

FINANCE COMMITTEE

Arkansas Higher Education Coordinating Board

Conference Call

Monday, May 11, 2009

11:00 a.m.

Finance Committee

Steve Luelf, Chair
Dr. Joe Bennett
Dr. Olin Cook
Bob Crafton

Kaneaster Hodges
David Leech
Bob L. Burns, Ex officio

AGENDA

1. Economic Feasibility of Private Loan for the University of Central Arkansas
(Dr. Stanley Williams)

ARKANSAS HIGHER EDUCATION COORDINATING BOARD SPECIAL MEETING

Conference Call

Thursday, May 11, 2009

11:15 a.m.

AGENDA

1. Report of the Finance Committee

ECONOMIC FEASIBILITY OF PRIVATE LOAN UNIVERSITY OF CENTRAL ARKANSAS

The University of Central Arkansas (UCA) requests approval of the economic feasibility of plans to obtain a Loan/Line-of-Credit from private banks in an amount up to \$6 million at an estimated annual interest rate of 4.96 percent. Proceeds from the loan/line-of-credit will be for current operations purposes. The University of Central Arkansas Board of Trustees approved the opening of a line-of-credit at its meeting on May 8, 2009.

Applicable Arkansas Code

6-62-105. Private borrowing by institutions of higher education. (As amended by Act 571 of 2009)

(a)(1) Upon approval of the board of trustees of a state-supported institution of higher education, the Department of Higher Education, and the Chief Fiscal Officer of the State, a state-supported institution of higher education may borrow funds determined by the board of trustees to be necessary to continue the operation of the state-supported institution of higher education from a private financial institution if the Revolving Loan Fund is insufficient, as certified by the Chief Fiscal Officer of the State, for a state-supported institution of higher education to participate in the fund.

*(2) A state-supported institution of higher education shall not have outstanding loans in the aggregate under this section in excess of **eighty-five percent (85%) of the total of the actual May and June general revenues** distributed during the immediately preceding fiscal year to the state-supported institution of higher education.*

(b)(1) The principal amount of the loans described in subsection (a) of this section shall be repaid from general revenues distributed to the state-supported institution of higher education during the months of May and June of the fiscal year in which the loans were obtained.

(2) All interest and other charges shall be paid from cash funds of the state-supported institution of higher education.

(c)(1) Notwithstanding subsections (a) and (b) of this section or §19-4-705, the Chief Fiscal Officer of the State and the Director of the Department of Higher Education may authorize a state-supported institution of higher education to borrow funds from a private financial institution provided that the board of trustees of the state-supported institution of higher education certifies that borrowing funds from a private financial institution:

(A) Is required to continue essential operations of the state-supported institution of higher education into the following fiscal year; and

*(B) **Will be repaid not later than one hundred twenty (120) days after the start of the following fiscal year.***

(2) The aggregate amount of funds borrowed from private financial

institutions may not exceed the limits set in subsection (a) of this section.

(3) Upon repayment, the chief financial officer of the state-supported institution of higher education shall certify in writing to the Chief Fiscal Officer of the State and the Director of the Department of Higher Education the:

(A) Date of the repayment; and

(B) Amount of the repayment.

(4) Subsection (c) of this section shall expire on June 30, 2011.

(d) The Chief Fiscal Officer of the State shall promulgate rules and regulations necessary for the implementation of this section.

SECTION 2. EMERGENCY CLAUSE. It is found and determined by the General Assembly of the State of Arkansas that state-supported institutions of higher education are faced with financial hardship due to the struggling economic climate; that state-supported institutions of higher education play a key role in the future prosperity of the state; that insufficiently funded institutions of higher education risk irreparable harm to the economy of this state; and that this act is immediately necessary to ensure the financial health of state-supported institutions of higher education in this struggling economy. Therefore, an emergency is declared to exist, and this act being immediately necessary for the preservation of the public peace, health, and safety shall become effective on:

(1) The date of its approval by the Governor;

19-5-502. Loans from (Budget Stabilization Trust Fund) fund.

