

**BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

<b>ACTION ITEM</b>
<b>Revenue Fund Bond Sale</b>

**BACKGROUND**

Capital assets within the Minnesota State Colleges and Universities system can be identified as either academic or auxiliary. Most academic facilities are constructed and remodeled through capital appropriations, using proceeds from state government-issued general obligation bonds. Operating costs, including utilities, maintenance and repairs are funded primarily by biennial state operating budget appropriations, tuition, and other revenues. Minnesota State Colleges and Universities pays one-third of the debt service on state bond funded projects; however the entire debt is an obligation of the state and is backed up by the full faith and credit of the State of Minnesota. One-third debt service is split between the college or university and the system, each paying one-sixth of the debt.

Auxiliary operations typically include residence halls, dining facilities, student unions, bookstores, parking facilities and similar operations. Unlike academic facilities, Revenue Fund auxiliary facilities (hereinafter called Revenue Fund facilities) must generate their own construction, maintenance, operations and repair funding through room, board, and other related facility fees or gifts. Their operating budgets must be kept separate and distinct from General Fund operating budgets.

The Board of Trustees was given authority by the legislature in 1955 to issue revenue bonds through the Revenue Fund to provide funding for construction and renewal of these and similar revenue-producing facilities. Continuing statutory authority is contained in Minnesota Statutes, Chapter 136F.90-98. Debt obligations of the Revenue Fund, unlike capital appropriations for academic facilities, are not debt obligations of the State of Minnesota and are backed solely by the physical assets pledged and the revenue generated from them. Authority for participation in the Revenue Fund is currently restricted to the seven state universities, although flexibility for future expansion to two-year colleges was provided in September 2001 when the Board approved the Fund's Master Resolution. Such expansion, however, would require a change to state statutes.

**DELEGATION AND FINANCIAL RESPONSIBILITIES**

The Board of Trustees has fiduciary responsibility for the Revenue Fund, and has delegated the responsibility to manage the assets to the Chancellor, who in turn has delegated responsibility to the university presidents while retaining management oversight responsibility in the Office of the Chancellor. This delegation includes all monies, programs, operations, and the maintenance and repair of Revenue Fund facilities at each university. Staff level management oversight resides in the Office of the Chancellor, Facilities Unit.

Similar to financial operations within the General Fund, state universities' Revenue Fund activities must adhere to the Minnesota State Colleges and Universities financial policies and

procedures, and provide financial and facilities information as scheduled or requested. Financial detail is also provided in the annual financial statements.

Although the presidents are delegated the responsibility to manage the Revenue Fund programs at their own institution, the Board is required by statute and the Fund's Master Resolution to approve fees and long term financial commitments. Annual finance plans for each university's portion of the Revenue Fund, including fees to support these plans, are approved by the Board prior to the beginning of the fiscal year. Each university is required to present a balanced finance plan. Finance plans must include funds for operations, Repair and Replacement (R&R), debt service (if required), and operating reserves, as prescribed by Minnesota State Colleges and Universities. Plans are also required to reflect funding of the Revenue Fund Reinvestment Program. While operating revenues normally produce enough funds for operations and R&R, Reinvestment Program funds have typically come from the sale of Revenue Fund bonds.

### **REVENUE FUND REINVESTMENT PROGRAM**

A facility condition assessment was undertaken in 1998-99 to quantify the physical condition of all facilities within the system. An estimated \$165 million maintenance and repair backlog was identified within the Revenue Fund facilities. The backlog when coupled with out-dated facilities prompted the development of the Reinvestment Program which was approved by the Board of Trustees in January 2000. The overarching goal of the Reinvestment Program is to maximize available financial resources to achieve the greatest improvements and reduce deficiency backlogs in the Revenue Fund facilities. Each institution is responsible for developing a plan that works within their programmatic and financial parameters. Reinvestment plans may use a variety of approaches including renovation, decommissioning/demolition, and building of new facilities.

In 2005, the Office of the Chancellor contracted with a national facilities consulting firm, Pacific Partners Consulting Group, to work with all MnSCU colleges and universities in developing a new data base and reinvestment model. A base line report as of the end of fiscal year 2006 shows the Revenue Fund backlog has dropped to about \$100 million system-wide but is concentrated at three universities. However, modernization is not included in this backlog number, and so a direct comparison to the 1999 data should not be made. In addition to monitoring backlog reduction, the model also predicts building systems replacement or renewal scheduling, and associated costs on a building, campus, and system-wide basis.

The universities use operating funds for some remodeling projects, but primarily bond proceeds for large renovation projects or new construction. While backlog reduction is an important part of the Reinvestment Program, equally important is the cyclical planning for building component replacement so that the backlog does not increase. The universities generally use Repair & Replacement funds for this purpose.

