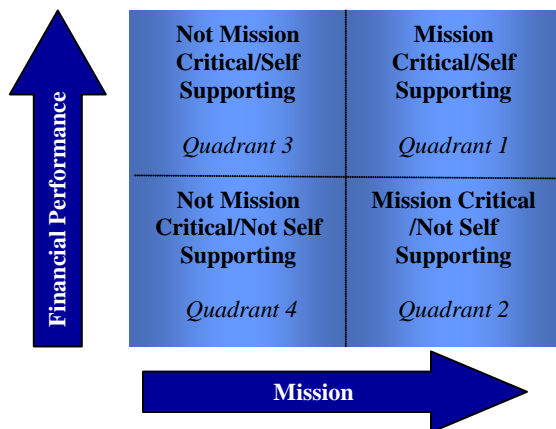
1. How does the project fit within the Board-approved Campus Master Plan?
2. Are appropriate fund sources in place, or identified, to complete the project?
3. Does the project advance the long term interests of the University?

Given constraints on University resources, it is essential that the University set priorities for capital projects, particularly those requiring debt.

The administration will allocate comprehensively the use of debt financing within the University among all uses, including academic and student life projects, research, athletic facilities, housing, parking, plant and equipment financing, and projects with University-wide impact.

The project approval matrix below depicts an approach to approving and establishing priorities for capital projects.

FIGURE 1. PROJECT APPROVAL MATRIX



Explanation of project approval matrix:

Quadrant 1:

Project **is critical** to the core mission of instruction, research, and/or public service and has its own funding source (i.e., non-general fund support).

Quadrant 2

Project **is critical** to the core mission of instruction, research, and/or public service **but does not** have its own funding source (i.e., will require general fund support).

Quadrant 3

Project is **not critical** to the core mission of instruction, research, and/or public service **but** has its own funding source (i.e., non-general fund support).

Quadrant 4

Project is **not critical** to the core mission of instruction, research, and/or public service **and does not have** its own funding source (i.e., will require general fund support).

D. Regulatory Environment

Certain capital projects are subject to review and approval of state government. Those projects are defined in SC Code of Laws Section 2-47-50 (see Appendix C). Projects below the state approval threshold but with a cost of \$250,000 or larger are subject to University Board approval. Projects less than \$250,000 can be completed at the discretion of the various University units.

External parties involved in the regulatory process include:

1. Office of the State Treasurer - The State Treasurer works with the University, Financial Advisor and Bond Counsel in reviewing the debt financing structure, preparation of the Bond Resolution and the advertising and sale of the bonds. The State Treasurer in conjunction with the Bond Counsel and the University will prepare all closing transactions. The State Treasurer will select a paying agent for the Bonds.
2. Commission on Higher Education - The Commission on Higher Education reviews for approval all capital projects submitted by the University.
3. Joint Bond Review Committee - The Joint Bond Review Committee reviews for approval all capital projects submitted by the University.
4. Budget and Control Board - The Budget & Control Board reviews for approval all capital projects and bond resolutions submitted by the University.
5. Financial Advisor or Underwriter - The University's Financial Advisor or Underwriter assists the University in structuring the financing; assist in presentations to administrators, board members and rating agencies; assists in document preparation; assists in the marketing of the bond sale; and in the case of a competitive sale reviews the bids for accuracy and acceptability, or in the case of a negotiated sale receives the orders for purchase.

6. Bond Counsel - The University's Bond Counsel is selected by the University in accordance with the State Budget & Control Board's Policy on the Engagement of Bond Counsel, Disclosure Counsel, and Underwriter's Counsel. The Bond Counsel prepares the Bond Resolution for the debt under consideration. They assist in the approval process for the University Board of Trustees and the SC Budget and Control Board. Bond Counsel prepares the Preliminary Official Statement and the Official Statement. The Bond Counsel in conjunction with the Financial Advisor, State Treasurer and the University, prepares all closing documents and closing sale transactions.
7. Credit Rating Agencies - The University will obtain ratings from at least one of the three major credit rating agencies: Moody's Investors Service, Standard & Poor's, and Fitch Ratings. These entities provide credit ratings on issuances based on their respective ratings scale that affect borrowing costs

III. Debt Financing

A. General

The University issues debt in accordance with the laws of the State of South Carolina. A full listing of debt-related statutes is provided in Appendix C. The types of debt utilized are detailed in Appendix D.

