

May 18-19, 2022

**ITEM 200-1021-R0522**

**Request for Authorization to Issue Bonds to Finance Auxiliary Buildings – The University of Montana-Missoula**

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**THAT**

Consistent with the Board’s authority to manage and control the Montana University System, BOR Policy 1003.7 and the provisions in MCA 18-2-120 and MCA 20-25-402, the Montana Board of Regents of Higher Education adopts a resolution authorizing the University of Montana and the Commissioner of Higher Education to amend its bond indenture and execute other required documents necessary to proceed with the issuance of bonds in an amount up to \$60M par value.

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**EXPLANATION**

1. The Board has the authority to issue debt related to revenue-generating facilities when the facilities are financed wholly from the revenues they produce.
2. Over the preceding months, inflation has risen significantly. The most recent consumer price index for March 2022 published at an annual inflation rate of 8.5%, the highest in more than 40 years. The subcategories of Energy, Energy Services, and Commodities (less food and energy) increased at 32.0%, 70.1%, and 11.7%, respectively. Pressures on these subcategories have had and are likely to continue to have a negative impact on construction costs. Accordingly, the costs to complete previously approved projects have increased substantially. Affected projects include the Knowles Hall renovation and the new Dining Facility.
3. Missoula residents are experiencing housing difficulties and employers are seeing elevated job vacancies as a result of inflation in basic housing costs. Enhancing housing options for students will potentially improve the availability of rental housing in the private sector market for UM employees and Missoula community members.
4. The University of Montana has planned for additional Residence Hall renovations in connection with its Student Life Master Plan. In order to execute the plan, further demolition of the Lommasson Building and Craig Hall will be required. Additionally, new demolition efforts of Craig Hall West, Duniway Hall and Elrod Hall will also be required. While the plan estimates that the reconstruction of more than 500 beds will be needed through 2026, the University has begun accelerated efforts to complete a 200 bed section by the end of calendar year 2024.
5. Long-term interest rates available in the current market remain low compared to the previous 30 years, but have risen significantly over the past 3 months. The yield curve remains flat (i.e. differential between short-and long-term rates), presenting an opportunity to issue new long-term debt at a low incremental cost.
6. The University of Montana has an opportunity to raise funds for future investments in the projects discussed above. Including new borrowing, pro forma debt service remains very manageable, amounting to approximately \$11.2 million annually or approximately 2.6% of total expenses. A public market bond sale will further insulate the University and its Affiliates from bank exposure and variable rate risks and provide proceeds for these pending projects.

7. Based on the preceding items, the University of Montana is seeking approval to borrow funds that will be deployed in the coming months and years for the following:

<b>Project Description</b>	<b>Cost Estimate</b>
Overage on Knowles Hall	\$ 7,000,000
Overage on Dining Facility	8,000,000
Phase 2 demo. of Craig & Lommasson	4,000,000
Demo. Craig West, Duniway & Elrod	4,500,000
New 200 bed Residence hall, 2024	36,500,000
Total	<u>\$ 60,000,000</u>

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## **ATTACHMENTS**

Attachment 1: Bond Resolution

Attachment 2: Exhibit A: Fourth Supplemental Indenture of Trust