

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

Agenda Item Summary Sheet

Committee: Finance, Facilities and Technology **Date of Meeting:** May 21, 2008

Agenda Item: Revenue Fund Bond Sale

Proposed Policy Action Approval Required by Policy Other Approvals Monitoring

Information

Cite policy requirement, or explain why item is on the Board agenda: 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. 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.

Scheduled Presenter(s): Allan Johnson, Associate Vice Chancellor Facilities

Outline of Key Points/Policy Issues: Revenue Fund project requests have been submitted to the Office of the Chancellor for inclusion in the next bond sale tentatively scheduled for June 2008. The bond sale process begins on an 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 repayment 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 sale components. The financial advisor will appropriately size the sale, and bond counsel will provide legal documentation. All Revenue Fund construction projects follow the same planning, design and construction process as academic capital projects.

Background Information: 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 assets pledged and the revenue generated. Authority for participation in the Revenue Fund is currently restricted by statute to the seven state universities, although flexibility for future expansion to two-year colleges is provided in the Fund's Indenture.

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

Second Reading

ACTION ITEM
Revenue Fund Bond Sale

Changes from the First Reading of this report are noted in italics below.

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 general obligation 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. The remaining two-thirds are paid by the state.

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. 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 assets pledged and the revenue generated. Authority for participation in the Revenue Fund is currently restricted by statute to the seven state universities, although flexibility for future expansion to two-year colleges is provided in the Fund's Indenture. *At the time of this writing, a bill allowing access to the Fund by the two-year colleges is being considered by the state legislature.*

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 Indenture 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 submitted to the Office of the Chancellor staff for review. 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. 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. The fees to support the operations and facilities are approved by the Board prior to the beginning of the fiscal year.

BOND SALE PROCESS

The process begins on an 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 repayment 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 sale components. The financial advisor will appropriately size the sale, and bond counsel will provide legal documentation. All Revenue Fund construction projects follow the same planning, design and construction process as academic capital projects.

Revenue Fund bonds typically have a 20 year term, 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.

Last fall, prior to beginning planning for this sale, Springsted Inc. evaluated the Fund's debt capacity. The analysis also evaluated individual programs since debt is campus specific. The debt capacity review determined that the Fund has the capacity to carry \$250 million in total debt. Minnesota Statutes Chapter 136F.98 sets the limit on the amount of debt authority for the Revenue Fund, which is *currently \$200 million, an increase from \$150 million per legislative action this session*. Outstanding Revenue Fund debt is \$120 million.

This sale proposal will raise the Fund’s outstanding debt to about \$162 million, and planning on the horizon will likely increase it further.

STATUS OF PRIOR REVENUE FUND BOND SALES

Recent bond sales have supported many excellent capital construction and renovation projects across the state universities. Although much has been accomplished with this influx of new funds, much remains to be done to upgrade and modernize the aging student housing and student union inventory.

2002 Sale

Metropolitan SU Parking Ramp Addition (MCTC campus)	\$5,000,000	Complete
MSU Moorhead Student Union HVAC System	\$3,523,000	Complete
MSU Moorhead Dining Service Remodeling (Phase I)	\$ 550,000	Complete
MSU, Mankato Student Union Addition & Remodeling	\$8,590,000	Complete
MSU, Mankato Dining Service Remodeling	\$1,510,000	Complete
St. Cloud SU Stateview Apartments Acquisition	\$2,000,000	Complete
St. Cloud SU Lawrence Hall Renovation	\$2,800,000	Complete
St. Cloud SU Student Union Roof/Asbestos Abatement	\$3,100,000	Complete
Southwest MSU Student Union/Dining Svc/Conf Center	\$1,400,000	Complete
Winona SU Tau Hall Acquisition	\$2,200,000	Complete
Winona SU Land Purchase and Demolition	\$2,260,000	Complete

2005 Sale

MSU Moorhead Dining Service Remodeling (Phase II)	\$ 2,500,000	Complete
MSU, Mankato Sears Residence Hall Construction (June 2008 Completion)	\$30,720,000	Construction
St. Cloud SU Parking Ramp (July 2008 Completion)	\$ 4,700,000	Construction
Winona SU Maria Hall Acquisition	\$ 2,000,000	Complete
Planning for future projects	\$ 550,000	Unallocated

2007 Sale

Bemidji SU Linden Hall Renovation	\$ 8,500,000	Complete
MSU Moorhead Wellness Center (December 2008 Completion)	\$10,852,000	Construction
Southwest MSU Residence Hall Construction (July 2009 Completion)	\$13,391,000	<i>Out for bid</i>
Planning for future projects	\$ 3,000,000	Unallocated

2008 REVENUE FUND BOND PROJECTS

Revenue Fund project requests have been submitted to the Office of the Chancellor for inclusion in the next bond sale tentatively scheduled for June 2008. Project requests are from Winona State University and are described below and shown on the map at Attachment A. In addition, planning funds for future projects will once again be included.

