Public Private Ventures Program

Facilities Officers Conference

October 27, 2011

"Creating a More Educated Georgia"

Public Private Ventures Program

- The program is used primarily for projects that are self supporting (housing rents, user fees, research funds, and redirection of rental payments).

- Private Interest
  - Developers
  - University Foundations
  - Non-profit Organizations
  - Limited Liability Corporations (LLC)
  - USG Real Estate Foundation

- Project Financing
  - Bonds (tax-exempt & taxable)
  - Credit Enhancement (bond insurance & letter of credit)
  - Rated Bond Issues (no credit enhancement)

Public Private Venture Program

Georgia Structure

Following is a brief description of the structure typically used in Georgia PPV transactions.

- The Board of Regents of the University System of Georgia (the "BOR") leases land on campus to a LLC under a ground lease for a term equal to the bonds:
  – when the bonds are paid in full, the ground lease terminates and the facility reverts to the BOR.

- The LLC and the BOR enter into a rental agreement under which the BOR agrees to lease the completed facility under a "triple-net" lease arrangement for rents sufficient to pay the principal and interest of the bonds. The University is responsible for the operation of the facility

Portfolio Update (10-25-11)

- 172 projects - $3.891 Billion
- Including 14 projects under construction
- Located on 33 of 35 institutions
- A variety of facility types including:

◆ Housing	40,012 beds
◆ Parking	27,697 spaces
◆ Student Support	2,538,437 sq. ft.
◆ Research	1,449,421 sq. ft.
◆ Instructional	1,044,275 sq. ft.
◆ Office	999,762 sq. ft.
◆ Stadium Seats	35,488 seats

Student Housing

- Dorms, Semi-Suites, Suites, & Apartments
- Board of Regents requires a Comprehensive Housing Plan and Market Study
- Housing Rents cover rent to Foundation, operating cost, & repair and replacement reserves

Student Support Facilities

- Student Centers, Student Unions, Student Learning Support, Recreation Centers, Parking Decks
- Board of Regents requires student fee committee to vote for assessing student fees
- Needs assessment shall be conducted that obtains student input (focus groups, surveys, workshops, etc)
- Student Fees are used to pay rent to Foundation, some operating costs, building reserves

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Research, Office, and Instructional

- Research funding used to cover rent to Foundation and building reserves

- The redirection of rental payments to new and existing facilities

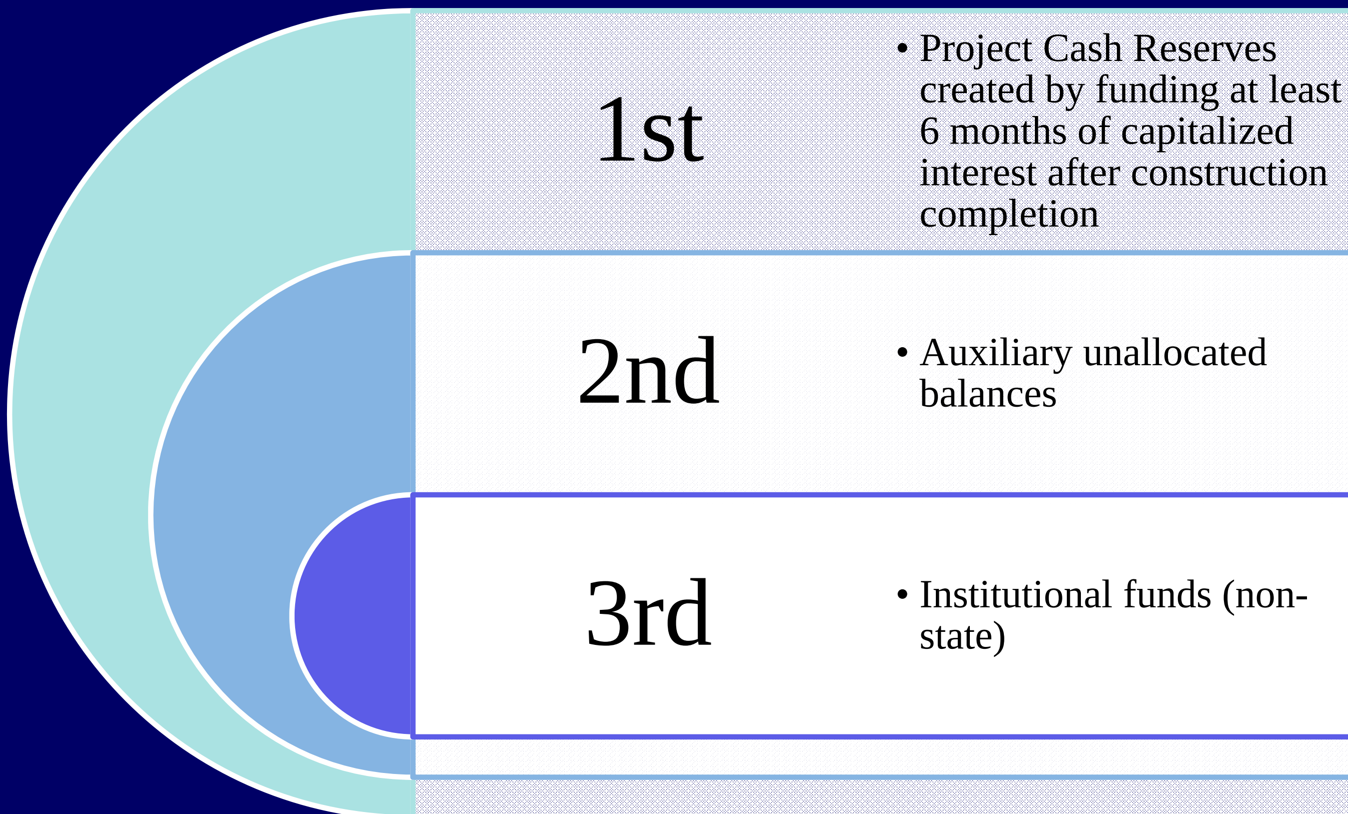

Medical College of Georgia Cancer Research Center


Georgia Perimeter College Newton Campus

Underwriting Guidelines

- Income and Expenses can not increase more than 3% per year
- Funding Repair and Replacement Reserves
- Debt Coverage Ratio must equal at least 1.05
- Level Debt Service Payments/Fixed Interest Rate
- Fund at least 6 months capitalized interest after construction completion to create project reserves
- Performance of previous PPV's and Debt Capacity

Financial Risk Mitigation Strategy



Required Debt Service Coverage Ratio: 1.05 to provide cushion

Management & Operations

PPV Project Accountability

Insurance	Cash Flow	Physical Conditions
Adequate & Proper Coverage	Annual Reporting of Financial Performance	Physical Conditions Documented
Pooled Coverage	Revenues & Expenses Analysis	5-Year 3rd Party Physical Assessment
Risk Mitigation across Portfolio	Lease Payment/Debt Service Analysis	Repair & Replacement Reserve Analysis

"Performance Matters"

Managing Risks and Preserving Value

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Asset Management

- Close-out of Fiscal Year PPV Projects
  - Focus on whether your projects are Self-Liquidating
  - Benchmark against proforma
  - Confirm recorded expenses are specific to project
- Contact Cynthia Alexander regarding Cash Flow Issues
  - If cash flow is not consistent with proforma
  - If proforma needs to be re-cast
- Rating Agency Alert
  - If you get calls or notice of review or changes in rating call and get us involved
- Lease Renewal Form for each PPV
  - Send a copy to Cynthia Alexander

BOARD OF REGENTS OF THE UNIVERSITY SYSTEM OF GEORGIA

Questions?

