UNIVERSITY OF CENTRAL FLORIDA

DEBT MANAGEMENT GUIDELINES

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I. INTRODUCTION

The Need for and Purpose of Debt Management Guidelines

The University of Central Florida ("University" or "UCF") and its direct support organizations ("DSOs") have funded significant investments in infrastructure, such as buildings, equipment, land, and technology, to meet the needs of a growing student population and to upgrade and maintain existing capital assets. A significant amount of the funding for this investment in infrastructure has been provided through the issuance of debt.

All debt issuances must be approved in advance by the Board of Trustees ("BOT"). Certain debt must also be approved by the Florida Board of Governors ("BOG") pursuant to its debt issuance guidelines dated April 27, 2006.

For purposes of these guidelines:

i) "debt" means bonds, loans, promissory notes, lease-purchase agreements, certificates of participation, installment sales, leases, or any other financing mechanism or financial arrangement, whether or not a debt for legal purposes, for financing or refinancing, for or on behalf of a state university or a direct support organization, the acquisition, construction, improvement or purchase of capital outlay projects;

ii) "capital outlay project" means (i) any project to acquire, construct, improve or change the functional use of land, buildings, and other facilities, including furniture and equipment necessary to operate a new or improved building or facility, and (ii) any other acquisition of equipment or software; and

iii) "financing documents" means those documents and other agreements entered into by the state university or the DSO establishing the terms, conditions and requirements of the debt issuance.

II. GENERAL DEBT ISSUANCE GUIDELINES

PROCESS FOR SUBMITTING DEBT FOR APPROVAL

Timing. The submission of proposed debt for approval by the BOT shall be governed by the following process:

a) No later than four weeks prior to a BOT meeting where approval for the issuance of debt is sought, a copy of all information required to be submitted by these guidelines in support of the request shall be provided to the members of the Finance Committee of the

BOT for review and comment. Upon authorization of the Finance Committee, the packet shall be forwarded to the BOT Assistant Secretary for inclusion in the board packet for the next scheduled board meeting.

Information required for the board package.

a) A proposed agenda item.

b) A feasibility study and /or consultant report describing the project and its feasibility.

c) For debt issued by DSOs, a resolution adopted by the DSO board approving issuance of the debt.

d) Estimated project cost, draw schedule, start and completion dates, and estimated useful life.

e) The sources-and-uses of funds, clearly depicting all costs, funding sources expected to be used to complete the project, and the estimated amount of the debt to be issued.

f) An estimated debt service schedule with the assumed interest rate on the debt clearly disclosed. If the proposed debt service is not structured on a level debt service basis, an explanation shall be provided which gives the reason why it is desirable to deviate from a level debt structure.

g) Debt service schedules showing any outstanding debt related to or impacting the debt being proposed.

h) A description of the security supporting the repayment of the proposed debt and the lien position the debt will have on that security. If the lien is junior to any other debt, the senior debt must be described. Furthermore, a description of why the debt is proposed to be issued on a junior lien basis must be provided. A statement citing the legal authority for the source of revenues securing repayment must be provided.

i) If debt is to be incurred on a parity basis with outstanding debt, a schedule showing estimated compliance with any additional bonds requirement set forth in the documents governing the outstanding debt. The applicable provisions of the documents for bonds of DSOs should be provided.

j) If auxiliary revenues are pledged for debt service, financial statements for five years, if available, for the auxiliary,

k) A five-year history, if available, and five-year projection of the revenues securing payment and debt service coverage.

l) Evidence that the project is consistent with the university's master plan or a statement that the project is not required to be in the master plan.

m) For variable rate debt proposals:

   i) the expected reduction in total borrowing costs based on a comparison of fixed versus variable interest rates;

   ii) the average monthly balance, over the last year, of the short-term investments which will be hedged or the other products, such as interest rate caps, which will be used to mitigate the effect of rising interest rates, or an explanation as to why such protections are not being provided;

   iii) a pro forma showing the fiscal feasibility of the project using current market interest rates plus 200 basis points;

   iv) the amount of debt proposed for approval as a percentage of the total amount of university and DSO debt outstanding; and

   v) the individual or position that will be responsible for the reporting requirements for variable rate debt as set forth in these guidelines.

n) If the financing is contemplated to be done on a taxable basis, then evidence demonstrating that the issuance of taxable debt is in the best interest of the university must be submitted.

o) A statement explaining whether legislative approval is required, and if required, an explanation as to when legislative approval will be sought or evidence that legislative approval has already been obtained.

