

November 21-22, 2013

ITEM 161-2004-R1113

Authorization to Construct a Residence Hall, Renovate Dining Facilities, Make Improvements to Certain Existing Residence Halls, and Proceed with the Issuance of Facilities Revenue Bonds: Montana State University

THAT

The Board of Regents authorizes Montana State University to construct a new residence hall and make improvements to existing residence and dining halls in an amount not to exceed \$60 million; and

The Board of Regents adopts a Resolution for Facilities Revenue Bonds for Montana State University and authorizes MSU and the Commissioner of Higher Education of the Montana University System to proceed with the issuance of these bonds in an amount up to \$70 million, which includes up to \$10 million in bridge financing for an academic building paid for with gift proceeds received over time.

EXPLANATION

1. The University received legislative authority to construct Jabs Hall in an amount up to \$20 million (House Bill 5, 63rd Montana Legislature).
2. Information items presented to the Board previously have discussed the University's intent to borrow funds necessary for the completion of Jabs Hall and the desire to initiate housing and dining enhancements.
3. Board of Regents' Item 156-2010-R0912 authorized the University to begin designing a dining hall renovation, enabling the University to meet the intended Summer 2014 construction period. Authority to expend \$150,000 to begin design of a new housing complex was granted by the Commissioner of Higher Education on June 25, 2013. Full construction authority for the projects, along with financing authority, is now sought.
4. This item authorizes Montana State University to construct and improve its housing and dining facilities, and to obtain the related financing necessary to:
 - a. fund up to \$35 million in construction of an approximately 400-bed student housing facility;
 - b. fund up to \$18 million in expansion and renovation of its three dining facilities;
 - c. fund up to \$5 million in maintenance projects to existing housing facilities
 - d. provide bridge funding of up to \$10 million to complete the construction of Jabs hall
 - e. pay costs related to the bond issuance, including attorneys', underwriters', and other professional fees; and
 - f. provide for a debt service reserve fund, should it be deemed necessary.
5. Debt is expected to be issued in December 2013, as follows:
 - a. \$60 million at a fixed rate of interest for 30-35 years;
 - b. \$10 million at a variable rate of interest for a period up to 5 years;
 - c. Interest is expected to be approximately 4.5% for the fixed-rate portion;
 - d. Interest is expected to be equal to the Securities Industry and Financial Markets Association (SIFMA) rate (or approximately 70% of Libor) plus 0.65% for the variable-rate portion.
6. Due to the strength of the University's credit rating, management does not expect to attach bond insurance to this transaction. Current markets indicate that the potential reduced interest rate gained from bond insurance is minimal in comparison with the associated costs. Should market conditions fluctuate

significantly, indicating a benefit to be realized from issuing insured bonds that outweigh the related costs, the University would seek bond insurance at a cost estimated at \$150,000.

7. Principal and interest payments for the \$60 million fixed-rate borrowing will be made from Auxiliary Services revenue streams, as shown in the attached Plan of Finance. Such revenue streams include current housing and dining income in addition to that derived from additional occupants.
8. Principal and interest payments for the \$10 million variable rate borrowing will be made from gift proceeds received from the MSU Alumni Foundation (MSUAF), derived from a gift to the MSUAF by Mr. Jake Jabs.
9. The bond approval process requires the Board of Regents to be presented with certain documents prepared or reviewed by university bond counsel, including a supplemental indenture of trust, a bond purchase agreement, a continuing disclosure agreement, and a preliminary official statement. These documents are in the process of completion, have been filed in draft form with the commissioner's office on behalf of the board, and have been reviewed by university and commissioner's office staff. They are available for review upon request and will be available at the Regents' meeting on November 21-22, 2013. The document which must be expressly approved by the board is the Bond Resolution, which is attached to this item. The Bond Resolution provides the board's approval of the issuance, sale and delivery of the Series A and B 2013 Bonds and delegates to the Board Chair, the MSU Vice President for Administration and Finance, and Commissioner's Office Legal Counsel the authority to approve the form and content of the various documents needed to complete the transaction, including the above-mentioned documents.

ATTACHMENTS

1. Plan of Construction for New Housing, and for Housing and Dining Improvements
2. Plan of Finance
3. Jabs Building Financing Agreement
4. Series A and B 2013 Facility Improvement Revenue Bond Resolution