

May 24-25, 2012

ITEM 155-2007-R0512

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

THAT

The Montana Board of Regents of Higher Education adopts the Bond Resolution for the Series N 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.

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 an advance refunding of a portion of its Series H 2004 bonds. Such bonds originally financed the construction of the Chemistry and Biochemistry building on the Bozeman campus.
2. The outstanding principal balance of the Series H 2004 Bonds is currently \$21,320,000. Principal payments of \$1.7 million will be made as scheduled through November, 2014, with all or a portion of the remaining \$19.62 million refunded through the issuance of Series N 2012 Refunding Bonds. The Series N 2012 Refunding Bonds will consist of fixed rate tax-exempt debt, and will be issued for up to \$20.5 million, in 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 \$19.62 million of Series H 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 4.72%, and the net effective interest rate for the Series N bonds is expected to be in the 3.5% - 4.0% range.
5. The Series N 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 \$500,000). The expected NPV savings for this refunding was 2.198% as of April 19, 2012, but has fluctuated as high as 3.757% in the past two weeks. 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 authorization to proceed with the issuance of the Series N 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, the President of Montana State University, 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 N 2012 Facilities Revenue Refunding Bonds.

ATTACHMENTS

Facilities Refunding Revenue Bonds Resolution, Series N 2012