Committing University Resources for Debt Issued by Direct Support Organizations

The debt of any DSO may not be secured by an agreement or contract with the university unless the source of payments under such agreement or contract is limited to revenues that the university is authorized to use for the payment of debt service. Any such contract or agreement shall also be subject to the requirements set forth under "Security Features – Pledged Revenues".

Credit Ratings

Where possible, all new financings should be structured to achieve a minimum rating of "A" from at least two nationally recognized rating agencies. Credit enhancement may be used to achieve this goal.

Tax Status

All University and DSO debt should be issued tax exempt unless the issuance of taxable debt is in the university's best interest.

Security Features

Pledged Revenues. The revenues which may secure debt include the following:

a) Activity and Service Fee, subject to the limitation that annual debt service payable from these fees does not exceed five percent of the revenues derived therefrom.

b) Athletic Fee, subject to the limitation that annual debt service payable from these fees does not exceed five percent of the revenues derived therefrom.

c) Health Fee.

d) Transportation Access Fee.

e) Hospital Revenue.

f) Licenses and Royalties for facilities that are functionally related to the university operation or DSO reporting such royalties and licensing fees.

g) Gifts and Donations for debt not longer than five years.

h) Overhead and indirect costs and other monies not required for the payment of direct costs of grants.

i) Assets of University Foundations and DSOs and earnings thereon.

j) Auxiliary Enterprise Revenues, e.g., housing, parking, food service, athletic, retail sales, research activities.

Lien Status. All bonds of a particular program should be secured by a first lien on specified revenues. Additionally, bonds should generally be equally and ratably secured by the revenues pledged to the payment of any outstanding bonds of a particular bond program. However, the creation of a subordinate lien is permissible if a first lien is not available or circumstances require.

Reserve Fund. Debt service reserve requirements may be satisfied by a deposit of bond proceeds, purchase of a reserve fund credit facility, or funding from available resources over a specified period of time. In the submission of a request for debt issuance, it is preferred, though not required, that the bond size for the proposed debt include provision for funding a reserve from bond proceeds. This will ensure that in the event the university is unable to obtain a reserve fund credit facility it will still have an authorized bond amount sufficient to fund its needs. Debt service reserve requirements may also be satisfied with cash balances.

Credit Enhancement. Any bond insurance or credit enhancement should be chosen through a competitive selection process analyzing the cost of the insurance or credit enhancement and the expected interest cost savings to result from their use.

Capitalized Interest. Capitalized interest from bond proceeds should only be used when necessary for the financial feasibility of the project.

Structural Features

Length of Maturity. The final maturity on bonds should not exceed thirty years.

Debt secured by gifts and donations shall not be considered long-term financing but may be used as a temporary or construction loan to accelerate construction of facilities. Accordingly, the maturity of debt secured by gifts and donations shall not exceed five years, including roll-overs or refinancings except refinancings to implement permanent financing. Debt issued to finance equipment and software may not be longer than five years or the useful life of the asset being financed, whichever is shorter. Lastly, the final maturity of the debt should not exceed the estimated useful life of the assets being financed.

*Redemption Prior to Maturity B*onds should be structured with the least onerous call features as may be practical under then prevailing market conditions. Bonds of a particular issue may be sold as non-callable if it is shown to be in the best interest of the University or DSO.

Debt Issued With a Forward Delivery Date. Debt with a forward delivery date may be issued if the advantages outweigh the interest rate penalty which will be incurred and the University or DSO is protected from adverse consequences of a failure to deliver the debt.

Interest Accrual Features

Fixed Rate, Current Interest Debt. Fixed rate debt will continue to be the primary means of financing infrastructure and other capital needs.

Derivatives. The University or a DSO should normally issue conventional fixed rate bonds. However, alternative financing instruments may be used when the inherent risks and additional costs are identified and proper provision is made to protect the University and DSO from such risks. A comprehensive derivatives policy should be established prior to entering into transactions using derivatives products.

Capital Appreciation Bonds. When a compelling University interest is demonstrated capital appreciation bonds may be issued.