"Creating a More Educated Georgia"

STRICTLY CONFIDENTIAL

University System of Georgia Public Private Venture Financings

15th Annual Facilities Officers Conference
October 26-28, 2011
Cunningham Center
Columbus State University

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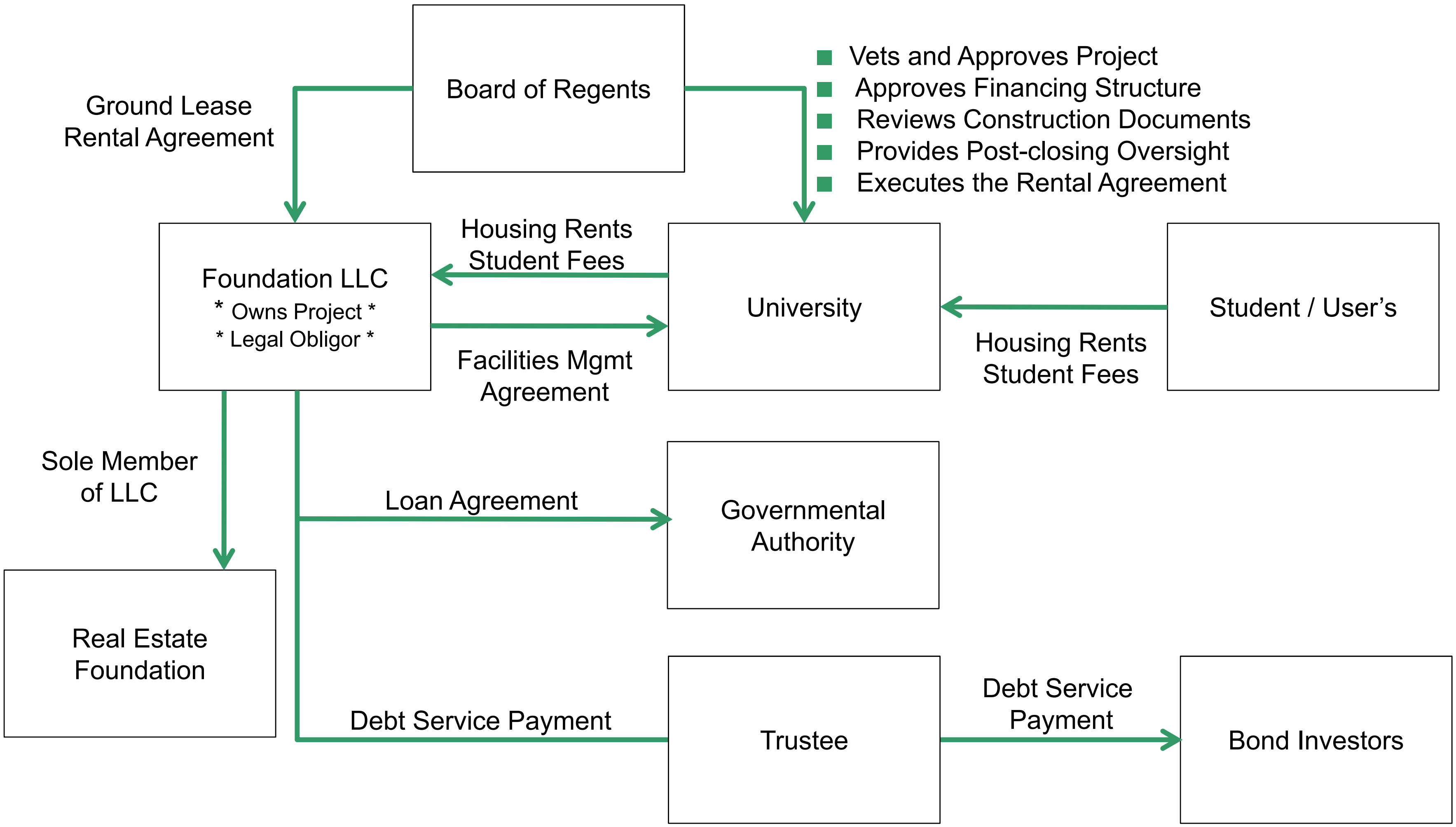
Why utilize privatized structures?

- Faster completion
- Streamline procurement process
- Funding limits or restrictions
- Private funding source
- Non-recourse to University *
- Off-balance sheet and off-credit *
- 100% project financing
- Philosophical shift

* Varies based on University involvement

University System of Georgia PPV structure



MERCHANT CAPITAL L.L.C.

Summary of potential financing options

Financing Observations	Traditional University	University-Affiliated Foundation	Unaffiliated-Nonprofit Corporation	Fully Privatized
Cost of Capital	Lowest	Slightly Higher	Higher	Highest
Credit Rating (1)	Aaa	Aa2 – A1	A3 – Baa	Baa - Below
Tax-Exempt Financing	Available	Available	Potentially Available	Not Available
Off-balance Sheet Treatment	Not Possible	Not Possible	Possible	Yes
Level of University Control	Highest	High if managed by University, but lower if managed by outside management firm		Lowest
Financial Return for University	Highest	High	Moderate	Low
Ease of Implementation	Lowest	Moderate	Moderate	Highest

NOTES:
(1) For illustrative purposes only. Based on Moody's ratings.

Off Balance Sheet and PPV

Off Balance Sheet

- Rated Baa3 (BBB-)
- Coverage Requirement – 1.20x
- Cash Funded Reserve 100% Requirement
- First Fill Agreement
- Freshmen & Sophomore Housing Requirement
- Construction Risk Requirements
- Insurance Premium Rate – 225 bps
- Cost of Capital – 5.45%

Georgia Board of Regents

- Rated A+
- Coverage Requirement -1.05x
- Cash Funded Reserve 50% Requirement
- No Fill Agreement or Housing Requirement
- Construction Risk Requirements
- Insurance Premium Rate – 65 bps
- Cost of Capital – 4.88%

Team members involved in PPV bond issues

- University
- Foundation / LLC – Project Owner
- Board of Regents
- Project Consultant or Program Manager
- General Contractor / Developer
- Issuer and Issuer’s Counsel
- Bond Counsel
- Underwriter and Underwriter’s Counsel
- Trustee
- Rating Agency
- Credit Enhancer

Credit criteria for financing a PPV

- University
  - Market position? Governance? Operating performance?
  - What are the university's current capital needs? Long-range capital plans?
  - Has the university participated in a PPV financing before? If so, how is the project performing?
- Project
  - Who is legal obligor? Relationship to university?
  - Is the university involved? If so, what role?
  - Location of project? Is it located on university-owned land?
  - Strategic importance of the project?

