2006 CEFA Bond and Swap Transaction
Transaction Overview

Board wanted us to move quickly to capture favorable long-term rates

Two options (Board Meeting 1/06)
  – Issue traditional fixed rate bonds – 4.3%
  – Issue “synthetic fixed rate” bonds – 3.6%
    - variable rate bonds
    - swap into fixed rate

Caltech issued $165 million in variable rate bonds
  – $76 million to refund 2003 bonds
  – $88 million to fund construction projects
  – $1 million fees and expenses

Swap (3/06)
  – $165 million notional amount
  – 30-year tenor
  – BNY winning bidder as counterparty
  – 3.549% fixed rate

Current fixed rate 4.6% (7/06)
Caltech

variable
rate

Bondholders
Variable rate paid to bondholders:

- Reset weekly by remarketing agents (Prager & Morgan Stanley); fee = 7.5 bps
- Rates determined by supply and demand in tax exempt market
- Caltech’s rates are typically less than the index (BMA)
- Invoice sent monthly by US Bank due first business day of the following month
Swap Transaction:

- Caltech pays BNY fixed rate of 3.549%
- BNY pays Caltech 67% of LIBOR (1 month)
  - LIBOR – London Interbank Offered Rate
    - Most widely used benchmark for taxable short-term interest rates
    - Calculated daily by the British Bankers’ Association
- BNY calculates both sides and the net monthly
- Net paid by either BNY or Caltech
# Example

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
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</thead>
<tbody>
<tr>
<td>Caltech pays to bondholders</td>
<td>3.490%</td>
</tr>
<tr>
<td>Caltech receives from BNY (67% LIBOR)</td>
<td>-3.620%</td>
</tr>
<tr>
<td>Caltech pays BNY (fixed rate)</td>
<td>3.549%</td>
</tr>
<tr>
<td>Remarketing Fee</td>
<td>0.075%</td>
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<tr>
<td>Net Borrowing Rate</td>
<td>3.496%</td>
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Swap Valuation

• Swap is also a financial asset or liability

• Caltech pays 3.549%, receives 67% LIBOR

• Basically, when LIBOR is **HIGHER** than projected when swap priced (3/06), swap is an **ASSET**

• Conversely, when LIBOR is **LOWER** than projected when swap priced, swap is a **LIABILITY**

• BNY sends valuation (AKA mark-to-market) monthly

• Change to the valuation booked as unrealized gain or loss