

January 8, 2013

ITEM 158-2008-R0113

Authorization to Issue Refunding Revenue Bonds; 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 issue refunding revenue bonds at a fixed interest rate and to amend its bond indenture as and if required in connection with the refunding of its variable rate Series J 2005 Debt currently outstanding.

EXPLANATION

1. Montana State University issued its Series J 2005 Bonds for student facilities enhancement projects including renovation of the student union building and the health and fitness center and construction of a new theater on the Bozeman campus. The bonds were initially issued at \$25,750,000, and remaining principal as of December 1, 2012, is \$23,025,000.
2. The Series J 2005 Bonds were issued for a 30-year term as variable rate bonds, synthetically fixed at 3.953% plus fees, using an interest rate swap. The counterparty to the swap may opt out in 2016.
3. The Board of Regents later authorized the University to add an additional basis swap contract that has resulted in reducing the effective interest rate to approximately 3.5%.
4. Because of volatile bond markets, in September 2010, the Series J 2005 Bonds were remarketed as a direct placement to Wells Fargo Bank for three-year period at the SIFMA variable rate index plus an annual fee of .80%, with the two swaps remaining in place. Typically, such direct placements with banks require renewal every three to five years. If the bonds remain outstanding, the university will need to re-negotiate its bond placement with Wells Fargo or another bondholder in fall of 2013.
5. The University has accumulated approximately \$1.9 million in cash as a result of the basis swap agreement. The University would like to use this accumulated savings which, when combined with the refunding proceeds of approximately \$28.0 million, will enable the University to refund its variable rate Series J Bonds, terminate both swap contracts with a net payment of approximately \$4.0 million, pay costs of the refinancing, and obtain a total savings currently estimated at approximately \$645,000 or 2.8% net present value of the refunded bonds.
6. Achieving the fixed rate refunding will remove Montana State University's requirement to renew the Wells Fargo direct placement agreement (or implement an alternative bond remarketing) in September 2013 and for the subsequent years through the final 2035 maturity of the Series J Bonds.
7. As disclosed in the University's financial statements, some risk is present with interest rate swap agreements. Removing the interest rate risks associated with Series J 2005 interest rate swaps is an additional qualitative benefit that Montana State University can achieve through the proposed fixed rate refunding.

8. This authorization to proceed with the issuance of the Series P 2013 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 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 Series P 2013 Facilities Revenue Refunding Bonds.
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ATTACHMENTS

- A. Facilities Refunding Revenue Bonds Resolution, Series P 2013