

June 24, 2010

ITEM 147-2001-C0610

Authorization to Amend its Bond Indenture; Montana State University

THAT

The Montana Board of Regents of Higher Education adopts a resolution authorizing Montana State University and the Commissioner of Higher Education to amend its bond indenture in connection with its variable rate Series J 2005 Debt currently outstanding, as provided in this item.

EXPLANATION

1. Montana State University (the University) currently has outstanding one variable rate debt issue, the Series J 2005 debt. Repayment of this debt is guaranteed with a bank letter of credit (LOC), rather than with traditional bond insurance, as was approved in March 2008, as Regents' Item Number 138-2005-R0308.
 2. Because the University's current LOC expires in September 2010, offers were recently solicited for renewal or replacement of the existing LOC. The current LOC provider submitted a lower-cost, lower-risk alternative, called a direct-purchase option, whereby the bank purchases and holds the bonds—becoming an investor—rather than merely providing LOC support.
 3. The direct-purchase structure is favorable as compared with the LOC structure because it eliminates remarketing costs as well as bank credit risk and remarketing performance risk for the duration of the agreement. Daily remarketing of the Series J bonds will be discontinued, and the base interest rate reset will be equal to a short-term index plus a fixed credit spread paid to the bank; the short-term index paid will correlate exactly with the base rate received in the existing fixed-rate swap agreement.
 4. To avail itself of the direct-purchase option, the University is required to make certain modifications to its bond indenture, which will allow remarketing of the bonds to the purchasing bank in an indexed floater mode, rather than the currently-permitted modes (fixed, variable, and flexible).
 5. The University also seeks to re-authorize and update the approvals granted in Board Items 138-2005-R0308 and 139-101-C0408, continuing to delegate to the Commissioner the authority to effect a change in interest rate modes and to enter into and/or discontinue agreements (such as LOCs and this direct-purchase option) that will enable the University to take action to achieve the most cost-effective strategy with respect to the Series J debt in a timely manner.
 6. Additional legal fees will be incurred for making such changes; these costs have been considered in determining the most cost-effective strategy for supporting the Series J debt.
 7. Appropriate notice will be given to specified parties as has been previously set forth in the University's bond indenture
 8. This authorization does not include authority to issue additional debt or extend debt maturity dates. It does not affect underlying debt principal balances or their repayment terms, but rather affects the interest payments associated therewith.
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ATTACHMENTS

- A. Direct Purchase Option Explanation
- B. Authorizing Resolution
- C. Board Item 138-2005-R0308
- D. Board Item 139-101-C0408