The debt management guidelines below encompass: 1) the formation, objectives and determinants of a dynamic debt structure for the University as a whole and within specific areas of responsibility, and the inter-relationship of the debt structure with the University's financial assets, 2) the practical use of refunding to reduce the University's cost of capital over time, and 3) how to measure and model the University's debt structure on an ongoing basis.

Please refer to Appendix E for related terms and definitions

B. Credit Ratings

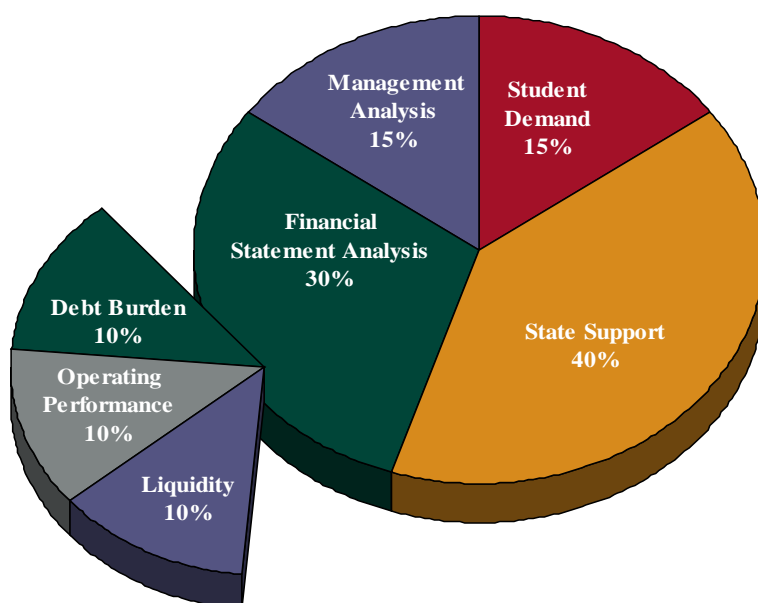
1. Rating Determinants

Provided below in Figure 2 is an illustration of the major institution-specific determinants used by the rating agencies in evaluating the University. Credit ratings represent an assessment of the risk of default on a debt issue during its lifetime. Higher ratings mean lower risk, which in turn translate into favorable borrowing terms; i.e., interest rates and other contract features. Those determinants are:

- State Support – The level and consistency of support provided by the State through appropriations and other resources.

- Financial Statement Analysis – The financial condition of the University as evidenced by various ratios within the categories of Debt Burden, Operating Performance, and Liquidity.
- Management Analysis – The respective rating agency’s evaluation of the Board of Trustees and senior level administration with respect to ability to appropriately guide and administer the University.
- Student Demand – The market position of the University as evidenced by enrollment information including historical application and enrollment levels, selectivity, and matriculation.

FIGURE 2. CREDIT RATING DETERMINANTS



In addition to the institution-specific determinants in Figure 2, credit rating agencies also apply adjustments based on overall industry conditions and trends; e.g., those affecting the higher education sector.

2. Ratings Indicator Ratios

In addition to the four strategic financial ratios listed below, there are many other ratios used by bond rating agencies in rating debt, although ratios are a relatively small portion that drives credit ratings. Additional ratios will be reported as needed.

(see Appendix A for further description and calculation formulae)

- a. Primary Reserve Ratio
- b. Return on Net Assets Ratio
- c. Net Operating Revenue Ratio
- d. Viability Ratio

C. Strategic Debt Management

Debt Structure:

1. Formation

A debt structure represents the conscious choice of how the University plans cash inflows and outflows associated with debt obligations over time. Its formation is driven by debt mode (fixed or variable rate), maturity (long or short), coupon type (discount, par or premium, and flexibility (callable or noncallable). The choices the University makes in regard to its debt structure will be the primary determinant of its cost of capital.

2. Minimize Cost of Capital

The objective of managing the University's debt structure is to minimize its cost of capital over time within a tolerable range of risk. This objective can be achieved by:

- Controlling risk, first and foremost. This requires that cash flow be managed carefully so that it is more than adequate to cover debt service (interest and principal) at all times.
- Recognizing that all sources of debt must be evaluated, including debt issued by Foundations, system-wide, plus debt obligations that are "off balance sheet."
- Timing capital needs over a long time horizon so that the University avoids large amounts of borrowing at a given time. In other words, capital needs and capital sources should be planned well in advance so that the debt load at any given time is not excessive.
- Allowing future refunding flexibility of fixed rate issues and selectively refunding outstanding fixed rate issues to maximize the present value of interest cost savings.
- Issuing variable rate debt when market conditions indicate in order to reduce the University's capital costs. Use of variable rate debt is subject to approval by the State of South Carolina.