*Variable Rate Bonds. V*ariable rate debt may be issued where, considering the totality of the circumstances, such bonds can reasonably be expected to reduce the total borrowing cost to the University or DSO over the term of the financing. The following guidelines should apply to the issuance of variable rate debt:

a) *Expected reduction in total borrowing cost*. In determining reasonably expected savings, a comparison should be made between a fixed rate financing at then current interest rates and a variable rate transaction, based on an appropriate floating rate index. The cost of the variable rate transaction should take into account all fees associated with the borrowing which would not typically be incurred in connection with fixed rate bonds, such as tender agent, remarketing agent, or liquidity provider fees.

b) *Budgetary controls*. The following guidelines should be followed in establishing a variable rate debt service budget:

i) A principal amortization schedule should be established, with provision made for payment of amortization installments in each respective annual budget;

ii) Payment of interest for each budget year shall be calculated using an assumed budgetary interest rate which allows for fluctuations in interest rates on the bonds without exceeding the amount budgeted. The budgetary interest rate may be established by: (1) using an artificially high interest rate given current market conditions; or (2) setting the rate based on the last 12 months actual rates of an appropriate index plus a 200 basis point cushion or spread to anticipate interest rate fluctuations during the budget year. The spread should be determined by considering the historical volatility of short-term interest rates, the dollar impact on the budget and current economic conditions and forecasts; or, (3) any other reasonable method determined by the university or DSO and approved by the BOG;

iii) The amount of debt service actually incurred in each budget year should be monitored monthly to detect any significant deviations from the annual budgeted debt service. Any deviations in interest rates which might lead to a budgetary problem should be addressed immediately; and

iv) As part of the effort to monitor actual variable rate debt service in relation to the budgeted amounts and external benchmarks, the University or DSO should establish a system to monitor the performance of any service provider whose role it is to periodically reset the interest rates on the debt, i.e., the remarketing agent or auction agent.

d) *Establish a hedge with short-term investments*. Consideration should be given to mitigating the variable interest rate risk by creating a hedge with short-term investments. Appropriate personnel should monitor the hedge monthly. The ratio of such short-term investments to variable debt needs to be examined in conjunction with other interest rate risk hedging, striking an overall balance to minimize interest rate risk.

e) *Variable interest rate ceiling.* The bond documents should include an interest rate ceiling of no greater than 12%.

f) *Mitigating interest rate risks with derivatives*. As a minimum, a university or DSO engaging in this type of interest rate risk mitigation must provide:

i) Evidence that the counterparty is rated at a minimum of an A/A1; and

ii) Provide a swap management plan that details the following:

a) Why the university is engaging in the swap and what the objectives of the swap are.

b) The swap counterparty's rating.

c) An understanding by the issuer of the cash flow projections that detail costs and benefits for the swap.

d) The plan of action addressing the aforementioned risks associated with swaps.

e) Identifying the events that trigger an early termination (both voluntary and involuntary) under the swap documents, the cost of this event and how such would be paid.

f) Identifying the method for rehedging variable rate exposure should early termination be exercised.

g) A list of key personnel involved in monitoring the terms of the swap and counterparty credit worthiness.

g) *Liquidity*. If UCF or DSO chooses to provide its own liquidity, it must maintain liquid assets or facilities equal to 100% of the outstanding VRDOs.

h) *Submission of periodic reports*. The university will prepare and submit to the BOT an annual report showing the position during the previous period of the University or DSO variable rate debt with respect to the following measures:

i) the total principal amount of variable rate debt to principal amount of total debt;

ii) the amount of debt service accrued during the reporting period in relation to the pro-rata amount of annual budgeted debt service for the reporting period. If the amount of debt service which accrued during the reporting period exceeded the pro-rata amount of annual budgeted debt service for the period, the university shall explain what actions were taken to assure that there would be sufficient revenues and budget authority to make timely payments of debt service during the subsequent years; and

iii) the amount of variable rate debt in relation to the amount of the University's and/or DSO's short-term investments, and any other strategies used to hedge interest rate risk.

Other Types of Financings

Refunding Bonds. The following guidelines should apply to the issuance of refunding bonds, unless circumstances warrant a deviation there from:

a) Refunding bonds should be structured to achieve level annual debt service savings.

b) The life of the refunding bonds should not exceed the remaining life of the bonds being refunded.

c) Advance refunding bonds issued to achieve debt service savings should have a minimum target savings level measured on a present value basis equal to 5% of the par amount of the bonds being advance refunded. The 5% minimum target savings level for advance refundings should be used as a general guide to guard against prematurely using the one advance refunding opportunity for post-1986 bond issues. However, because of the numerous considerations involved in the sale of advance refunding bonds, the 5% target should not prohibit advance refundings when the circumstances justify a deviation from the guideline.

d) Refunding bonds which do not achieve debt service savings may be issued to restructure debt or provisions of bond documents if such refunding serves a compelling university interest.

