

FINANCE COMMITTEE

**Arkansas Higher Education Coordinating Board
Conference Call
Friday, June 29, 2018
9:00 a.m.**

Finance Committee

Al Brodell, Chair
Keven Anderson
Chris Gilliam

Greg Revels
Sam Sicard
Dr. Charles Allen, Ex officio

AGENDA

- *1. Economic Feasibility of Bond Issues for the University of Arkansas, Fayetteville (Mr. Nick Fuller)
- *2. Economic Feasibility of Loan Issue for Southern Arkansas University (Mr. Fuller)

ARKANSAS HIGHER EDUCATION COORDINATING BOARD SPECIAL MEETING

**Department of Higher Education
Friday, June 29, 2018**

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 \$32.0 million with a maximum 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 24, 2018.

The E&G issue will be up to \$22.67 million with an annual debt service of \$1,554,125 and a term of thirty (30) years. Proceeds from this bond issue will be used to (1) continue the construction of an approximately 27,000 sq. ft. library storage facility; (2) continue the renovation of an addition of approximately 3,965 sq. ft. to Kimpel Hall; (3) continue the construction phase of an approximately 35,500 sq. ft. Civil Engineering Research and Education Center; (4) proceed with the renovation of levels 3 and 4 of Mullins Library; (5) proceed with the initial planning of the construction of an approximately 75,000 sq. ft. Student Success Center; (6) proceed with continued construction of new intramural playing fields; (7) acquire, construct and equip improvements to the south campus steam and utility systems; and (8) 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, may be pledged to E&G debt service.

Relevant data follows:

Educational & General Issue (E&G)

Budgeted 2018-2019 Tuition and Fee Revenue	\$ 310,071,137
Maximum Allowable Debt Service (\$310,071,137 X 25%) ...	\$ 77,517,784
Existing Debt Service	\$ 25,904,945
Proposed New Debt Service.....	\$ 1,554,125
Amount Remaining for Additional Debt Service.....	\$ 50,058,714

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 \$22.67 million with a term of thirty (30) years at an estimated annual interest rate not to exceed 5.50 percent.

The auxiliary issues will total approximately \$9.33 million. The tax-exempt issue will be approximately \$2.77 million with a term of thirty (30) years and an annual debt service of \$191,250. The taxable issue will be approximately \$6.56 million with a term of twenty (20) years and an annual debt service of \$545,613. Proceeds from the tax-exempt bond

issue will be used to construct a remote parking lot for faculty and staff south of the main campus. Proceeds from the taxable issue will be used to (1) renovate the existing Arkansas Union Food Court area; (2) renovate and improve approximately 12,000 sq. ft. of existing space and (3) to construct an addition of approximately 6,430 sq. ft. to Pomfret Dining Hall. The debt service on the auxiliary bond issues will be supported by auxiliary revenues generated through meal plans sold to students, as well as other dining revenue generated through direct sales to faculty, staff, students and campus guests; and by parking revenues generated by sales of parking permits. 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:

Auxiliary Issue

Budgeted 2018-2019 Auxiliary Revenue	\$ 90,807,203
Maximum Allowable Debt Service (\$90,807,203 / 120%).....	\$ 75,672,669
Existing Debt Service	\$ 23,751,390
Proposed New Debt Service – Tax-exempt.....	\$ 191,250
Proposed New Debt Service - Taxable.....	\$ 545,613
Amount Remaining for Additional Debt Service.....	\$ 51,184,416

The above data demonstrates that the University of Arkansas, Fayetteville has sufficient revenue to support a tax-exempt bond issue of approximately \$2.77 million with a term of thirty (30) years at an estimated annual interest rate not to exceed 5.50 percent, and a taxable bond issue of approximately \$6.56 million with a term of twenty (20) 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: 27,000 sq. ft. for the library storage facility; 3,965 sq. ft. for Kimpel Hall; and 35,500 sq. ft. for the Civil Engineering Research and Education Center; 75,000 sq. ft. for the Student Success Center. The construction related to the following result in no additional square footage: University Recreation Intramural Sports Playing Fields; work related to the south campus steam and utility upgrade, any of the possible “other” projects mentioned in item no. 8 above. Therefore, based on an estimate of 141,465 new square footage for all projects (as they are completed over the next few years), \$353,663 will be transferred

annually beginning in the fiscal year after the projects are placed into service.