3. Structural Trade-Offs

At the time of issuance, the University, within the limits of then prevailing State laws and guidelines, can make structural choices in regard to the type of debt issued that will reduce the cost of capital over time. Some important guidelines include:

- Evaluate call provisions to accommodate future interest cost reduction through refunding. Bonds with call provisions that are generous to issuers are priced in the capital markets with higher yields, meaning higher interest costs to the University. For example, a bond that is not callable for ten years after issuance will be priced lower (hence yield will be higher) than an otherwise identical one that is callable immediately. On the other hand, a bond that is callable at a premium above par value will be priced higher (hence lower yield) than one callable at par.
- Analyze rebate consequences of a proposed new issue structure and factor the rebate impact into measuring net debt service and interest cost. (For example, Build America Bonds (BABS) feature rebates of some portion of interest payments, thus lowering the cost of borrowing.)
- Include the impact of positive or negative arbitrage earnings (interest earnings or loss on bond proceeds prior to the proceeds being used for the respective project) on bond proceeds when evaluating debt financing decisions.
- Account for capitalized interest (interest expense that is paid with Bond proceeds prior to the bonds being serviced with the planned revenue stream), which may be paid as part of borrowing or the University may pay initial cost internally.
- Evaluate the use of bond insurance to reduce debt service cost.
- Evaluate restrictive covenants that may be included in debt issues. Restrictive covenants include constraints on subsequent borrowing, as well as minimum liquidity requirements. Bonds with restrictions that are binding on issuers will be priced lower, hence yields will be higher than on bonds with few or no restrictions. Care must be taken to insure that restrictions do not impair subsequent borrowing needs.

Refunding:

1. Purpose

Replacing outstanding fixed rate debt with a current or advance refunding issue is one of the most effective tools to reduce debt service cost or raise free capital. Some of the salient guidelines for pursuing a refunding are summarized below:

- Refunding savings are a function of interest rate reduction, the length of time that the refunded debt is outstanding beyond the call date, and, to a lesser extent, the call premium (price above par at which the issue is callable).
- Negative arbitrage (when investment of bond proceeds is at a lower rate than the interest expense of the bonds) can significantly diminish the savings to be realized in an advance refunding but has practically no impact on current refundings.

2. Interest Cost Savings

The opportunity to refund outstanding bonds and generate debt service savings is dependent upon five factors:

- Callability - The refunded bonds must be redeemable prior to their scheduled maturity in order to generate savings.
- Rate Reduction - The greater the rate reduction between the nominal coupon on the Refunded Bonds and the re-offering yield on the Refunding Bonds, the larger the refunding savings.
- Time Beyond Call - The longer the length of time between the optional call date and the maturity date of the refunded bonds, the larger the refunding savings.
- Call Premium - The presence and size of a call premium on the Refunded Bonds directly reduces the refunding savings.
- Efficient Escrow - The availability of investing the Refunding Bond proceeds in the refunding escrow (where funds are held until bonds to be refunded are retired) at a yield equal to the Refunding Bond yield is key to optimizing the refunding savings opportunity, particularly on advance refunding issues.

Interest Cost and Risk Measures:

1. Interest Cost Measures

When debt is initially issued, the key measurements for interest cost or yield are:

- Arbitrage Bond Yield - Takes into account interest rates, original issue premiums and discounts and the cost of bond insurance or other credit enhancement. This measure is used for computing rebate liabilities and other yield restriction purposes.
- “All In” Cost - Takes into account interest rates, original issue premiums and discounts and the cost of bond insurance or other credit enhancement, plus the underwriting discount and costs of issuance. Provides a maximum yield measure based upon the net proceeds available to the University at closing. When groups of bonds or “debt silos” are being tracked for cost over time, the relevant yield measures will be:
 - Weighted Average Cost of Capital – The weighted average of capital costs of all debt in the structure. For the period of measurement, takes into account interest payments and amortized premiums, discounts, bond insurance and costs of issuance. Provides an accurate measure of the University’s true cost of capital both historically and going forward that will assist the University in setting realistic cost of capital targets.
 - Nominal Cost of Capital - Takes into account the remaining coupon payments versus outstanding principal. This measure is relevant for refunding planning purposes only. For variable rate bonds, the return measures above will take into account actual interest cost to date and a projection of future interest cost. Remarketing, auction, liquidity and credit enhancement fees will be added in, as applicable.

