

September 16-17, 2015

**ITEM 168-2015-R0915**

**Request Authorization to Execute Financing for the Construction of Parking Facility and Purchase of Lab/Office Facilities; Montana State University**

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**THAT**

The Board of Regents adopts Resolutions for the issuance of Facilities Revenue Bonds for Montana State University (MSU) and authorizes MSU and the Commissioner of Higher Education of the Montana University System to proceed with the issuance of debt in an amount up to \$11.5 million.

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**EXPLANATION**

1. Authority to construct and finance a parking facility has been previously submitted and approved (Item 167-2015-R0515). Authority to purchase a building to be used for lab/office space is submitted concurrently with this item (Item 168-2013-R0915).
2. This item authorizes MSU to obtain financing necessary to:
  - a. fund up to \$6.5 million in construction and financing costs related to a parking facility
  - b. fund up to \$5.0 million in acquisition and financing costs for a lab/office building

MSU may apply funds on hand to any of the above projects in order to reduce amounts to be financed.

3. Debt is expected to be issued in October-November of 2015.
  - a. Bank bids for a private bond placement will be sought for both a traditional fully funded loan (with the entire principal amount advanced on the closing date) and for a draw-down loan (which allows for draws over a period of approximately two years).
  - b. Principal and interest payments will be scheduled over a period of up to 30 years from the closing date or from the date of the last draw if structured as a draw-down loan.
  - c. Fixed-rate interest will be not greater than 3.25% for an initial period (up to 20 years depending on market conditions at the time of sale) (the "initial period"). Interest rates will be re-set at the end of the initial period at then-market rates.
  - d. Interest may be taxable to the bondholder on a portion of the bonds attributable to the lab and office building due to private use associated with the building (e.g. the lease of the building back to the existing tenant through the existing lease term). The IRS limits the amount of private use that may be financed on a tax-exempt basis. Bond counsel will assist with allocation between taxable and tax-exempt bonds. The university's financial advisor will assign debt maturities to the taxable and tax-exempt portions to minimize interest costs.
  - e. If after evaluating bank bids the Commissioner and university determine that the structure above does not compare favorably with the issuance of public bonds, the Chair and the Commissioner/Secretary of the Board may proceed with the issuance of traditional public bonds.
4. Bond issue costs will include
  - a. Bond counsel fees required to prepare a supplemental indenture, authorizing resolutions, the bonds, closing documents and any other agreements or instruments required in connection with the financing, and to provide an opinion as to the tax-exempt status of debt.

- b. If issued as a private bond placement, bank costs which are to be evaluated in the bid process as part of the overall interest cost (e.g. bank loan origination fees or interest rate spreads (points), and bank counsel fees).
    - c. If issued as public debt, costs associated with updating the University's credit rating and payment of bond underwriter fees, as have been previously negotiated through a public procurement process.
  5. Due to the strength of the University's credit rating, the University does not expect to attach bond insurance to or enter into additional covenants regarding this transaction.
  6. Principal and interest payments for the borrowing will be made from funds on hand as well as the associated revenue streams, as shown in the attached Repayment Plan. Such revenue streams include rents received from the current tenant in the lab/office building as well as current and future parking revenues and F&A cost recoveries in excess of current debt service requirements.
  7. The Commissioner of Higher Education, the MSU Vice President for Administration and Finance, and the Commissioner's Office Legal Counsel will determine the optimal time to execute this transaction based on the prevailing interest rates. This authorizes the Chair and the Commissioner/Secretary of the Board of Regents to execute such documents as may be required to consummate the issuance of the bonds.
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## **ATTACHMENTS**

Attachment #1—Repayment Plan

Attachment #2—Bond Resolution—parking facility financing

Attachment #3—Bond Resolution—purchase of lab/office facilities financing