Credit criteria for financing a PPV (continued)

- Bond / Legal Structure
  - Project revenues? Mandatory or discretionary fees? What is the security pledge?
  - Projected assumptions in proforma?
  - How is construction risk addressed?
  - Flow of funds
  - Is a debt service reserve fund established? Cash funded at 100% or 50% of requirement? Surety bond?

Moody's

- Ratings reflect a blended assessment based on (1) the lease agreement with the Board of Regents and (2) underlying credit characteristics of the university, which ranges from "Aa2" to "A3".
- Strengths include:
  - Strategic importance of the projects
  - Initial approval and continued oversight by Board of Regents
- Challenges include:
  - Rental payments are subject to annual renewal
  - Certificate of occupancy must be issued before rental payments begin
  - Construction risk can be mitigated, but not eliminated
  - Challenging state funding environment

Standard & Poor's

- Ratings reflect the lease agreement with the Board of Regents, which is currently "A+".
- Strengths include:
  - Strategic importance of the projects
  - Initial approval and continued oversight by Board of Regents
  - University System of Georgia's large, comprehensive role as the state's system of higher education
- Challenges include:
  - Annual appropriation risk and abatement risk
  - Rapid growth of debt issued by the University System of Georgia
  - Construction risk can be mitigated, but not eliminated

Assured Guaranty

- Insurance policies are irrevocable and guarantee the timely payment of principal and interest on bonds to investors.

- Requirements would be significantly more stringent without the Rental Agreement .

- Assured Guaranty's analytical approach to USG PPV is multifaceted combining elements of off balance sheet / project finance and tradition higher education analytics.

- Risks include:
  - Ability of individual institutions to attract students
  - Risk of Damage to the facility and abatement of rent by Board
  - Project Self Sustainability
  - Appropriation and Allocation Risk of the Board
  - Construction Risk – Rents payable upon completion of project

Construction risk can be mitigated

- The following strategies have been used to mitigate construction risk:
  - All drawings, designs, studies and engineering reports will be final before bond sale
  - Payment and performance bonds for the full project cost
  - Construction contract will have a guaranteed completion date for a guaranteed maximum price (GMP)
  - Builders Risk Insurance
  - Collateral assignment of construction agreements to the trustee
  - Six months of capitalized interest beyond expected completion date
  - Reasonable level of liquidated damages
  - Principal payments do not start until the following year project is placed in service

What are the Changes Going Forward?

- BoR
- Rating Agencies
- Credit Enhancer
- Structural
- Market
- Political

University System of Georgia Facilities Officer Conference

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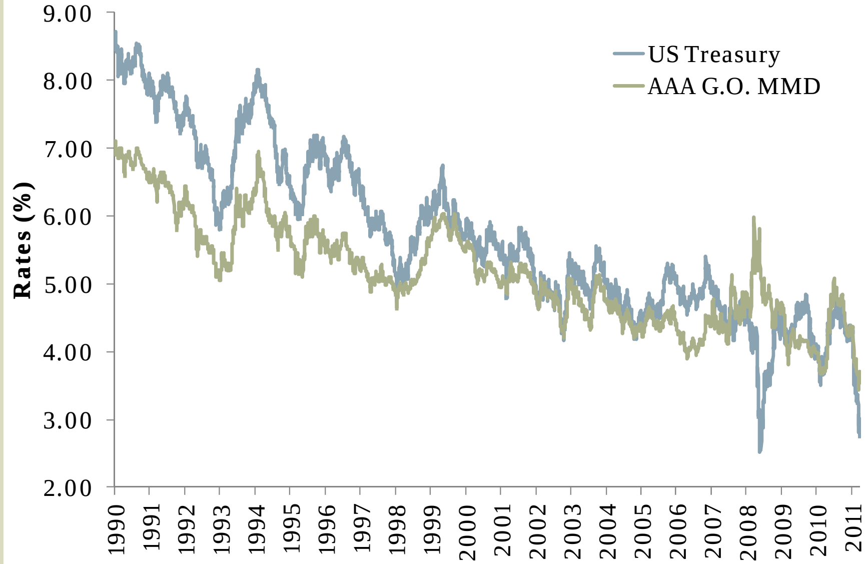
Columbus State University

Together we'll go far

Long Term:
US Treasury and Tax-Exempt Rates are down over 600 basis points over the 10 year period

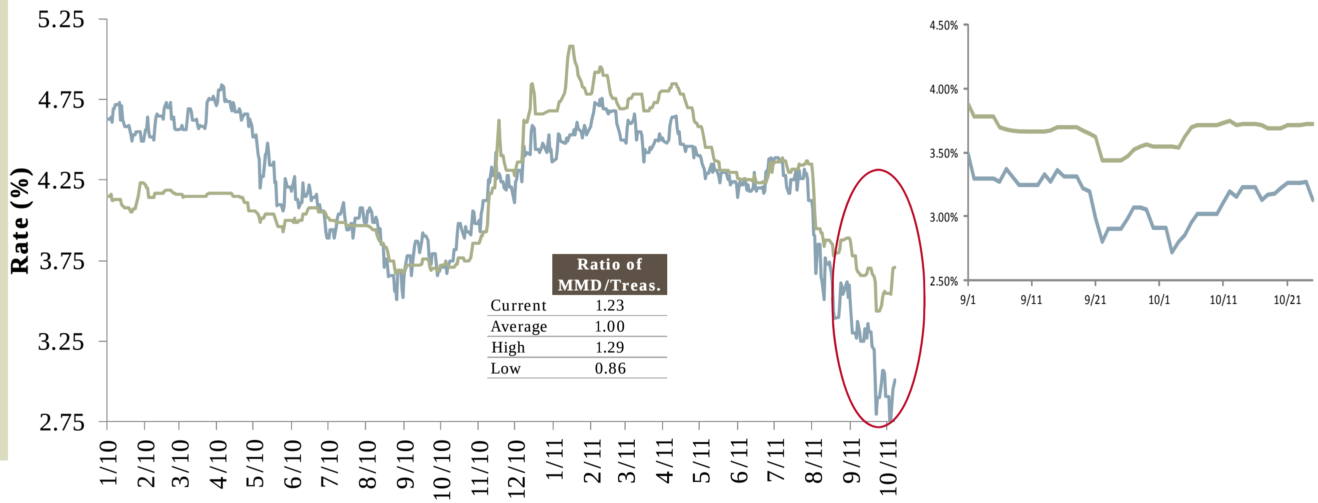
Short Term:
US Treasury and Tax-Exempt Rates are down over 225 basis points over a 1 year period

Long –Term: 30-Year Treasury and MMD (tax-exempt)



