

FINANCE COMMITTEE
Arkansas Higher Education Coordinating Board
Conference Call
Tuesday, June 27, 2017
9:00 a.m.

Finance Committee

Greg Revels, Chair
Chris Gilliam
Kevin Anderson

Sam Sicard
Sherrel Johnson, Ex officio

AGENDA

- *1. Economic Feasibility of Bond Issues for the University of Arkansas, Fayetteville (Ms. Tara Smith)

- *2. Economic Feasibility of Bond Issue for the University of Arkansas, Little Rock (Ms. Smith)

ARKANSAS HIGHER EDUCATION COORDINATING BOARD
SPECIAL MEETING
Department of Higher Education
Tuesday, June 27, 2017
9:15 a.m.

AGENDA

- *3. Report of the Finance Committee

**ECONOMIC FEASIBILITY OF BOND ISSUES
UNIVERSITY OF ARKANSAS, FAYETTEVILLE**

The University of Arkansas, Fayetteville requests approval of the economic feasibility of plans to issue bonds not to exceed \$113.0 million with a term of thirty (30) years at an estimated annual interest rate not to exceed 5.50 percent. Proceeds from the bond issue will be used for education and general (E&G) and auxiliary purposes. The University of Arkansas Board of Trustees approved this financing at its meeting on May 25, 2017.

The E&G issue will be up to \$27.5 million with an annual debt service of \$1,515,060 and a term of thirty (30) years. Proceeds from this bond issue will be used to (1) continue the construction of an approximately 20,000 sq. ft. library storage facility; (2) continue the renovation of an addition of approximately 3,500 sq. ft. to Kimpel Hall; (3) begin the construction phase of an approximately 25,000 sq. ft. Civil Engineering Research and Education Center; (4) proceed with the first phase of construction of new intramural playing fields; (5) acquire, construct and equip improvements to the south campus steam and utility systems; and (6) fund the acquisition, construction, improvement, renovation, equipping and/or furnishing of other capital improvements and infrastructure and the acquisition of various equipment and/or real property if proceeds are available. The debt service on the bond issue will be supported by tuition and fee revenue. Coordinating Board policy regarding debt service for education and general projects provides that a maximum of 25 percent of tuition and fee revenue, net of scholarship expense, may be pledged to E&G debt service.

Relevant data follows:

Education and General Issue

Budgeted 2017-18 Tuition and Fee Revenue	\$ 301,738,663
Maximum Allowable Debt Service (\$301,738,663 x 25%)	75,434,666
Existing Debt Service	24,054,751
Proposed Debt Service	1,515,060
Amount Remaining for Additional Debt Service	<u>\$ 49,864,855</u>

The above data demonstrates that the University of Arkansas, Fayetteville has sufficient tuition and fee revenue to support an E&G bond issue of up to \$27.5 million with a term of thirty (30) years at an estimated annual interest rate not to exceed 5.50 percent.

The auxiliary issue will be approximately \$85.5 million with an annual debt service of \$4,708,425 and a term of thirty (30) years. Proceeds from this bond issue will be used to (1) construct, furnish and equip a 200,000 sq. ft. residence hall complex on the south side of campus; (2) continue with the construction of an approximately 20,000 sq. ft. addition to the Pat Walker Health Center; (3) complete the renovation of and construction of an addition of approximately 5,668 sq. ft. to the Sigma Alpha Epsilon Fraternity house; and (4) other capital improvements and infrastructure and various equipment for auxiliary

purposes if proceeds are available. The debt service on the bond issue will be supported by auxiliary revenues generated through the room rates, and any other revenues generated by the new residence hall; revenues generated by the Pat Walker Health Center, and by revenues generated by the fraternity through room rates, parlor fees to all active members, and any other revenues generated by the fraternity. Coordinating Board policy regarding debt service for auxiliary projects provides that annual auxiliary revenues should be no less than 120 percent of total annual auxiliary debt service.

Relevant data follows:

<u>Auxiliary Issue</u>	
Budgeted 2017-18 Auxiliary Revenue	\$ 73,962,594
Maximum Allowable Debt Service (\$73,962,594 / 120%)	61,635,495
Existing Debt Service	18,392,199
Proposed Debt Service	4,708,425
Amount Remaining for Additional Debt Service	<u>\$ 38,534,871</u>

The above data demonstrates that the University of Arkansas, Fayetteville has sufficient revenue to support a bond issue of approximately \$85.5 million with a term of thirty (30) years at an estimated annual interest rate not to exceed 5.50 percent.

In accordance with board policy, any proceeds from bonds that require AHECB approval, which are used for the purchase or construction of new facilities, and result in additional square footage are subject to the AHECB maintenance policy as adopted in October, 2010. The University of Arkansas, Fayetteville will sustain a building maintenance fund to be supported by tuition and fee revenue for the E&G facilities and by auxiliary revenues for the auxiliary facilities. These funds will be held in a separate account for the maintenance of the new facilities by transferring annually to plant funds based on the Association of Physical Plant Administrators (APPA) of Universities and Colleges recommendation. The current APPA recommendation is \$2.50 per gross square foot for E&G facilities and \$1.25 per gross square foot for auxiliary facilities.