2. Fixed / Variable Interest Rates

The fixed to variable rate principal ratio will be tracked over time, based upon scheduled principal amortization. The purpose will be to monitor this ratio relative to the any targeted objective. This ratio will be stated as variable rate principal (exposure) divided by total debt outstanding.

D. Issuance Process

After the Board of Trustees has approved a capital project, with debt as a source, or partial source, of funding, the Vice President for Finance and Planning will issue the related debt through the following process:

1. Select Bond Counsel and obtain approval of the B&CB via the State Treasurer.
2. In coordination with Counsel, prepare and submit a Resolution to the University Board and the B&CB for approval of the issuance of the appropriate form of debt.

3. In coordination with Counsel, Financial Advisor and/or Underwriter, State Treasurer, and other such advisors deemed necessary by the Vice President for Finance and Planning, prepare a Preliminary Official Statement and Official Statement for purposes of presenting the issuance to the bond market.
4. Offer the Bonds to the bond market via either negotiated sale or competitive process, as determined most appropriate by the Vice President for Finance and Planning in consultation with the State Treasurer.
5. Complete the sale, along with all related closing documents, with the coordination of the Financial Advisor and/or Underwriter, and Counsel.

E. Debt Compliance and Reporting

1. Disclosure
The University will continue take steps to insure compliance with disclosure requirements in accordance with SEC rule 15c2-12. The University will submit financial reports, statistical data, and report material events as required under outstanding bond indentures.
2. Arbitrage
The University will comply with federal arbitrage requirements on invested tax-exempt bond proceeds, causing arbitrage rebate calculations to be performed annually and rebate payments to be remitted to the IRS periodically as required.
3. Monitoring and servicing debt
The Vice President for Finance and Planning will regularly evaluate all University debt to ensure that the University is continuing to meet strategic objectives and respond to changes in the market. A report to the Board of Trustees to include an update on debt capacity, calculation of financial health ratios in Appendix A, a listing of projects under consideration, and discussion will be provided each December. This will include all debt, system-wide, for the University as well as Foundations. “Off-balance-sheet” debt is to be included, as well as short-term obligations (e.g., BANS).

Appendices:

- A. Ratios (Analytics, Metrics)
- B. Sources of Capital / Debt Forms
- C. Laws
- D. Types of Debt
- E. Debt Terminology

University Financial Health Ratios

Financial Ratios and Institutional Quantitative Requirements

The University will establish guidelines for overall debt management using a select number of financial ratios calculated and reported annually and when new debt is issued, and revised periodically to reflect any changes in accounting standards or rating agencies and capital markets views. Financial ratios will serve as indicators of the University's financial health and capacity to incur debt. Calculation of these ratios will be based on the audited consolidated financial statement on a University-wide basis.

University's Overall Financial Health Ratios

The following four strategic financial ratios, when considered together and over time, will help to provide a clear, high level, assessment of the overall financial health of the University.

1. Primary Reserve Ratio

Measures financial strength by comparing expendable net assets to total expenses. This ratio provides a snapshot of financial strength and flexibility by indicating how long the University could function using its expendable resources without relying on additional net assets generated by operations. A negative ratio or decreasing trend over time indicates a weakening financial condition.

2. Return on Net Assets Ratio

Determines whether the University is financially better, or worse, than in previous years by measuring total economic return.

3. Net Operating Revenue Ratio

Indicates whether total operating activities resulted in a surplus or deficit and measures the ability of the University to operate in the short term.

4. Viability Ratio

Measures the availability of expendable net assets to cover debt. As this ratio falls below 1:1, the University's ability to respond to adverse conditions, to attract capital from external sources, and its flexibility to fund new objectives is diminished. This ratio is regarded as an important indicator of the ability to assume new debt.