Current Rates:	10yr.	30yr.
US Treasury:	2.19%	3.21%
Tax-Exempt :	2.42%	3.72%

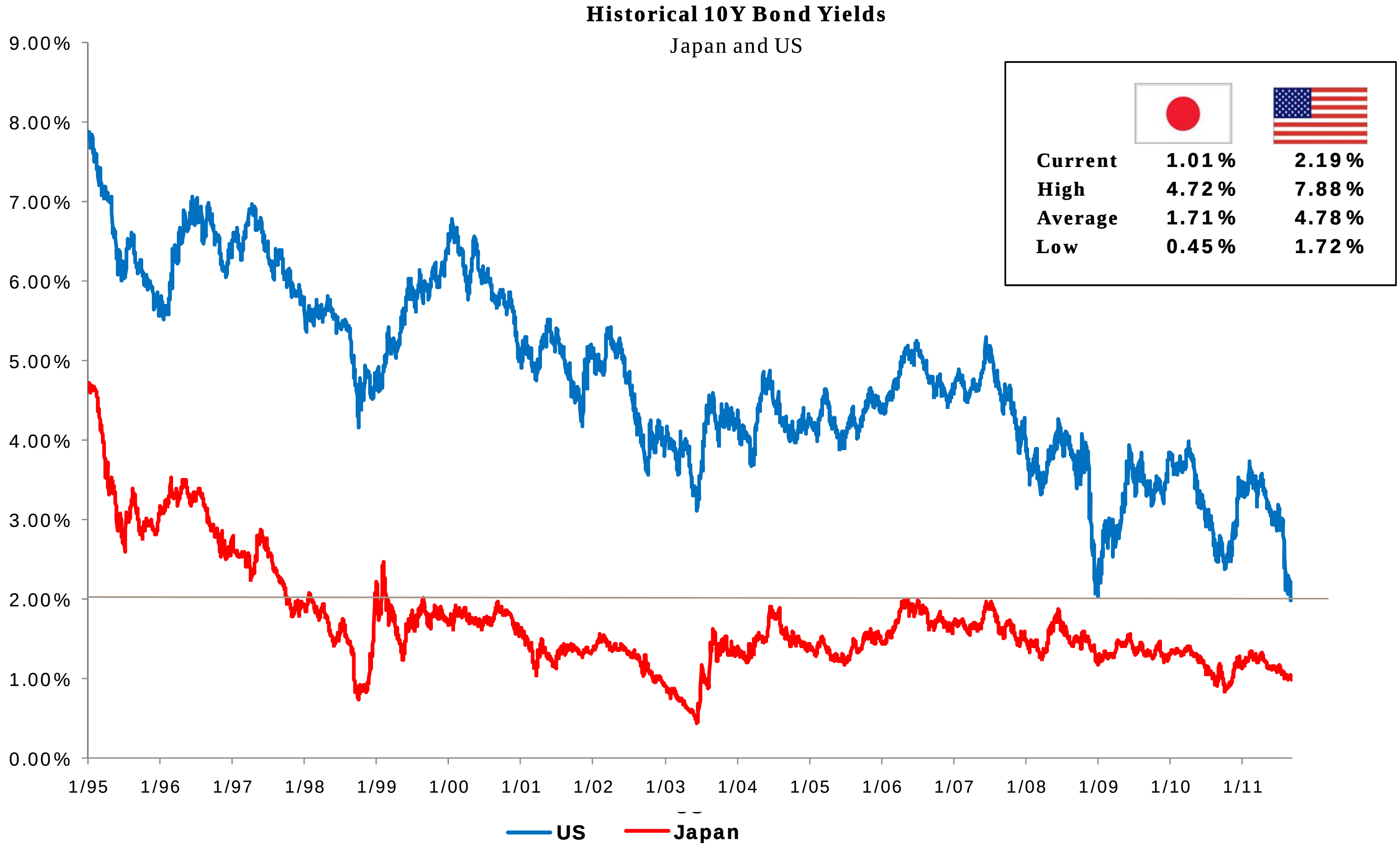
Short-Term: 30-Year Treasury and MMD (tax-exempt)



Ratio of MMD/Treas.	
Current	1.23
Average	1.00
High	1.29
Low	0.86

Source: Thomson Financial as of October 2011

How Did Japan’s Recession Impact Bond Yields?



- Japan’s 10Y bond yield fell below 2% in 1997 and has since spent 83% of the time below that level
- Japanese yields have remained at this historically low level for the past 14 years

Source: Bloomberg

Treasury Yields Have Moved Counterintuitive to QE Anticipation versus Actual Purchases

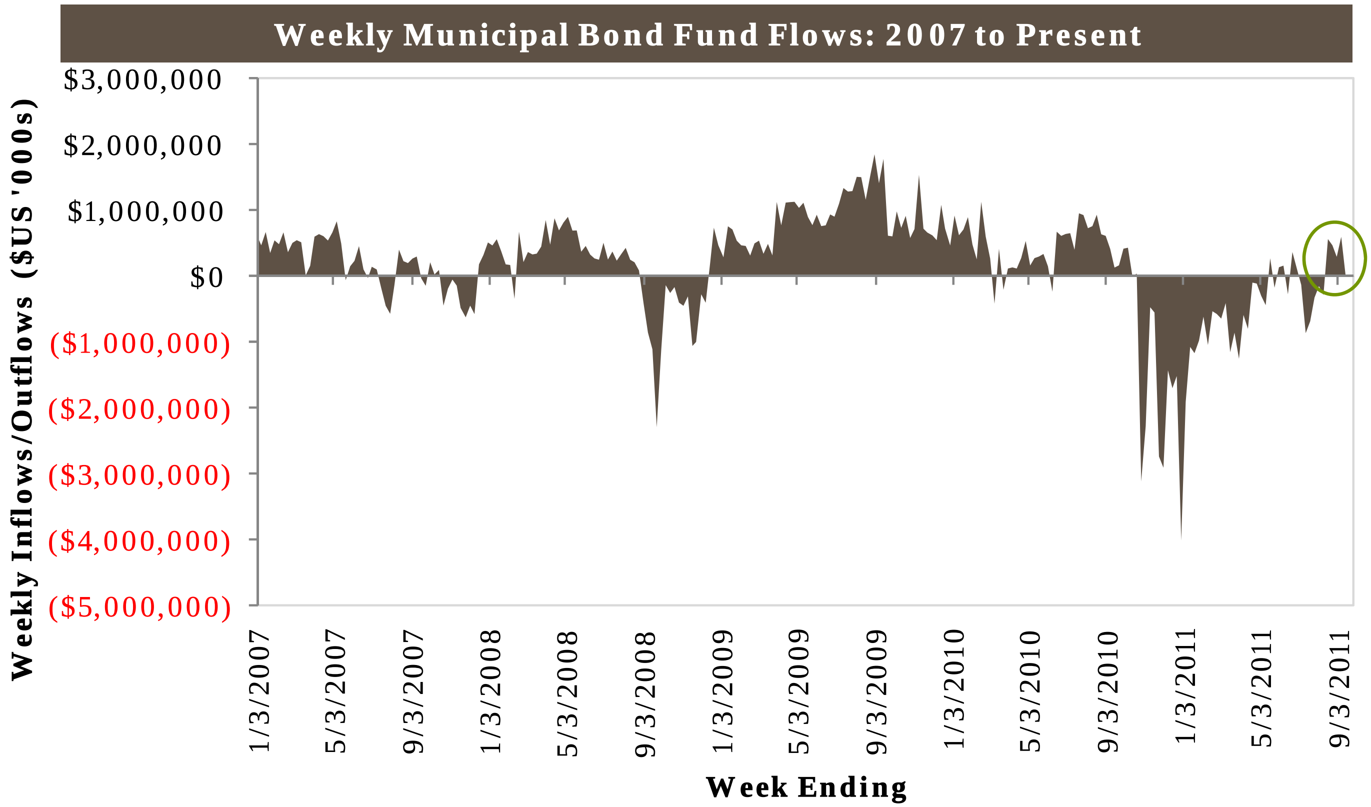
10-Year U.S. Treasury Yield

Source: Bloomberg

Municipal Bond Fund Flows

After massive outflows from November 2010 through June 2011, investors have recently started to leave the sidelines and money is trickling back into municipal bond funds

