

September 16-17, 2020

ITEM 190-2012-R0920

Request for Authorization to Issue Facilities Revenue Bonds, Montana State University

THAT

Consistent with MCA-20-25-402, borrowing by the Regents, the Board of Regents of the Montana University System authorizes the adoption of a Resolution to issue a new series of facilities improvement 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 resulting in construction proceeds not to exceed \$22 million for the MSU Student Wellness Center project.

EXPLANATION

1. ITEM 186-2007-C0120 authorized Montana State University to proceed with planning, programming, and design for the Student Wellness Center to replace facilities lost in March 2019 and to create new space for student health services.
2. ITEM 188-2004-R0520 authorized Montana State University to expend up to \$60 million to design and construct a comprehensive Student Wellness Center.
3. Financing for this project will come from the following sources:
 - a. Insurance proceeds held by the state of Montana Risk Management and Tort Division (approximately \$36 million)
 - b. Revenue bond proceeds (approximately \$22 million)
 - c. Existing student fee fund balances (approximately \$2 million)
4. This item authorizes Montana State University to:
 - a. obtain revenue bond financing resulting in construction proceeds not to exceed \$22 million.
 - b. pay costs related to the bond issuance, including attorneys', underwriters', and other professional fees.
 - c. provide for capitalized interest during the period of construction if necessary; and
 - d. provide for a debt service reserve fund, if that is necessary.
 - e. utilize existing student fees to reduce the amount of revenue bonds issued and/or to use as a portion of the debt service on the new bonds.
5. The financing terms are expected to be as follows:
 - a. All-in interest cost of approximately 4%, requesting authority up to 4.5%
 - b. Fixed rate increments maturing from 1-25 years
 - c. The attached Plan of Finance demonstrates the ability to service this additional debt.
6. Bond underwriting and financial advisory services were obtained through a competitive bid process.
7. Note that, depending on market conditions, the total principal amount of bonds might exceed \$22 million. This would allow for payment of issuance costs and capitalized interest / debt service reserve funds, but also ensures that the bond underwriting team has the ability to negotiate the sale of bonds at a premium or a discount to attain the best interest rates for the university, which affects the par value of the bonds issued. In any event, the Wellness Center project construction proceeds for this

issuance will not exceed \$22 million.

8. Due to the strength of the University's credit rating, MSU 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 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.
9. The bonds will be issued under the existing Montana State University Indenture of Trust. Principal and interest payments will be made from a student supported increase in Building and Facilities fees authorized in ITEM 188-2006-R0520, as detailed in the attached Plan of Finance.
10. This item 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 bonds. This authorization to proceed with the issuance of the bonds is subject to final approval by the University and the Commissioner of Higher Education, who will determine whether and when to execute this transaction based on the prevailing interest rates.

ATTACHMENTS

- Attachment #1 –Bond Resolution
- Attachment #2 – Plan of Finance