

May 23-24, 2013

**ITEM 159-2008-R0513**

**Authorization to Arrange Financing Supported by Gift Proceeds; MSU Bozeman**

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**THAT**

The Board of Regents authorizes MSU-Bozeman to arrange for up to \$20 million in financing for construction and related costs of Jabs Hall, in cooperation with the Montana State University Alumni Foundation as holder of related gift proceeds.

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**EXPLANATION**

1. MSU and the MSUAF plan to use up to \$20 million of a \$25 million gift for construction of an academic building, with the remainder available for use in programmatic offerings, including student scholarships. Legislative approval for the building (Jabs Hall) was recently granted in Montana's 63<sup>rd</sup> legislative session.
  2. Due to the long-term nature and composition of the MSUAF's investment pool, the MSUAF average rate of return on its investments is 7.48% (past 10-year average).
  3. It may be desirable for the University to borrow funds for Jabs Hall construction, and repay the debt over 15-30 years at an anticipated borrowing cost of 3% - 4%, while leaving the gifted funds invested with the MSUAF. Funds would then be withdrawn from the MSUAF in an amount necessary to pay debt principal and interest each year.
  4. The MSUAF's long term investment income is expected to exceed the amount required to pay debt principal and interest, resulting in additional funds available for use in programmatic offerings, including student scholarships.
  5. Similar arrangements currently exist at other public higher education institutions, including Colorado School of Mines and the University of Utah.
  6. Management has consulted with bond counsel and OCHE staff, who are of the opinion that borrowing funds for this building is within the authority of the Board of Regents.
  7. MSU is currently working with its bond counsel, financial advisor, and the MSUAF to determine the appropriate financing vehicle (bonds, bank note payable, etc.), as well as an agreement that documents the responsibilities of all parties. Terms of a proposed agreement between MSU and the MSUAF are included as Attachment A.
  8. Sample calculations of investment outcomes at varying borrowing terms and rates are included as attachment B:
  9. This item authorizes the University to proceed with arranging financing and to develop an agreement with the MSUAF to back the debt service payments. Approval for the final financing and the related documents will be brought to the Board after consultation with the Commissioner and OCHE staff.
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**ATTACHMENTS**

- Attachment #1 Proposed Terms of Agreement between MSU and the MSUAF
- Attachment #2 Sample Investment Outcomes