While Revenue Fund facilities are generally acquired and maintained with student fees, Southwest Minnesota State University requested and received \$500,000 for the demolition of "F" Hall in the 2006 state bonding bill. "F" Hall is the oldest on campus and has a significant deficiency backlog. This means that the students at the university will participate in the payment of only one-sixth of the debt service for the demolition, rather than the entire cost. Additional

demolition requests for obsolete Revenue Fund facilities at other universities are anticipated in the 2008 Capital Budget.

### **PRIOR SALES**

After a hiatus of almost ten years, the Revenue Fund sold \$36 million of bonds in January 2002 and \$45 million in October 2005. At this time, there is approximately \$900,000 remaining in proceeds from the 2002 sale, and \$39 million from the 2005 sale. Projects funded from 2005 proceeds are either in design or under construction.

### **BOND SALE PROCESS**

The process begins on the individual university campus when administrators and students formulate the need for a specific project. Since student fees are the sole source of revenue for the re-payment of Revenue Fund debt, students are involved in project planning.

In order to minimize bond sale cost, projects are usually bundled into taxable and tax-exempt series totaling together at least \$20 million. Once a university has determined the need and approximate size of a project, the Fund's financial advisor (Springsted, Inc.) and bond counsel (Leonard, Street, and Deinard) will review the components, the financial advisor to appropriately size the sale and bond counsel to provide legal documentation. All Revenue Fund construction projects follow the same planning, design and construction process as academic projects.

Revenue Fund bonds usually are for 20 years, and may be either taxable or tax-exempt. In the past the Fund has issued bonds with shorter or longer maturities depending on specific circumstances. Taxable bonds are issued primarily for construction or renovation of dining services and student unions because those facilities house for-profit retail services. The bonds are sold in a competitive process and are generally purchased by financial institutions and brokers.

Minnesota Statutes Chapter 136F.98 sets the limit on the amount of debt for the Revenue Fund. The debt authority is currently \$150 million; existing debt is \$80 million. This proposal will raise the Fund's outstanding debt to about \$123 million.

Before each sale the financial advisor provides information on the Fund's estimated debt capacity to ensure that there will be sufficient revenue to pay the projected debt. In anticipation of the next round of project requests, Springsted will also develop a capacity analysis of individual universities, since debt service is assigned to university Revenue Fund programs based on the projects received.

### **2007 REVENUE FUND BOND PROJECTS**

Revenue Fund project requests to further the Reinvestment Program have been submitted to the Office of the Chancellor for inclusion in the next bond sale scheduled tentatively for February 2007. Project requests include:

### **Bemidji State University – Residence Life**

#### **Renovation of Linden Hall**

Linden Hall, a 54,000 square foot residence hall with an architectural capacity of 302 beds, was constructed in 1959/61. Geographically it is located closest to the academic core of the campus. See Attachment A. The renovation includes gutting all floors and reconfiguring the rooms into suites that include bathrooms. There will be new electrical and plumbing systems, new windows, air conditioning, and a sprinkler system. The revised capacity will be 185 beds. Once the building is in operation, Maple Hall, capacity of 400, will be taken off-line and demolished when state bond funding is received. The university is requesting \$2 million for demolition in the 2008 Capital Budget. The combined deficiency backlog of Linden and Maple Halls is \$3.2 million.

**Schedule:** An architect has been selected and design has begun. Demolition of the interior is expected to begin soon. Construction will commence thereafter and the renovated facility should be complete and ready for occupancy by January 2008.

**Estimated Cost:** Approximately \$8.5 million.

### **Minnesota State University Moorhead – Student Life**

#### **Construction of Wellness Center**

Funds are being requested to construct a new, 43,019 gross square foot fitness center on the university campus. Continued growth in student enrollment has resulted in increased needs for indoor recreation space for both general student population and club sports. The Wellness Center, in addition to its basic function of health and fitness, will also serve as a social gathering space. The building location between Comstock Memorial Union and Kise Commons will promote better campus circulation. See attachment B.

**Schedule:** An architect has been selected and design is underway; construction should begin with receipt of bond proceeds. Project completion is planned for August 2008.

**Estimated Cost:** Approximately \$10.85 million. The project's funding sources include Revenue Fund bond proceeds, student user fees, and private donations. Revenue Fund bonds for the entire \$10.85 million will be sold. It is expected that \$5.5 million would be called and retired early once donations in that amount have been received.

### **Southwest Minnesota State University – Residential Life**

#### **Construction of New Residence Hall**

In the 2006 Capital Bonding Bill Southwest Minnesota State University received \$500,000 to demolish "F" Hall, their oldest residence hall with an architectural capacity of 198 beds. Once the demolition is complete, a new, 62,734 square foot residence hall will be constructed with 248 beds on the same site. See Attachment C. The university engaged a consultant to analyze whether they should remodel their older residences halls or replace them. The conclusion was

that due to the type of construction and configuration, demolition was the only viable way to achieve the changes in housing mix that the university needed as well as eliminate the backlog of deferred maintenance in the building, which currently is \$775,000.

