

August 6, 2012

**ITEM 156-2005-C0812**

**Authorization to Issue Series O 2012 Refunding Revenue Bonds; Montana State University**

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**THAT**

The Montana Board of Regents of Higher Education adopts the Bond Resolution for the Series O 2012 Facilities Refunding Revenue Bonds for Montana State University, and authorizes Montana State University and the Commissioner of Higher Education to proceed with the issuance of these bonds.

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**EXPLANATION**

1. Interest rates are monitored frequently by the University and its financial consultants. Recently, interest rates have fallen to levels that may make it beneficial for the University to perform a taxable refunding of a portion of its Series I 2004 bonds. Such bonds originally refunded a significant portion of the Series 1996D bonds.
2. The outstanding principal balance of the Series I 2004 Bonds is currently \$27,955,000, with \$19,230,000 attributable to the Bozeman campus and \$8,725,000 to the Billings campus. Principal payments of \$2,955,000 will be made as scheduled through November, 2015, with all or a portion of the remaining \$25 million refunded through the issuance of Series O 2012 Refunding Bonds.

The Series O 2012 Refunding Bonds will consist of fixed rate taxable debt, and will be issued for up to \$28 million, which may be combined with existing University funds to provide an amount sufficient to:

- a. Pay bond issue costs,
  - b. Establish a debt service reserve fund (if required), and
  - c. Deposit in escrow an amount sufficient (with interest earned) to retire \$25 million of Series I 2004 bond principal upon its call date.
3. This issuance will not extend the due date of the original bonds, nor will it include additional principal borrowing, except as described above to pay costs related to the transaction.
  4. The rate on the existing bonds is 4.8%, and the net effective interest rate for the Series O bonds is expected to be in the 2.5% - 3.0% range, but in any event shall not exceed 3.5%.
  5. The Series O 2012 bonds will be issued at an interest rate that will realize a savings on refunding of not less than 3.0% net present value (NPV) (approximately \$1,100,000). The expected NPV savings for this refunding was 4.57% as of June 13, 2012,. The Government Finance Officer Association's published guidelines relative to advance refunding of tax-exempt bonds sets 3.0% NPV savings as a target savings amount that justifies such refunding.
  6. This refunding may be combined with the previously authorized Series N 2012 Bonds which will refund the University's Series H bonds. Should the Series O 2012 Bonds hereby authorized be issued prior to the issuance of the previously authorized Series N 2012 Bonds, the Series designations may be reversed so the first series to be issued is designated the Series N 2012 Bonds

and the second series to be issued is designated the Series O 2012 bonds.

This authorization to proceed with the issuance of the Series O 2012 Facilities Revenue Refunding Bonds is subject to final approval by the University and the Commissioner of Higher Education, which will determine the optimal time to execute this transaction based on the prevailing interest rates. This authorizes the Chair of the Board of Regents, the Commissioner of Higher Education, and the Vice President for Administration and Finance of Montana State University to execute such documents as may be required to consummate the issuance of the Series O 2012 Facilities Revenue Refunding Bonds.

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**ATTACHMENTS**

Facilities Refunding Revenue Bonds Resolution, Series O 2012