Residence Hall Construction – Winona State University

COST:

Total project costs are estimated at \$29,636,000.

PROJECT DESCRIPTION:

Construct, furnish and equip a 126,960 gross square foot (GSF) residence hall with 400 beds and eight RA units.

This residence hall is the first phase of a multi-phase approach for WSU to replace and upgrade their current student housing stock. The new residence hall will replace 316 beds that will be eliminated with the removal of Richards/Conway Halls from the housing stock. The two residences comprise half of the series of buildings known as “The Quad.” These halls have a combined deferred maintenance backlog over \$7 million.

The new residence hall is planned to be located at the site of the existing surface parking lots at the intersection of Mark and Huff Streets.

The new student residence hall is proposed as two – four story buildings containing a mix of suite style units including single occupancy/two bedroom units and double occupancy /two bedroom units and supporting student common areas including great room/living spaces with common kitchens and laundry rooms. The site of the new residence hall is located within a block of the existing food service location in Kryzsko Commons. The project will incorporate site work and landscaping surrounding the building. Occupancy is scheduled for 2010.

Memorial Hall Expansion – Winona State University

COST:

Total project costs are estimated at \$18,491,000 with \$8,400,000 *appropriated* from State of Minnesota General Obligation bond proceeds *as approved in this legislative session’s bonding bill*; \$7,091,000 from Revenue Fund bond proceeds; and \$3,000,000 from private donations.

PROJECT DESCRIPTION:

Construct, furnish and equip a 78,000 GSF expansion of Memorial Hall to house the WSU Integrated Wellness Complex. The expansion will wrap around the south and west faces of Memorial Hall. Memorial Hall is a large academic and athletic complex of approximately 142,000 GSF, constructed in 1953 and doubled in size in 1972. The WSU Integrated Wellness Complex will combine academic departments (Health, Exercise & Rehabilitative Science and Physical Education & Recreation) with student life and development activities (fitness, recreation/intramurals, health services, health education, and counseling) and athletics. Components of the Integrated Wellness Complex include an indoor fitness track, cardiovascular fitness and strength training facilities, a health service clinic, counseling center, and offices and classrooms.

SYSTEMWIDE CAPITAL PLANNING

Funding at \$1.0 million is also proposed for architectural design to allow development of accurate project scopes, budgets and schedules in advance of requesting approval for future projects anticipated for 2009 and 2010.

The total bond sale is estimated at \$43million. The difference between the bond issue size and the estimated \$38 million of project costs is to pay for bond issuance costs and fund debt service reserves for each of the projects.

STUDENT CONSULTATION

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

BOND RATING

Presentations are scheduled for *May 12 & 13* to Moody's Investors Service and to Standard and Poor's Rating Service 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. As a comparison, the State of Minnesota's ratings are Aa1 (Moody's); AAA (Standard & Poor's); and AAA (Fitch). The General Obligation of the state bonds carry the full faith and credit of the State of Minnesota, while the MnSCU Revenue Bonds only pledge the assets of the Fund and the revenue generated.

BOND SALE RESOLUTION

The draft Series Resolution authorizing the bond sale is presented at Attachment B. *At the March meeting, Trustees noted their unease in approving a document containing blanks. Accordingly, Bond Counsel has redrafted the Series Resolution without blanks.* After the second reading of this report in May and approval by the Board, the financial advisor will publish the notification of sale which will consist of the Terms of the Proposal or Sale Parameters shown as Attachment C, and the Preliminary Official Statement POS, *which was presented as a part of the March Board documents. The current draft of the POS can be seen at www.facilities.mnscu.edu under "Announcements".* The sale is planned for June 17, 2008.

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 True 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 Vice Chancellor – Chief Financial Officer.

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 \$43,000,000 for projects totaling about \$38,000,000; and approves the Series Resolution as described in Attachment B. The sale is subject to the parameters as presented Attachment C.