University Financial Health Ratio Calculations

1. PRIMARY RESERVE RATIO

$$\frac{\text{EXPENDABLE NET ASSETS}^1}{\text{TOTAL EXPENSES}^2}$$

2. RETURN ON NET ASSETS RATIO

$$\frac{\text{CHANGE IN TOTAL NET ASSETS}}{\text{TOTAL NET ASSETS, BEGINNING OF THE YEAR}}$$

3. NET OPERATING REVENUES

$$\frac{\text{OPERATING INCOME (LOSS) + NET NON-OPERATING INCOME (EXPENSES)}}{\text{TOTAL OPERATING REVENUES + TOTAL NON-OPERATING REVENUES (EXCLUDING CAPITAL APPROPRIATIONS & GIFTS, AND ADDITIONS TO PERMANENT ENDOWMENTS)}}$$

4. VIABILITY RATIO

$$\frac{\text{EXPENDABLE NET ASSETS}}{\text{LONG TERM DEBT (BONDS AND CAPITAL LEASES)}}$$

¹ Expendable net assets = unrestricted net assets plus expendable restricted net assets less expendable assets to be invested in plant.

² Total expenses = operating expenses plus non-operating expenses

Project Submission Format

Project Title:

Location on Campus:

Estimated Cost:

Proposed Source(s) of Funding:

Project Description:

How Project Supports Institutional Mission:

Additional Justification/Reason for Project: (attach additional supporting materials)

Project Request Approvals:

Department Head

Dean

Provost or Vice President

Guidelines for Prioritizing Capital Projects Requiring Debt ¹

The administration will use the following guidelines when prioritizing capital projects and making decisions about financing options and use of debt:

1. Only projects related to the mission of the University, directly or indirectly, will be eligible for debt financing.
2. State funding and philanthropy are expected to remain major sources of financing for the University's capital investments. In assessing the possible use of debt, all other financing and revenue sources will be considered. State appropriations and bonds, philanthropy, project-generating revenues, research facilities and administration cost reimbursement, expendable reserves, and other sources are expected to finance a portion of the cost of a project. Debt is to be used conservatively and strategically.
3. Each project considered for financing must have a defined, supportable plan of costs (construction and incremental operating) approved by the administration. A project that has a related revenue stream or can create budgetary savings will receive priority consideration. However, projects may not receive a higher priority simply because they are self supporting.
4. Each project must have a budget to include the sources of funding for the ongoing operations and maintenance costs for the facility once open for new construction or at the completion of renovations.
5. All new facilities construction financing plans must include an estimate of the cost of the ongoing required maintenance for the building.
6. If a new facility results in moving a unit from a current facility, the cost of repair and renovation of the current facility must be defined and reported to Board of Trustees.
7. Deferred maintenance projects may be considered for capital project financing and must include detail of expected costs and potential savings to the University operating budget and/or to the overall deferred maintenance program.

¹ These guidelines are provided to illustrate the issues considered in the prioritization process. Units that are submitting projects for consideration should address the guidelines that are relevant to the project being submitted.

Securities and Exchange Commission

- I. SEC Rule 15c2-12 – Municipal Securities Disclosure
SEC rules relating to required disclosures at the time of a public offering or in the case of certain events after the sale. For example, the Preliminary Official Statement and Official Statement prepared in conjunction with Bond offerings, and the Annual Disclosure Statements filed in relation to Revenue Bonds.

South Carolina Bond Statutes

- I. State of South Carolina - South Carolina Constitution

ARTICLE X – Finance, Taxation and Bonded Debt
- II. South Carolina Code of Laws
 - A. Title 59, Chapter 107 - State Institution Bonds
 - B. Title 59, Chapter 117 - University of South Carolina
Article 3 – Auxiliary Facilities Revenue Bonds
 - C. Title 59, Chapter 147 – Higher Education Revenue Bond Act
- III. Acts
 - A. State Institution Bonds
 - 1. Act 249, R325, H3077
Approved the 14th day of June, 1977
Included Technical Schools for SIB authority
 - 2. Act 107, R153, S43
Approved the 22nd day of June, 1979
Included the USC Regional Campuses for SIB authority
 - 3. A40, R81, H3445
Approved the 1st day of June 1999
Repeal the debt limit on state institution bonds and establish 90% limitation
 - B. Athletic Revenue Bonds
 - 1. A518, R637, H3843
Part II, Section 9
Approved the 17th day of June, 1980
Authorizes enlargement and improvement of Williams-Brice Stadium
Defines terms for athletic revenue bond issuance
 - 2. A545, R440, H3749