Even with this reduction in the buying power of municipal bond funds, the market hasn't experienced symptoms of reduced demand because volume has been so depressed

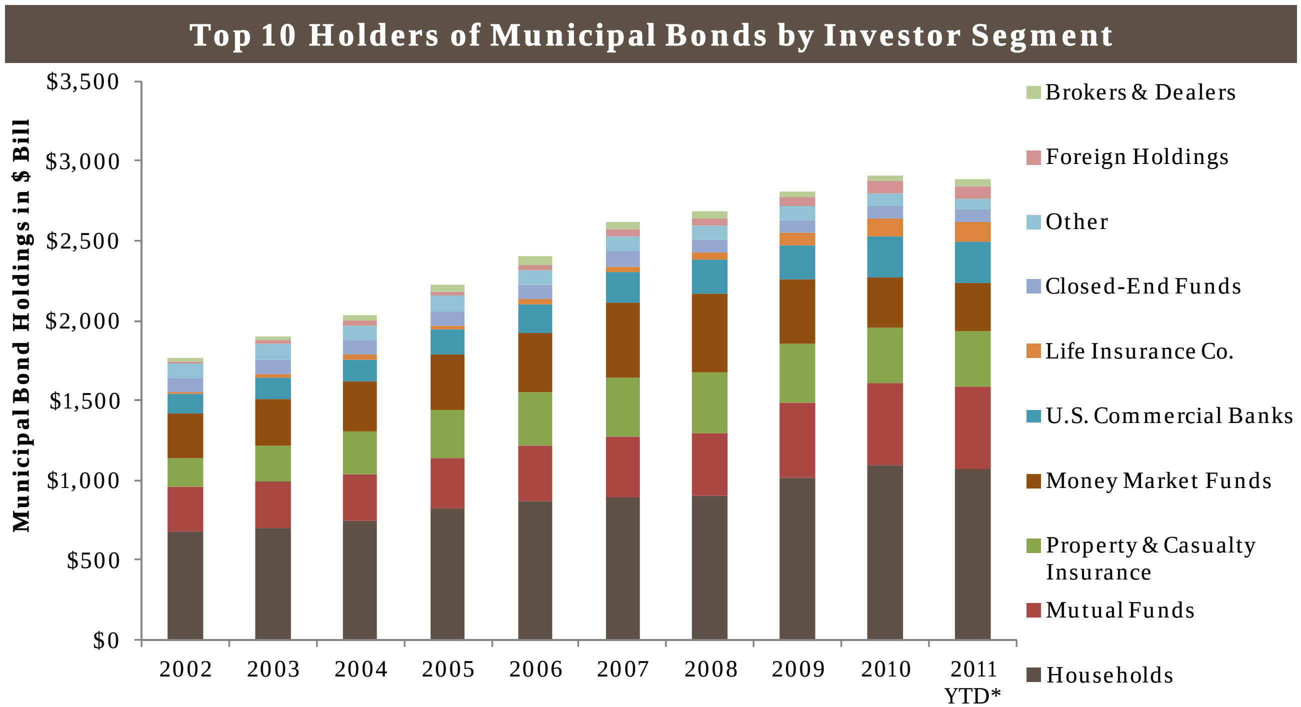


Source: Lipper FMI as of October 2011

Holders of Municipal Debt

Municipal bonds remain largely in the hands of professional investors although retail represents the largest investor segment at 37% of all current holdings

As municipal bond fund outflows and political debate over long-term tax exemptions threaten demand, will retail investors pick up the slack?



Source: Bond Buyer Market Statistics. * YTD 2011 as of June 30, 2011.

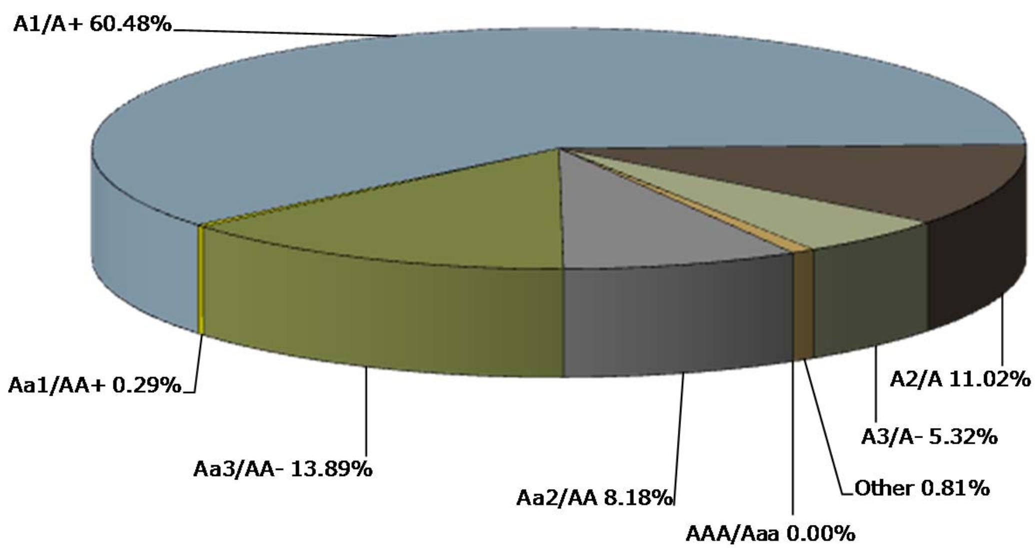
USG Institution Credit Ratings

Institution	Debt Outstanding [1]	Moodys	S&P
ABAC	42,560,000	A3	-
Albany State University	78,895,000	-	A+
Armstrong Atlantic State University	93,780,000	A2	-
Atlanta Metropolitan College	-	-	A+
Augusta State University	29,110,000	A2	-
Bainbridge College [2]	21,005,000	-	-
BOR/OIIT	11,050,000	Aa2	-
Clayton State University	70,555,000	-	A+
College of Coastal Georgia [2]	28,955,000	-	-
Columbus State University	65,166,433	A2	-
Dalton State College [2]	7,130,000	-	-
Darton College	45,885,000	-	A+
East Georgia College [2]	8,910,000	-	-
Fort Valley State University	81,960,000	A3	-
Gainesville State College	11,715,000	-	-
Georgia College & State University	146,530,000	A2	A+
Georgia Gwinnett College	162,570,000	-	A+
Georgia Highlands College	19,285,000	-	A+
Georgia Institute of Technology [3]	503,475,000	Aa3	AA-
Georgia Perimeter College	77,965,000	A2	-
Georgia Southern University	207,725,000	A1	-
Georgia Southwestern State University	40,565,000	A2	-
Georgia State University	358,325,000	A1	-
Gordon College	32,830,000	A3	-
Kennesaw State University	358,675,000	A1	A+
Macon State College	12,405,000	-	A+
Medical College of Georgia [4]	29,435,000	-	-
Middle Georgia College	62,895,000	-	A+
North Georgia College & State University	154,025,000	-	A+
Savannah State University	103,935,000	-	A+
South Georgia College	35,525,000	A3	-
Southern Polytechnic State University	92,920,000	A2	-
University of Georgia	295,819,285	Aa2	-
University of West Georgia	140,460,000	A1	-
Valdosta State University	191,988,775	A1	-
Waycross College	-	-	-
Total	**3,624,029,493**		

