

ITEM 120-2011-R0903 Attachment #5

Variable Rate Debt Service Management Plan

1. Under this proposal, MSU will budget its debt service obligation for the Series G bonds as if it were a fixed interest rate issue, using a proxy “All In” cost of 3.515%. This budgeted debt service level will be used for setting housing and food service charges, etc. MSU-Northern will pay only the proxy rate, and all variable rate risk will be borne by MSU-Bozeman.
2. When accounting for actual debt service paid on Series G Bonds, any budgeted but unspent funds will be reserved in a sub-account of the Pledged Revenue Fund and held for future years when the actual debt service may be higher than the budgeted proxy rate.
3. Given the likelihood of continuing low rates for the coming year or more, it is expected that the sub-account will build up a positive balance in the early years.
4. An example of the operation of this “debt stabilization” sub-account is as follows:

**Montana State University
Series G Bonds
Variable Rate Debt Service Management Plan Example**

Fiscal Year Ended June 30	Fixed Portion Of Series G Payments			Interest Cost Budgeted at 3.25% Average	Example Variable Interest Costs*	Difference**	Debt Stabilization Sub-Account Balance
	Scheduled Principal Payments	Remarketing Costs (.265%)	Total Fixed Portion of Debt Service				
2004	\$ -	\$ 35,261.01	\$ 35,261.01	\$ 407,008.30	\$ 151,533.09	\$ 255,475.21	\$ 255,475.21
2005	345,000	49,208.85	394,208.85	603,971.82	300,560.00	303,411.82	558,887.03
2006	315,000	48,344.28	363,344.28	593,328.08	674,904.00	(81,575.92)	477,311.11
2007	290,000	47,550.94	337,550.94	583,564.53	688,750.00	(105,185.47)	372,125.64
2008	280,000	46,799.01	326,799.01	574,329.12	568,936.50	5,392.62	377,518.26
2009	295,000	46,032.15	341,032.15	564,944.74	630,224.50	(65,279.76)	312,238.51
2010	305,000	45,233.84	350,233.84	555,167.66	617,908.00	(62,740.34)	249,498.17
2011	310,000	44,417.31	354,417.31	545,160.37	608,684.50	(63,524.13)	185,974.04
2012	320,000	43,579.25	363,579.25	534,895.79	604,213.50	(69,317.71)	116,656.33
2013	3,170,000	38,010.94	3,208,010.94	470,464.54	399,962.50	70,502.04	187,158.37
2014	3,275,000	29,436.54	3,304,436.54	365,448.93	324,928.50	40,520.43	227,678.80
2015	3,245,000	20,807.47	3,265,807.47	259,580.19	348,764.00	(89,183.81)	138,494.99
2016	3,265,000	12,175.09	3,277,175.09	153,738.53	334,404.00	(180,665.47)	(42,170.48)
2017	3,370,000	3,348.94	3,373,348.94	45,635.41	75,572.25	(29,936.84)	(72,107.32)
Totals	\$ 18,785,000	\$ 510,205.62	\$ 19,295,205.62	\$ 6,257,238.02	\$ 6,329,345.34	\$ (72,107.32)	

* Example variable interest costs are calculated by assuming the next 13 years have the same variable rate experience as the last 13 years in a reverse or mirror image.

** The refunding PV savings at an average interest rate of 3.25% is \$1,505,186. If the next 13 years' variable interest rates are mirror image of the past 13 years all but \$72,107 of this savings will be realized by MSU.

5. This “debt stabilization” sub-account will be maintained until the Series G Bonds are entirely paid, or are remarketed into a fixed rate mode.
6. The VP of Administration and Finance will chair quarterly committee meetings of the Treasurer, the Financial Advisor and the Remarketing Agent to review desirability of switching modes or fixing the interest rate on the Series G Bonds.