November 19-20, 2015

ITEM 169-2002-R1115
Request Authorization to Design and Construct a New Dining Hall; Montana State University

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THAT

The Board of Regents authorizes Montana State University to design and construct a new dining hall, adopts Resolutions for the issuance of Facilities Revenue Bonds for Montana State University (MSU), and authorizes MSU and the Commissioner of Higher Education of the Montana University System to proceed with the issuance of debt in an amount up to $6 million.

EXPLANATION

1. Regent Item 161-2004-R1113 was presented to the Board of Regents in November 2013 authorizing MSU to construct and finance the following:
   a. $35 million in construction of an approximately 400 bed student housing facility.
   b. $18 million in expansion and renovation of its three dining facilities.
   c. $5 million in maintenance projects to existing housing facilities.
2. Montana State University continues to experience enrollment growth which in turn has resulted in growth in occupancy in the Residence Life program and the associated University dining facilities beyond levels articulated in November 2013 Board of Regent Item 161-2004-R1113 as noted below:
   a. Fall 2015 occupancy in the residence halls reached 3,735 or a 5.6% increase since Fall 2013 when the halls housed 3,536 occupants.
   b. Sales of off-campus meal plans have risen dramatically from 371 in Fall 2013 to current year to date of 697 (+326).
   c. The dining halls served 1.4 million patron visits during academic year 2013-14. This current academic year (2015-16), dining halls are averaging 10,500 meals per day during the academic week which equates to 1.6 million patron visits for the year, a 19.7% increase in 2 years.
3. A project status update was provided during the September 2015 Board of Regents meeting. The Residence Hall Project is on schedule and under budget for Fall 2016 opening. Miller Dining Hall is complete and opened to rave reviews. Two R&R projects have been completed: a heat exchanger and asbestos abatement in North Hedges Complex.
4. The Board of Regents meeting in September 2015 included an *Information Item* which indicated that MSU had paused the remaining two dining hall renovation projects to assess viable courses of action for addressing the dining needs of students. The university has now considered several options and recommends construction of a new dining facility to service the student population in the northeast portion of campus.
   a. This option provides the following advantages:
      i. Better control of construction costs with new construction versus renovations of 60 year old facilities
      ii. Allows consolidation of staffing from the current three dining halls to two.
      iii. Efficiencies of building and maintaining one larger dining hall compared to renovating and maintaining the remaining two dining halls
   b. Other options explored the use of unexpended bond proceeds and cash on hand to renovate the existing dining halls with the following limitations:
      i. Funding would not be available to increase the needed seating capacity to accommodate existing growth in student demand.

   ii. Existing funds are only sufficient to renovate Harrison Dining Hall. Hannon Dining Hall would not be renovated due to lack of funds.
   iii. Investing significantly in the existing Harrison Dining Hall location is inconsistent with the campus master plan which envisions renewed development/investment along the College Street corridor.

5. Financing would consist of the following components totaling $15,500,000:
   a. Unexpended bond proceeds as noted above - $7,300,000
      i. Remaining Residence Hall Project funds- $500,000
      ii. Remaining Dining Hall Renovations funds - $3,000,000
      iii. Remaining R&R projects funds - $3,800,000
   b. Investment Earnings from 2013 Series A proceeds - $300,000
   c. Auxiliary Revenues in excess of operations and debt service - $1,900,000
   d. Bonded funds described below - $6,000,000
6. Debt is expected to be issued prior to December 31, 2015.
   a. Bank bids for a private bond placement will be sought for both a traditional fully funded loan (with the entire principal amount advanced on the closing date) and for a draw-down loan (which allows for draws over a period of approximately two years).
   b. Principal and interest payments will be scheduled over a period of up to 30 years from the closing date or from the date of the last draw if structured as a draw-down loan.
   c. Fixed-rate interest will be not greater than 3.25% for an initial period (up to 20 years depending on market conditions at the time of sale) (the "initial period"). Interest rates will be re-set at the end of the initial period at then-market rates.
   d. If, after evaluating bank bids, the Commissioner and university determine that the structure above does not compare favorably with the issuance of public bonds, the Chair and the Commissioner/Secretary of the Board may proceed with the issuance of traditional public bonds.
7. Bond issue costs will include:
   a. Bond counsel fees required to prepare a supplemental indenture, authorizing resolutions the bonds, closing documents and any other agreements or instruments required in connection with the financing, and to provide an opinion as to the tax-exempt status of debt.
   b. If issued as a private bond placement, bank costs which are to be evaluated in the bid process as part of the overall interest cost (e.g. bank loan origination fees or interest rate spreads (points), and bank counsel fees).
   c. If issued as public debt, costs associated with updating the University's credit rating and payment of bond underwriter fees, as have been previously negotiated through a public procurement process.
8. Due to the strength of the University's credit rating, the University does not expect to attach bond insurance to or enter into additional covenants regarding this transaction.
9. Principal and interest payments for the borrowing will be made from funds on hand as well as the associated revenue streams, as shown in the attached Repayment Plan. Funds on hand may be used to reduce amount of principal borrowed.
10. This financing will be combined with previously approved financing of up to $11.5 for a building purchase and parking garage construction.
11. The Commissioner of Higher Education, the MSU Vice President for Administration and Finance, and the Commissioner's Office Legal Counsel will determine the optimal time to execute this transaction based on the prevailing interest rates. This authorizes the Chair and

the Commissioner/Secretary of the Board of Regents to execute such documents as may be required to consummate the issuance of the bonds.

ATTACHMENTS

Attachment #1 - BOR Policy 1003.7 (II. A)
Attachment #2 – Bond Resolution
Attachment #3 – Plan of Finance