[1] As of October 25, 2011
[2] GHEFA Financing Rating (A2/A+)
[3] 2010B Bonds rated Aa1/AA+
[4] Insured rating

Category	Moodys	S&P	Fitch
Prime	Aaa	AAA	AAA
High Grade	Aa1	AA+	AA+
High Grade	Aa2	AA	AA
High Grade	Aa3	AA-	AA-
Upper Med	A1	A+	A+
Upper Med	A2	A	A
Upper Med	A3	A-	A-
Lower Med	Baa1	BBB+	BBB+
Lower Med	Baa2	BBB	BBB
Lower Med	Baa3	BBB-	BBB-

% of Debt Outstanding by Rating Category

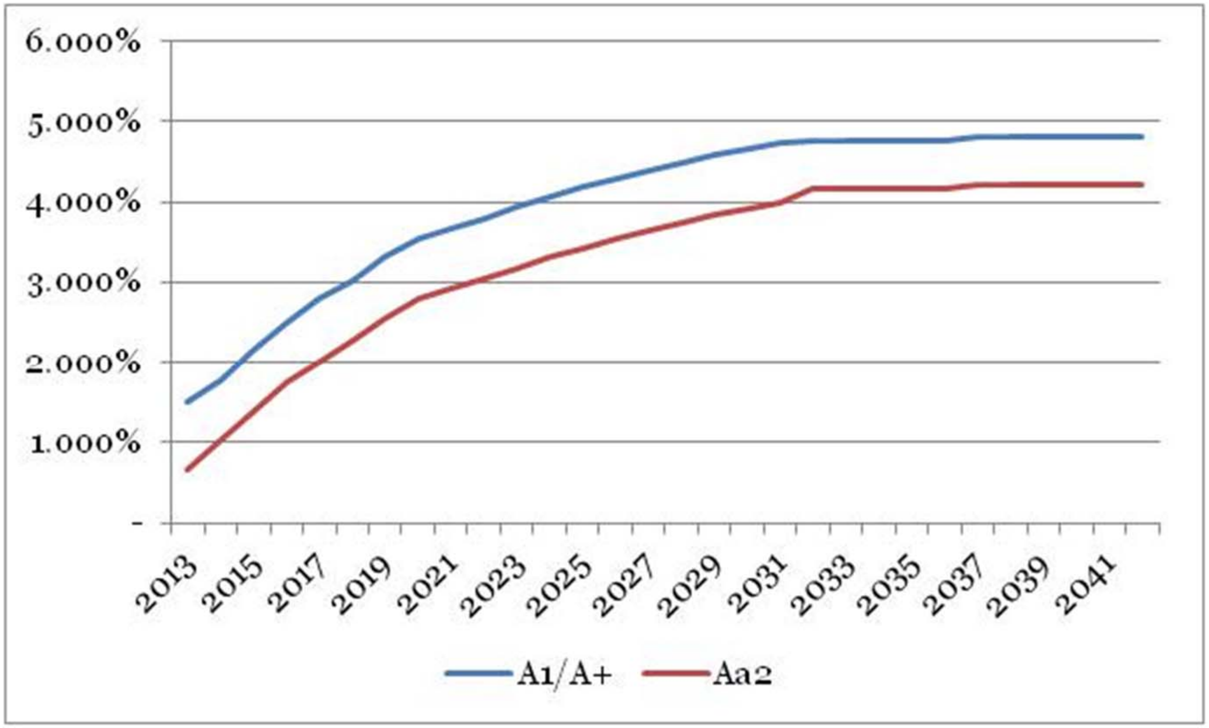


Current Tax-Exempt Interest Rates

Year	A1/A+	Aa2
2013	1.500%	0.650%
2014	1.780%	1.030%
2015	2.140%	1.390%
2016	2.510%	1.760%
2017	2.790%	2.010%
2018	3.030%	2.270%
2019	3.310%	2.560%
2020	3.550%	2.800%
2021	3.670%	2.920%
2022	3.790%	3.040%
2023	3.930%	3.180%
2024	4.060%	3.310%
2025	4.180%	3.430%
2026	4.290%	3.540%
2027	4.390%	3.640%
2028	4.490%	3.740%
2029	4.590%	3.840%
2030	4.660%	3.910%
2031	4.730%	3.980%
2032	4.770%	4.170%
2033	4.770%	4.170%
2034	4.770%	4.170%
2035	4.770%	4.170%
2036	4.770%	4.170%
2037	4.820%	4.220%
2038	4.820%	4.220%
2039	4.820%	4.220%
2040	4.820%	4.220%
2041	4.820%	4.220%
2042	4.820%	4.220%

Value to a higher rating:

- 60 basis point difference between A1/A+ and Aa2
- Viability of bond insurance is uncertain



Sample New Project Financing

Project Size	$10,000,000	$20,000,000	$30,000,000	$40,000,000	$50,000,000
SOURCES OF FUNDS					
Par Amount of Bonds	$ 11,380,000	$ 22,715,000	$ 34,015,000	$ 45,350,000	$ 56,650,000
Original Issue Premium/(Discount)	105,387	210,323	314,912	419,907	524,535
Accrued interest		-	-	-	-
TOTAL SOURCES OF FUNDS	**$ 11,485,387**	**$ 22,925,323**	**$ 34,329,912**	**$ 45,769,907**	**$ 57,174,535**
USES OF FUNDS					
Fixed Costs of Issuance	159,663	285,565	398,793	506,427	610,417
Debt Service Reserve Fund (50%)	402,963	803,459	1,202,347	1,602,500	2,001,494
Capitalized Interest Fund (2 Years)	911,340	1,819,277	2,724,123	3,631,950	4,536,889
Project Cost	10,011,421	20,017,022	30,004,650	40,029,030	50,025,736
TOTAL USES OF FUNDS	**$ 11,485,387**	**$ 22,925,323**	**$ 34,329,912**	**$ 45,769,907**	**$ 57,174,535**
Average Annual Debt Service	$806,000	$1,607,000	$2,405,000	3,205,000.00	$4,000,000
Project Size as % of Principal	87.97%	88.12%	88.21%	88.27%	88.31%
Capitalized Interest Fund	8.01%	8.01%	8.01%	8.01%	8.01%
Debt Service Reserve Fund	3.54%	3.54%	3.53%	3.53%	3.53%
Costs of Issuance	1.40%	1.26%	1.17%	1.12%	1.08%

Today's Market Rule of Thumb:
$800,000 of Debt Service = $10,000,000 Project

Refunding Essentials:

