

July 10, 2019

**ITEM 184-1005-R0719**

**Request for authorization to refund and restructure existing debt and borrow new money**

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**THAT**

The University of Montana requests authorization from the Montana Board of Regents of Higher Education to amend its bond indenture and execute other required documents in connection with the refunding and restructuring of existing debt, and new money borrowing.

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**EXPLANATION**

1. Long-term interest rates available in the current market are at near historical lows. Benchmark tax-exempt and taxable 30-year indices have been lower than today's rates less than 3% of the time over the past 30 years. The yield curve is very flat (i.e. differential between short-and long-term rates), presenting an opportunity to extend debt at low incremental cost.
  2. The University of Montana's debt portfolio is significantly front-loaded, resulting in elevated near-term debt service requirements averaging \$15.2 million over the next 5 years. The University's current debt portfolio average life of 6.0 years is materially shorter than the similar Aa-rated peer group median of 14 years and the current maximum annual debt service (MADS) coverage is 2.1x. Restructured MADS coverage ranges from 4.9x – 3.7x, conservatively under the terms of the existing revenue pledge.
  3. The University of Montana has an opportunity to capture annual debt service savings and provide funds for future reinvestment in the University. A restructure captures cumulative savings of \$51 million over 6 years (until 2025). MADS reduces to \$6.8 million in 2021 with long-term MADS of \$5.8 million. Including new borrowing, pro forma MADS remains well below current levels. A restructuring creates room to borrow for strategic investments while achieving near-term savings at fixed rate funding resulting in a weighted average cost of capital below 4% in the current market. A public market bond sale will eliminate bank exposure and variable rate risks within the debt portfolio and provide flexible use of proceeds available for future strategic projects.
  4. This item authorizes the University and the Commissioner to amend the University's bond indenture and execute documents necessary to complete the refunding and restructuring of existing debt and new borrowing.
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**ATTACHMENTS**

- Attachment 1 – Bond Resolution
- Attachment 2 – Exhibit A: Existing Indebtedness
- Attachment 3 – Exhibit B: Indenture of Trust