*(a) The Chief Fiscal Officer of the State shall be guided by the following limitations and procedures in making loans from the **Budget Stabilization Trust Fund** for the respective purposes for which the loans may be made, as established in this subsection:*

*(2) Moneys deposited in the **Budget Stabilization Trust Fund** shall not be used to make loans to any state agency without the state agency first submitting proof of the need for the moneys and submitting justification therefore verifying that other funds or resources are not available to the agency or cannot be obtained by the agency from other funds belonging to or available to the agency. In no event shall any loan from the **Budget Stabilization Trust Fund** be made to a state-supported institution of higher learning in **an amount equal to or exceeding eighty-five percent (85%) of its monthly guarantee** of general revenues estimated to be available for distribution to the agency during the month.*

19-5-501. Fund generally.

*(F) The Chief Fiscal Officer of the State and the Director of the Department of Higher Education shall review the request for the loan. The Director of the Department of Higher Education shall recommend, in writing, the approval or disapproval of the loan and the reasons for the recommendation to the Chief Fiscal Officer of the State. The Chief Fiscal Officer of the State shall review the institution's request, the funds available in the Budget Stabilization Trust Fund, and the **recommendation of the Director of the Department of Higher Education.***

The Chief Fiscal Officer of the State may request such additional information as is deemed necessary to make a determination as to whether the request should be approved. If the Chief Fiscal Officer of the State determines that the request is proper and necessary for the operation of the institution and that sufficient funds are available, the Chief Fiscal Officer of the State shall approve the request and establish a repayment schedule for the loan. If the Chief Fiscal Officer of the State determines that the loan is not necessary nor required, or that funds are not available, the Chief Fiscal Officer of the State shall deny the request. He shall communicate in writing to the institution and to the Director of the Department of Higher Education the reasons for disapproval of the requested loan. All loans made to the institutions of higher education under the provisions of this subdivision shall be repaid in full by June 30 of the fiscal year in which the loan was made. In the event an agency or program is established by the General Assembly which is to be supported solely from other than general revenues or federal funds, the Chief Fiscal Officer of the State may make a temporary loan from the Budget Stabilization Trust Fund to the agency or program to the extent necessary for carrying out the intent of the enabling legislation. The amount of the loan shall be determined by the Chief Fiscal Officer of the State and the loans shall be repaid in full by June 30 of the fiscal year in which the loan was made;

The Chief Fiscal Officer of the state has certified that there are **no funds in the Revenue Stabilization Trust Fund to advance to UCA for Fiscal 2010.**

The loan/line-of-credit will be up to \$6 million with an estimated maximum debt service of \$6,396,800 due by October 28, 2010. Proceeds from the issue will be used to address operating budget cash flow problems for fiscal year 2010. Coordinating Board policy regarding debt service provides that a maximum of 25 percent of tuition and fee revenue may be pledged to educational and general debt service. However, Arkansas code 6-62-105, cited above, was amended by Act 571 of 2009 to state that private loans must be repaid no later than 120 days after the start of the following fiscal year. In view of both AHECB policy and 6-62-105 (as amended), feasibility is presented under both regulations.

Relevant data follows:

Under AHECB Policy

Budgeted 2009-10 Tuition and Fee Revenue	\$ 65,261,673
Budgeted 2009-10 Scholarship Expenditures.....	<u>19,411,857</u>
Net tuition and Fee Revenue for 2009-10	\$ 45,849,816
Maximum Allowable Debt Service @ 25%	\$ 11,462,454
Existing Debt Service.....	3,451,480
Maximum Estimated Debt Service for Loan	6,396,800
Tuition & Fee Revenue Remaining for Additional Debt Service.....	\$ 1,614,174

Under Arkansas Code 6-62-105

Estimated May and June 2010 State Funding.....	\$ 10,757,600
Estimated Maximum Service for Proposed Issue.....	6,396,800

The above data demonstrate that the University of Central Arkansas has sufficient revenue to support a loan/line-of-credit of \$6 million with a term of up to 16 months at an estimated annual interest rate of 4.96 percent.

ADHE Executive Staff recommend that the Arkansas Higher Education Coordinating Board approve the following resolution:

RESOLVED, That the Arkansas Higher Education Coordinating Board considers economically feasible plans for the University of Central Arkansas to seek a private loan/line-of-credit for approximately \$6 million with a term of up to 16 months at an estimated annual interest rate of 4.96 percent for educational and general operations for fiscal year 2010, as requested by the institution.

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 the Trustees of the University of Central Arkansas of the Coordinating Board's resolution.