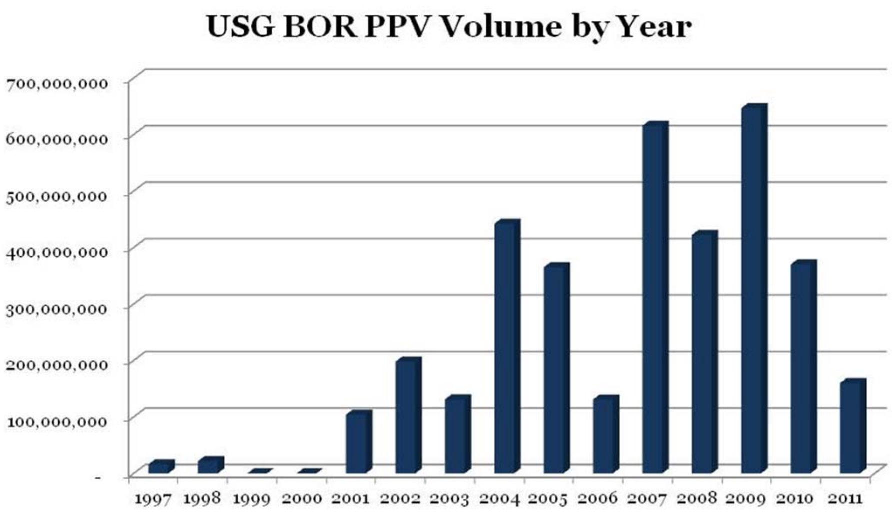
- Existing bonds typically have a 10-year call protection
- Escrow pays existing bonds until the call date
  - Low short term rates (negative arbitrage) is very costly
- Couponing (selling at a premium or discount) effects savings
- Establish a savings threshold, i.e. 3% present value savings

Considerations:

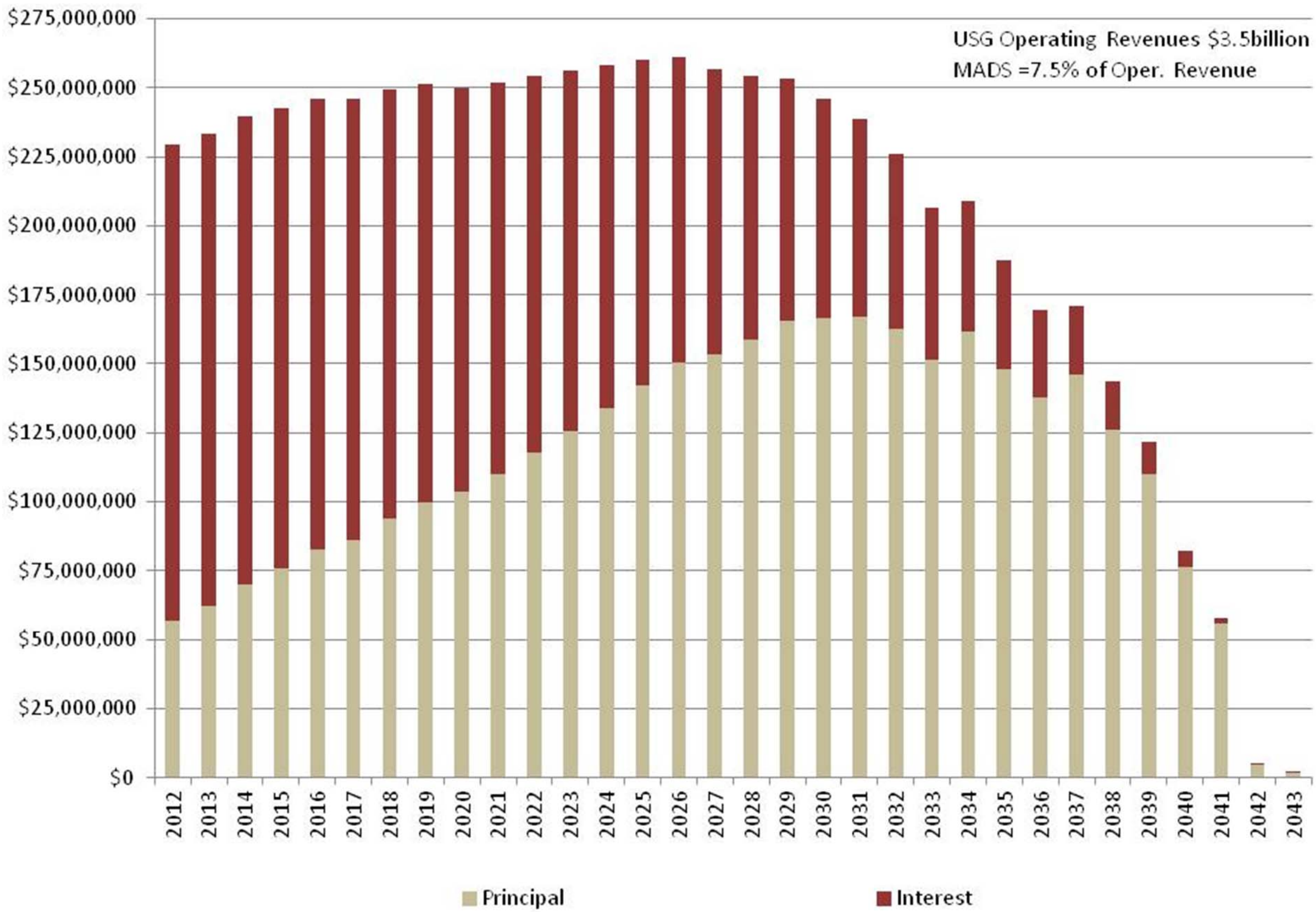
- Refunding might add annual fees that did not exist on original debt
  - Authority, BOR, etc.
- Who retains the savings? Project, LLC, Institution, BOR or State
- Rental Payments can not increase
- Rated debt refunding insured debt

Current Status:

- $3.6 billion outstanding
- $255.7 million of principal (only 7% of all maturities) generates 3% or greater present value savings