The projects of the E&G issue provide additional square footage to the campus as follows: 20,000 sq. ft. for the library storage facility; 3,500 sq. ft. for Kimpel Hall; and 25,000 sq. ft. for the Civil Engineering Research and Education Center. The first phase of construction related to the University Recreation Intramural Sports Playing Fields results in no new added square footage, nor does any of the work related to the south campus steam and utility upgrades, or any of the other possible "other" projects mentioned in item (6) above. Therefore, based on an estimate of 48,500 new square footage for all projects, \$121,250 will be transferred annually beginning in the fiscal year after the projects are placed into service.

The three auxiliary projects provide new square footage for the University. The new residence hall project will add approximately 200,000 sq. ft.; the Pat Walker Health Center project will add approximately 20,000 sq. ft.; and the Sigma Alpha Epsilon project will add approximately 5,668 sq. ft. Therefore, based on an estimate of 225,668 new square

footage, \$282,085 will be transferred annually beginning in the fiscal year after the projects are placed into service.

The following resolution is presented for the Coordinating Board's consideration:

RESOLVED, That the Arkansas Higher Education Coordinating Board considers economically feasible plans for the University of Arkansas, Fayetteville to issue bonds in an amount not to exceed \$113.0 million with a term of thirty (30) years at an estimated interest rate not to exceed 5.50 percent for education and general purposes (E&G) to fund the continued construction of an approximately 20,000 sq. ft. library storage facility; continue the renovation of and addition of approximately 3,500 sq. ft. to Kimpel Hall; begin the construction phase of an approximately 25,000 sq. ft. Civil Engineering Research and Education Center; proceed with the first phase of construction of new intramural playing fields; acquire, construct and equip improvements to the south campus steam and utility systems; to fund the acquisition, construction, improvement, renovation, equipping and/or furnishing of other capital improvements and infrastructure and the acquisition of various equipment and/or real property for E&G purposes if proceeds are available; and for auxiliary purposes to construct, furnish and equip a 200,000 sq. ft. residence hall complex on the south side of campus; continue with the construction of an approximately 20,000 sq. ft. addition to the Pat Walker Health Center; complete the renovation of and construction of an addition of approximately 5,668 sq. ft. to the Sigma Alpha Epsilon Fraternity house; and other capital improvements and infrastructure and various equipment for auxiliary purposes if proceeds are available.

FURTHER RESOLVED, That the Director of the Arkansas Department of Higher Education is authorized to notify the President and the Chair of the Board of Trustees of University of Arkansas and the Chancellor of the University of Arkansas, Fayetteville of the Coordinating Board's resolution.

**ECONOMIC FEASIBILITY OF BOND ISSUE
UNIVERSITY OF ARKANSAS, LITTLE ROCK**

The University of Arkansas, Little Rock requests approval of the economic feasibility of plans to issue bonds not to exceed \$7.5 million with a term of twenty-five (25) years at an estimated annual interest rate not to exceed 5.50 percent. Proceeds from the bond issue will be used for education and general (E&G) purposes. The University of Arkansas Board of Trustees approved this financing at its meeting on May 25, 2017.

The E&G issue will be up to \$7.5 million with an annual debt service of \$512,875 and a term of twenty-five (25) years. Proceeds from the bond issue will be used for (1) the acquisition, construction, renovation, and equipping of the University Physics Building, (2) the acquisition, construction, renovation, and equipping campus-wide infrastructure upgrades, including particularly, without limitation, roof repairs and critical maintenance on the UA Little Rock campus, and (3) the acquisition, construction, improvement, renovation, equipping and/or real property for UA Little Rock. The debt service on the bond issue will be supported with tuition and fee revenue. Coordinating Board policy regarding debt service for E&G projects provides that a maximum of 25 percent of tuition and fee revenue, net of scholarship expense, may be pledged to e E&G debt service.

Relevant data follows:

Budgeted 2017-18 Net Tuition and Fee Revenue	<u>\$ 59,947,956</u>
Maximum Debt Service (\$59,947,956 X 25%)	14,986,989
Existing E&G Debt Service.....	5,929,342
Estimated Debt Service for Proposed Bond Issue	<u>512,875</u>
Amount Remaining for Additional Debt Service	\$ 8,544,772

The above data demonstrates that the University of Arkansas, Little Rock has sufficient tuition and fee revenue to support an E&G bond issue of up to \$7.5 million with a term of twenty-five (25) years at an estimated annual interest rate not to exceed 5.50 percent.

In accordance with board policy, any proceeds from bonds that require AHECB approval, which are used for the purchase or construction of new facilities, and result in additional square footage are subject to the AHECB maintenance policy as adopted in October of 2010. The projects of the E&G issue do not provide additional square footage to the campus.

The following resolution is presented for the Coordinating Board's consideration:

RESOLVED, That the Arkansas Higher Education Coordinating Board considers economically feasible plans for the University of Arkansas, Little Rock to issue bonds not to exceed \$7.5 million with a term of twenty-five (25) years at an estimated annual interest rate not to exceed 5.50 percent as for E&G purposes to fund the acquisition, construction, renovation, and equipping of the University Physics Building; the acquisition, construction, renovation, and equipping campus-wide infrastructure upgrades, including particularly, without limitation, roof repairs and critical maintenance on the UA Little Rock campus; and the acquisition, construction, improvement, renovation, equipping and/or real property for UA Little Rock.

FURTHER RESOLVED, That the Director of the Arkansas Department of Higher Education is authorized to notify the President and the Chair of the Board of Trustees of University of Arkansas and the Chancellor of the University of Arkansas, Little Rock of the Coordinating Board's resolution.