Certificates of Participation and Lease-Type Financing. The University or DSO may utilize these financing structures for all purposes, but it shall be considered as debt for the purposes of these guidelines and the universities shall always budget and make available monies necessary to pay debt service, notwithstanding the right to cancel the lease

III. METHOD OF SALE AND USE OF PROFESSIONALS

Analysis of Method of Sale

The University or DSO may utilize either a competitive or negotiated sale. If, however, a request is made for a DSO to sell debt using a negotiated sale, staff must provide the BOT with an analysis showing that a negotiated sale is desirable. The analysis should include, but not necessarily be limited to, a consideration of the following factors:

a) Debt Structure

   i) pledged revenues – strong revenue stream vs. limited revenue base;

   ii) security structure – conventional resolution, cash flow, rate and coverage covenants vs. unusual or weak covenants;

   iii) debt instrument – traditional serial and term bonds vs. innovative, complex issues requiring special marketing; and

   iv) size – a smaller transaction of a size which can be comfortably managed by the market vs. a large size which the market cannot readily handle.

b) Credit Quality

   i) ratings – “A” or better vs. below single “A”; and

   ii) outlook – stable vs. uncertain.

c) Issuer

   i) type of organization – well-known, general purpose vs. special purpose, independent authority;

   ii) frequency of issuance – regular borrower vs. new or infrequent borrower; and

   iii) market awareness – active secondary market vs. little or no institutional awareness.

d) Market

   i) interest rates – stable; predicable vs. volatile;

   ii) supply and demand – strong investor demand, good liquidity vs. oversold, heavy supply; and

   iii) changes in law – none vs. recent or anticipated

Bonds may also be sold through a private or limited placement, but only if it is determined that a public offering through either a competitive or negotiated sale is not in the best interests of the University or DSO.

Allocation of Bonds

In the event a negotiated sale by a DSO is determined to be in the University's best interest, syndicate rules shall be established which foster competition among the syndicate members and ensure that all members of the syndicate have an opportunity to receive a fair and proper allocation of bonds based upon their ability to sell the bonds.

Report on Sale of Bonds

The University or DSO shall prepare a report on the sale of bonds or anytime it incurs debt. The report shall be prepared and provided to the BOT as soon as practicable but in no event later than seven business days after closing the transaction including the following:

a) The amount of the debt.

b) The interest rate on the debt.

c) A final debt service schedule or estimated debt service schedule if a variable rate debt or the interest rate is subject to adjustment.

d) Any aspect of the transaction that was different from the transaction submitted for approval.

e) Itemized list of all fees and expenses incurred on the transaction.

f) For negotiated sale of bonds:

    i) the underwriters' spread detailing the management fee;

    ii) takedown by maturity and aggregate takedown;

    iii) any risk component and an itemized list of the expense component;

    iv) orders placed by each underwriter and final bond allocation;

    v) total compensation received by each underwriter; and

    vi) any report or opinion of the financial advisor.

g) Final official statement for publicly offered bonds.

h) Bond insurance or any other form of credit enhancement and the terms thereof.

i) Credit rating reports.

Selection of Financing Professionals

The use of underwriters for negotiated financings and the use of financial advisors for negotiated and competitive offerings is necessary to assist in the proper structuring and sale of debt. To assure fairness and objectivity in the selection of professionals and to help select the most qualified professional, the selection of underwriters and financial advisors should be accomplished through a competitive selection process.

IV. DISCLOSURE

Primary Disclosure

Staff shall use best practices in preparing disclosure documents in connection with the public offer and sale of debt so that accurate and complete financial and operating information needed by the markets to assess the credit quality and risks of each particular debt issue is provided.

Continuing Disclosure

DSOs shall fulfill all continuing disclosure requirements set forth in the transaction documents and as required under Rule 15c2-12 of the Securities and Exchange Commission.

V. POST-ISSUANCE CONSIDERATIONS

Investment of Proceeds of Debt Issued by DSOs

Construction Funds. Funds held for payment of debt service and all other funds held as required by the documents of any financing shall be invested consistent with the terms of the Financing Documents.

Arbitrage Compliance

The University and its DSOs will comply with federal arbitrage regulations. Any arbitrage rebate liabilities should be calculated and funded annually.

VI. EFFECT

The foregoing guidelines shall be effective immediately and may be modified from time to time by the Board of Governors as circumstances warrant. The guidelines are intended to apply prospectively to all university and DSO debt.