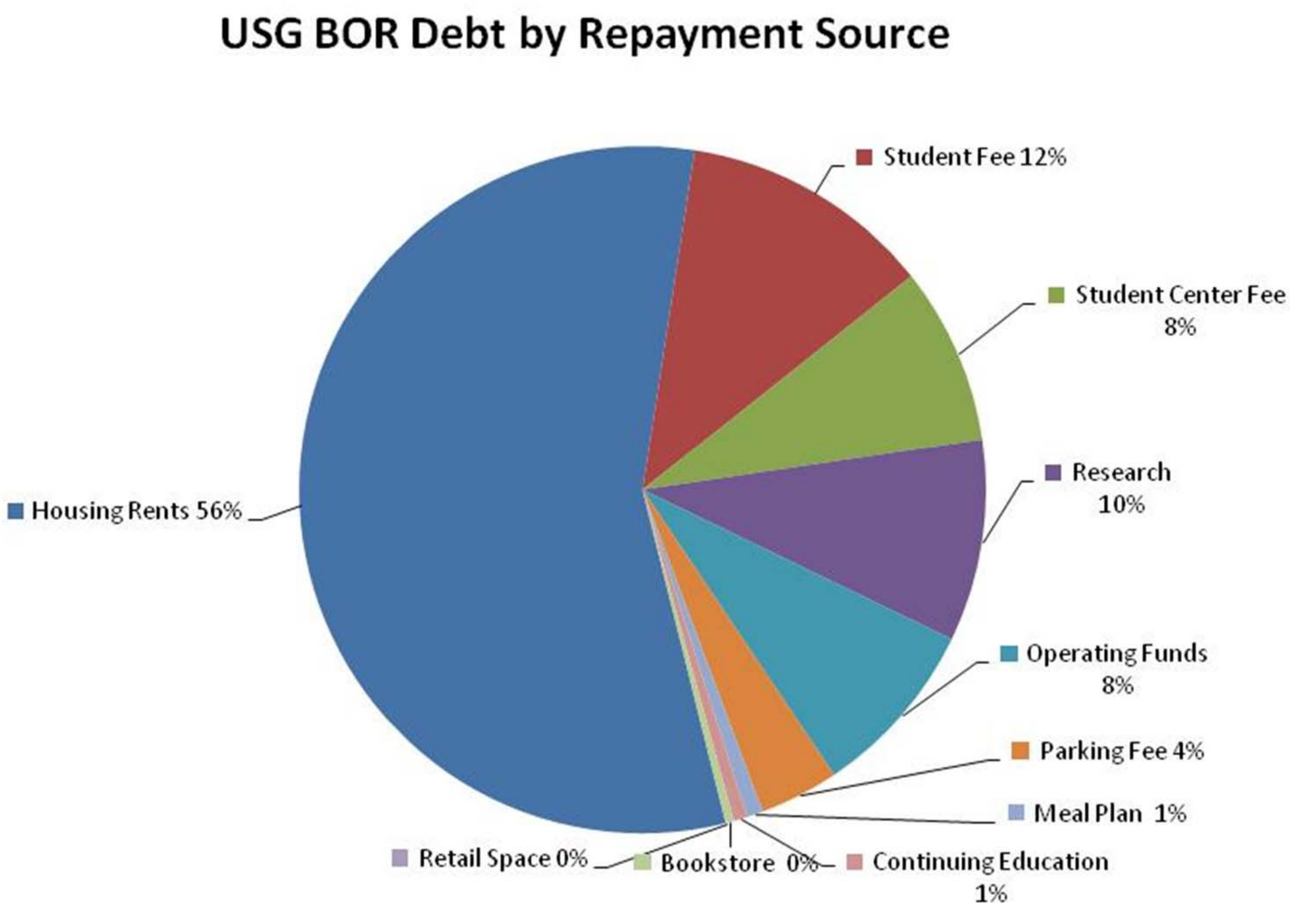


USG Fiscal Year Debt Service

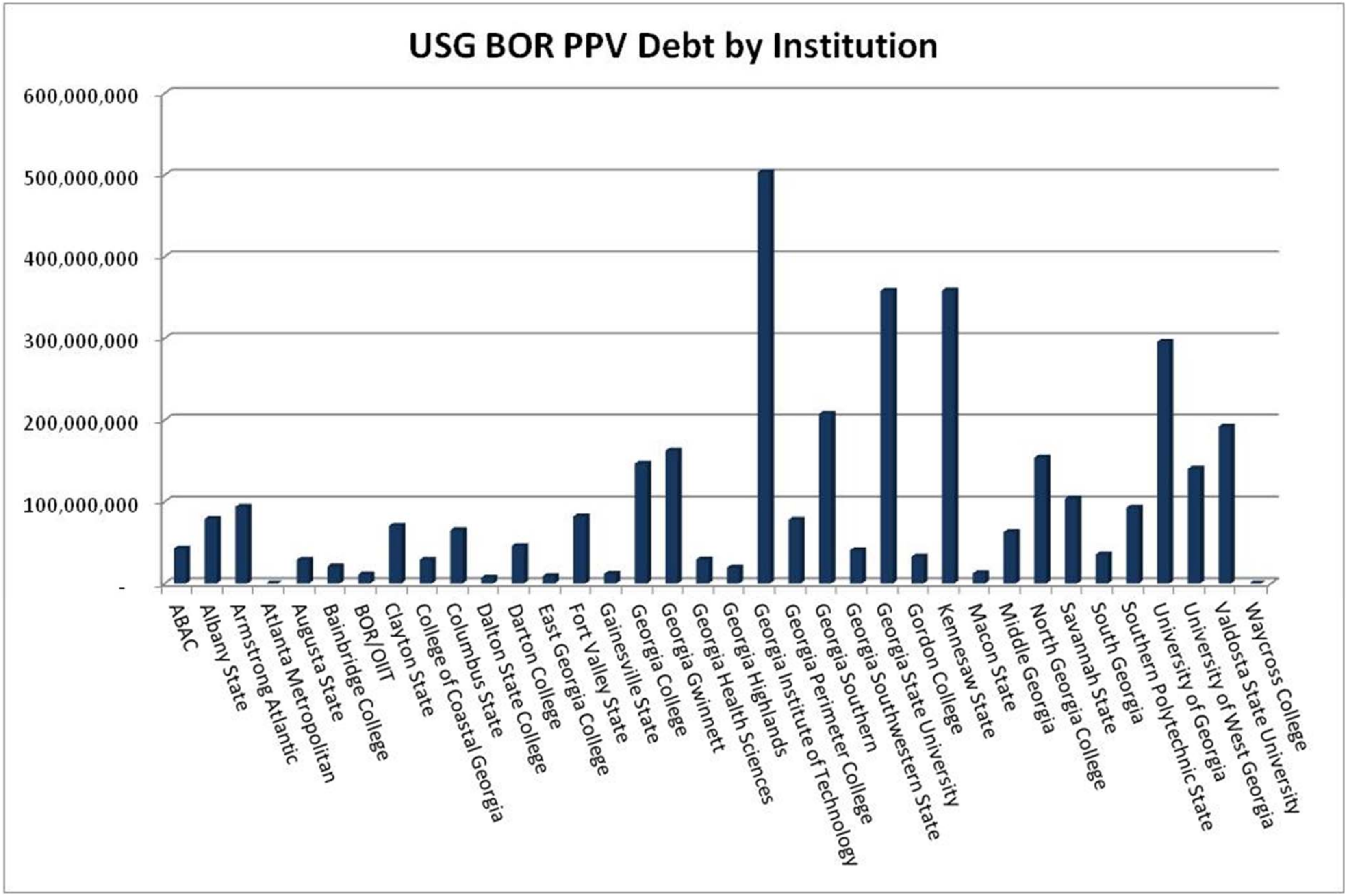


USG Debt by Repayment Sources

Revenue Sources	Outstanding
Housing Rents	2,040,721,433
Student Fee	430,758,060
Student Center Fee	302,160,000
Research	345,060,000
Operating Funds	305,115,000
Parking Fee	135,085,000
Meal Plan	27,435,000
Continuing Education	23,295,000
Bookstore	14,400,000
Retail Space	-
	3,624,029,493



USG PPV Debt by Institution



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