Approved the 6th day of May, 1986
Authorizes additional bonds for stadium expansion and other athletic facilities

3. A302, R339, H4313

Approved the 7th day of May, 1996
Establishes Chapter 147 of South Carolina Code of Laws
Defines “athletic facilities” and “improvements”
Establishes a bond reserve fund

4. A6, R10, H3176

Approved the 31st day of March, 1997
Provides definition for “net athletic revenues”
Authorizes repayment from admissions fees, special student fees and net athletic revenues
Raises debt limit from \$20M to \$40M

5. A182, R45, S320

Approved the 3rd day of May, 2005
Raises debt limit from \$40M to \$60M

C. Research Infrastructure Bonds

A187, R212, S560
Approved the 17th day of March 2004
Enact the South Carolina Life Sciences Act

Other South Carolina Statutes Relating to Capital Projects

I. South Carolina Code of Laws

- A. Title 1, Chapter 11 – State Budget and Control Board
- B. Title 2, Chapter 47 – Joint Bond Review Committee
- C. Title 59, Chapter 103 – State Commission on Higher Education

Types of Debt

The University utilizes debt as follows:

1. Capital Improvement Bonds

The State of South Carolina authorizes capital improvement bonds to fund improvements and expansion of state facilities. The University is not obligated to repay these funds to the State. Authorized funds are requested once the State authorities have given approval to begin specific projects and project expenditures have been incurred.

2. Research University Infrastructure Bonds

The State of South Carolina has authorized research university infrastructure bonds to fund expansion of research facilities. The Life Sciences Act was passed by the General Assembly in 2004. The Act allows for the authorization of up to \$220 million in state bond revenues earmarked specifically for South Carolina's three research universities for research initiatives that stimulate economic development. The legislation authorizes a dollar-for-dollar match from these funds once the university has demonstrated the economic viability of a proposal by first obtaining funds through private investment. Additionally, the higher education institutions (other than the three research universities) split \$30 million in deferred maintenance bonds. The total amount was spread by the South Carolina Commission on Higher Education with a 65% allocation based on the deferred maintenance survey and 35% based on institution FTE.

3. State Institution Bonds

State Institution Bonds (SIB), frequently called Tuition Bonds, are issued by the University of South Carolina pursuant to Article X of the South Carolina Constitution, Act 249 of 1977, Act 107 of 1979, Act 120 of 1991 and Act 40 of 1999. The bonding capacity is limited to 90% of the fees collected. Annual debt service of these bonds is secured by a pledge of the student tuition fees imposed by the University. The portion of student fees mandated for debt service collection is annually approved by the Board of Trustees and published in the Budget Document. Each USC system campus is responsible for setting and collecting fees to service the debt on the campus bonds.

4. Revenue Bonds

Revenue Bonds are issued by the University of South Carolina pursuant to Title 59, Chapter 147 of the State Code of Laws of the General Assembly of the State of South Carolina. All bonds issued pursuant to this act are payable from the entire revenues derived by the University from all housing facilities and is broadened overall to enhance the debt coverage to include the net revenues from the identified source and all available funds and academic fees of the University which are not (i) otherwise designated or restricted, (ii) funds of the university derived from appropriations received from the General Assembly, and (iii) tuition funds pledged to the repayment of State Institution Bonds. Additional bonds may be issued after meeting the bond parity test based on revenues, operating expenses and current outstanding debt.

5. Athletic Facilities Revenue Bonds

Athletic Facilities Revenue Bonds are issued by the University of South Carolina pursuant to Part II, Section 9 of Act No. 518 passed by the General Assembly of the State of South Carolina in 1980, as amended by Act No 545 of 1986, No. 302 of 1996, No. 6 of 1997, No. 182 of 2005, and No. 17 of 2007. The purpose of these bonds is to raise money to provide permanent financing for the costs of the construction, enlargement of, and improvements to Williams-Brice Stadium and other athletic facilities. There is a \$200M cap on bonds outstanding. Annual debt service of these bonds is secured by a seat assessment fee on each football and basketball ticket sold, and a special Athletic Bond student fee assessed to all students in attendance at any regular session of the University enrolled in a sufficient number of courses to be considered a full-time student.

