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University of California Faces Hardship, Eager Bond Buyers.

- **Even with state aid cut by 12%, system considered ‘marquee’**
- **University sold \$2.3 billion in municipal debt Thursday**

The University of California knows it faces significant repercussions from the coronavirus pandemic — though it can’t say how extensive. Yet it didn’t have any trouble borrowing money from Wall Street.

The system sold \$2.3 billion in revenue bonds Thursday, its first sale since California, dealing with its own shortfalls triggered by the crisis, slashed the university’s funding by 12% in the fiscal year that started in July. The cuts could be reversed if additional federal dollars come through, a scenario that remains uncertain.

The offering of bonds with a final maturity of 2050 shows the dichotomy that’s emerging in the \$3.9 trillion municipal market that finances states, cities, schools and other local institutions. While the virus has led to plummeting tax revenue and skyrocketing costs, some issuers are better equipped to manage the turbulence. And when it comes to colleges and universities, investors are weighing which are more likely to succeed with hybrid online and on-campus plans and other steps to educate students safely while balancing the fiscal hit.

“We’re confident that they can manage the stress,” said Bernhard Fischer, senior analyst at Principal Global Fixed Income, which manages \$9.9 billion in municipal securities. Calling the 10-campus system a “marquee” school, Fischer said “the brand names, the larger state institutions in particular, should be able to weather this downturn better or best.”

Of the \$2.3 billion in bonds, \$1.5 billion are taxable. The proceeds will go to retiring existing securities and for working capital. The sale is part of a glut of offerings from higher education facilities, which have already sold more in bonds this year than in 2019, even as they deal with higher costs from the pandemic and reduced revenue from student housing.

“We expect supply in this sector to remain robust as institutions are in dire need of funding,” Barclays Plc analysts said in a report Wednesday.

Yields on the tax-exempt portion included 0.26%, or 15 basis points below benchmark, for bonds due in five years, and 2%, or 37 basis points above benchmark, for bonds maturing in 2050 with a 4% coupon.

The largest U.S. public university system in revenue and enrollment, the University of California also operates five medical schools and three national laboratories. In fiscal 2019, it educated 279,145 full-time equivalent undergraduate and graduate students. Its “excellent strategic position as a globally recognized comprehensive academic, medical and research institution with substantial scale and wealth” merits a credit rating of Aa2 with a positive outlook, Moody’s Investors Service said.

It still faces considerable challenges from the pandemic, which led to the cancellation of all spring and summer physical sessions. The university expects all campuses to offer most classes remotely in

the fall and some to reduce housing.

“There has been and will continue to be material financial impacts to the university due to the Covid-19 impacts due to a variety of factors including, but not limited to, lower housing occupancy and utilization of auxiliary services, facility cleaning costs, and transitioning to remote instruction,” the University of California regents said in documents circulated to investors ahead of the sale.

The system, which this week named its first Black president, has frozen the salaries of some staffers, while the chancellors and the president agreed to cut their pay by 10%.

The state’s lawmakers, however, have sought to help. If California receives \$14 billion in federal aid by October, the university would see the cuts reversed so that its state allocation is \$3.94 billion, about the same as last year.

The university gets so many applications from students nationwide and internationally that California’s leaders have urged it to expand the ability of residents to attend. The system was planning to add 15,000 student beds between fall 2021 and fall 2025 to help accommodate the need, according to a 2019 annual report.

“They can make it through difficult times because they have such strong finances and a strong demand” from students, said Dan Solender, head of municipal debt at Lord, Abbett & Co.

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— *With assistance by Emmy Lucas*