**Schedule:** Design will begin with the receipt of bond proceeds. Occupancy is estimated for Fall 2009.

**Estimated Cost:** Approximately \$13.4 million

### **Systemwide Capital Planning**

#### **Planning Funds for Future Projects**

Funding is also proposed for architectural design to allow development of accurate scopes, budgets and schedules in advance of requesting approval for future projects. Projects currently in planning and formulation stages at Winona State University include a new residence hall, and an addition to Memorial Hall for a fitness/wellness center.

**Schedule:** Projects are anticipated to proceed through 2007 and 2008

**Estimated Cost:** \$3.0 million in planning funds

The total bond sale is estimated at \$42.7 million. The difference from project costs is due to issuance costs, debt service reserve deposits, and capitalized interest applied to each of the projects.

### **STUDENT CONSULTATION**

Letters have been received in the Office of the Chancellor confirming that student consultation has taken place at each of the universities regarding these projects.

### **BOND RATING**

Presentations are scheduled for January 8, 2007 to Moody's Investor Service and on January 10, 2007 to Standard and Poor's on the proposed sale. These organizations have previously rated MnSCU Revenue Fund bonds as AA3 and AA respectively. These ratings are excellent. Considering the financial condition of the System and Revenue Fund, similar ratings are anticipated for the new sale.

### **BOND SALE RESOLUTION**

This series will be sold under a Master Indenture of Trust rather than the Master Resolution which governed the previous two sales. The difference is that the proceeds will be handled by a Trustee rather than through the Office of the Chancellor. The change in form will have no effect on the outstanding series and no series will be subordinate to another. The Indenture, which requires Board approval, is at Attachment D.

The draft Series Resolution authorizing the bond sale is presented at Attachment E. After the second reading in January, the financial advisor, Springsted Inc. will publish a

notification of sale. The Series Resolution will also be finalized with assistance of bond counsel. The sale will occur in mid-February.

The blanks in the Series Resolution will be completed based on the results of the competitive sale of the bonds. The interest rates, redemption features, and other details, as well as whether all or any of the bonds are insured, will be determined on the basis of the best (most favorable on a net interest cost basis) bid received from those submitting offers, and will be memorialized in the Series Resolution, the bonds themselves, and in a certificate signed by the MnSCU Chief Financial Officer.

The Board of Trustees is being asked to approve the sale based on the following parameters:

**Series 2007A**

1. Maximum Interest Rate (TIC): 6.00%
2. Maximum Principal: \$35,500,000
3. Maximum Discount: 0.5 % of par or \$5/\$1,000 Bond. Minimum bid of 99.5% is required per the Official Statement
4. Earliest Redemption date: October 1, 2016 for 2017 and later maturities

**Series 2007B**

1. Maximum Interest Rate (TIC): 6.00%
2. Maximum Principal: \$7,500,000
3. Maximum Discount: 1.2% of par or \$12/\$1,000 Bond. Minimum bid of 98.2% is required per the Official Statement
4. Earliest Redemption date: any date if all bonds are redeemed, any interest payment date on or after October 1, 2007 if only part of the bonds are redeemed (these are the gift supported bonds)

**Series 2007C (Taxable)**

1. Maximum Interest Rate (TIC): 7.50%
2. Maximum Principal: \$3,320,000 (we aren't allowing for a change in issue size on the Taxable bonds since there are no specific projects associated with this Series of Bonds)
3. Maximum Discount: 0.5 % of par or \$5/\$1,000 Bond. Minimum bid of 99.5% is required per the Official Statement
4. Earliest Redemption date: October 1, 2016 for 2017 and later maturities

Items 3 and 4 are in the Official Statement for each Series. Items 1 and 2 are determined by the market and will be known on the day of sale.

For comparison on interest rates, the projected TIC for Series A is 4.12%, for Series B is 4.35% and for Series C is 5.50%

For comparison on principal size, the projected size for Series A is \$33,655,000, for Series B is \$5,980,000 and for Series C is \$3,320,000.

These are the amounts shown on the cover of the Official Statement.

**RECOMMENDED COMMITTEE ACTION:**

The Facilities/Finance Policy Committee recommends the Board of Trustees adopt the following motion:

**RECOMMENDED MOTION:**

The Board of Trustees authorizes a Revenue Bond sale for no more than \$46,320,000 for projects totaling about \$35,900,000 and subject to the parameters as presented herein. The Board of Trustees approves the Trust Indenture, Attachment D; and the Series Resolution as described in Attachment E.