6. Healthcare Facilities Revenue Bonds

Bonds are issued by the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (collectively called the "Trust"). In connection with the issuance of the bonds, the University has pledged that for as long as any bonds remain outstanding, the University will not terminate the Practice Plan and will cause it to be operated so that all interest and principal on the bonds will be paid. As additional security to Wachovia, the Trust has granted Wachovia a security interest in substantially all real and personal property of the Trust, in the Trust's rights to medical office building rents, and in its land lease with the University. The funding for debt service is from Practice Plan revenues.

7. Foundation Bonds

The USC Development Foundation and other associated University Foundations may issue general obligation bonds secured by project specific revenues and by direct pay letter of credit.

Appendix E

Debt Terminology

Bond - A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Bonds are used by companies, municipalities, states and U.S. and foreign governments to finance a variety of projects and activities. Bonds are commonly referred to as fixed-income securities and are one of the three main asset classes, along with stocks and cash equivalents.

Bond Anticipation Note (BAN) - A short-term interest-bearing security issued in the anticipation of larger future bond issues.

Bond Rating - A grade given to bonds that indicates their credit quality. Private independent rating services such as Standard & Poor's, Moody's and Fitch provide these evaluations of a bond issuer's financial strength, or its the ability to pay a bond's principal and interest in a timely fashion.

For Example, Moody's description of rating symbols is: Gradations of creditworthiness are indicated by rating symbols, with each symbol representing a group in which the credit characteristics are broadly the same. There are nine symbols as shown below, from that used to designate least credit risk to that denoting greatest credit risk: **Aaa Aa A Baa Ba B Caa Ca C**. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa.

Callable Bond - A bond that can be redeemed by the issuer prior to its maturity. Usually a premium is paid to the bond owner when the bond is called. Also known as a "redeemable bond".

Convertible Bond - A bond that can be converted into a predetermined amount of the company's equity at certain times during its life, usually at the discretion of the bondholder. Convertibles are sometimes called "CVs".

Coupon - The interest rate stated on a bond when it's issued. The coupon is typically paid semiannually. This is also referred to as the "coupon rate" or "coupon percent rate".

Coupon Bond - A debt obligation with coupons attached that represent semiannual interest payments. Also known as a "bearer bond".

Covenant - A promise in an indenture, or any other formal debt agreement, that certain activities will or will not be carried out.

Discount - The condition of the price of a bond that is lower than par. The discount equals the difference between the price paid for a security and the security's par value.

Interest Rate - The amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets. Interest rates are typically noted on an annual basis, known as the annual percentage rate (APR). The assets borrowed could include, cash, consumer goods, large assets, such as a vehicle or building. Interest is essentially a rental, or leasing charge to the borrower, for the asset's use. In the case of a large asset, like a vehicle or building, the interest rate is sometimes known as the "lease rate".

Par Value - 1. The face value of a bond. 2. A dollar amount that is assigned to a security when representing the value contributed for each share in cash or goods.

Puttable Bond - A bond that allows the holder to force the issuer to repurchase the security at specified dates before maturity. The repurchase price is set at the time of issue, and is usually par value.

Premium - 1. The difference between the higher price paid for a fixed-income security and the security's face amount at issue. 2. The specified amount of payment required periodically by an insurer to provide coverage under a given insurance plan for a defined period of time.

Restrictive Covenant - Any type of agreement that requires the buyer to either take or abstain from a specific action. For example, a covenant may restrict subsequent debt financing by placing an upper bound on a debt ratio. Or a covenant may require a minimum level of liquidity by specifying a lower bound on a ratio that measures ability to pay.

True Interest Cost (TIC) - The real cost of taking out a loan. True interest cost includes all ancillary fees and costs, such as finance charges, possible late fees, discount points and prepaid interest, along with factors related to the time value of money. It can also refer to the actual cost of issuing a bond.

Yield To Call (YTC) - The yield of a bond or note if you were to buy and hold the security until the call date. This yield is valid only if the security is called prior to maturity. The calculation of yield to call is based on the coupon rate, the length of time to the call date and the market price.

Yield To Maturity (YTM) - The rate of return anticipated on a bond if it is held until the maturity date. YTM is considered a long-term bond yield expressed as an annual rate. The calculation of YTM takes into account the current market price, par value, coupon interest rate and time to maturity. It is also assumed that all coupons are reinvested at the same rate. Sometimes this is simply referred to as "yield" for short.