One of the three auxiliary projects provide new square footage for the University. The addition to the Pomfret Dining Hall will provide 6,430 of new square footage. The renovation of the existing Arkansas Union Food Court and the construction of the new faculty and staff parking lot result in no new added square footage. Therefore, based on an estimate of 6,430 new square footage (as the project is completed over the next few years), \$8,038 will be transferred annually beginning in the fiscal year after the projects are placed into service.

ADHE Executive Staff recommends 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 Arkansas, Fayetteville to issue bonds in an amount not to exceed \$32.0 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 (1) continue the construction of an approximately 27,000 sq. ft. library storage facility; (2) continue the renovation of an addition of approximately 3,965 sq. ft. to Kimpel Hall; (3) continue the construction phase of an approximately 35,500 sq. ft. Civil Engineering Research and Education Center; (4) proceed with the renovation of levels 3 and 4 of Mullins Library; (5) proceed with the initial planning of the construction of an approximately 75,000 sq. ft. Student Success Center; (6) proceed with continued construction of new intramural playing fields; (7) acquire, construct and equip improvements to the south campus steam and utility systems; and (8) 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. For auxiliary purposes to (1) construct a remote parking lot for faculty and staff south of the main campus; (2) renovate the existing Arkansas Union Food Court area; (3) renovate and improve approximately 12,000 sq. ft. of existing space and (4) to construct an addition of approximately 6,430 sq. ft. to Pomfret Dining Hall.

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 LOAN ISSUE
SOUTHERN ARKANSAS UNIVERSITY**

Southern Arkansas University (SAUM) requests approval of the economic feasibility of plans to obtain a loan not to exceed \$1.4 million with a term of ten (10) years at an annual interest rate not to exceed 4.50 percent. Proceeds from the loan will be used for auxiliary purposes. The Southern Arkansas University Board of Trustees approved this financing at its meeting on June 25, 2018.

The auxiliary issue will be approximately \$1.4 million with an annual debt service of approximately \$259,500 and a term of ten (10) years. Proceeds from the loan will be used to purchase an apartment complex located adjacent to the university which would accommodate anticipated fall enrollment. The debt service on the bond issue will be supported by auxiliary revenues derived from student housing revenue.

Coordinating Board policy regarding debt service for auxiliary projects provides that annual auxiliary revenues should be no less than 120 percent of the total annual auxiliary debt service.

Relevant data follows:

Auxiliary Issue

Budgeted 2016-17 Net Tuition and Fee Revenue	\$ 9,218,568
Maximum Allowable Debt Service (\$9,218,568 / 120%)	\$ 7,682,140
Existing Debt Service	\$ 2,046,688
Proposed New Debt Service	\$ 259,500
Amount Remaining for Additional Debt Service	\$ 5,375,952

The above data demonstrates that Southern Arkansas University has sufficient auxiliary revenue to support an auxiliary bond issue of approximately \$1.4 million with a term of ten (10) years at an estimated annual interest rate not to exceed 4.50 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. Southern Arkansas University will sustain a building maintenance fund to be supported by auxiliary revenue. 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 \$1.25 per gross square foot for auxiliary facilities. Based on a total of approximately 21,564 square feet, \$26,955 will be transferred annually.

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

RESOLVED, That the Arkansas Higher Education Coordinating Board considers economically feasible plans for Southern Arkansas University to obtain a loan in an amount not to exceed \$1.4 million with a term of ten (10) years at an estimated interest rate not to exceed 4.50 percent for auxiliary purposes to purchase an apartment complex located adjacent to the university.

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 Southern Arkansas University of the Coordinating Board's resolution.