

FINANCE COMMITTEE

Arkansas Higher Education Coordinating Board

Conference Call

Wednesday, December 9, 2009

10:00 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 Bond Issue for the University of Arkansas, Fayetteville
(Dr. Stanley Williams)

ARKANSAS HIGHER EDUCATION COORDINATING BOARD SPECIAL MEETING

Conference Call

Wednesday, December 9, 2009

10:15 a.m.

AGENDA

1. Report of the Finance Committee

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

The University of Arkansas, Fayetteville requests approval of the economic feasibility of plans to issue bonds not to exceed \$54 million with a term of up to 30 years at an estimated annual interest rate not to exceed 5.5 percent.

Proceeds from the bond issue will be used for E&G and auxiliary purposes. The University of Arkansas Board of Trustees approved this action at its meeting held on November 13, 2009.

The combination E&G and Auxiliary issue will be approximately \$54 million including the cost of issuance with an annual debt service of approximately \$3.4 million. The E&G issue will be approximately \$44 million with an annual debt service of approximately \$2.75 million and a term of 30 years. The Auxiliary issue will be approximately \$10 million with an annual debt service of approximately \$650 thousand and a term of 30 years.

The proceeds from this issue will be used to fund E&G renovation projects in Peabody Hall for the College of Education and Health Professions (\$8.8 million), Phase I of classrooms and teaching laboratories (\$4.2 million), Old Health Center for Nursing and the Speech and Communication Disorders Clinic (\$5.2 million), Bud Walton Hall for the David and Barbara Pryor Center for Arkansas Oral and Visual History and the Center for Space and Planetary Sciences (\$1.8 million), Davis Hall for University Relations (\$4 million), and Utility Tunnel Expansion (\$1.7 million); to construct the Nanoscale Science and Engineering Building (\$17.5 million); and to purchase property and various equipment (\$672 thousand). The proceeds will also be used to fund auxiliary renovation projects in various residence halls (\$5 million) and one fraternity (\$4.5 million).

Coordinating Board policy regarding debt service provides that a maximum of 25 percent of net tuition and fee revenue may be pledged to educational and general debt service. Net tuition and fee revenue is the gross tuition and fee revenue less unrestricted educational and general scholarship expenditures. Coordinating Board policy regarding debt service for auxiliary projects provides that annual net auxiliary revenues should be no less than 120 percent of the total annual auxiliary debt service. Additionally, Coordinating Board policy requires that a plan be developed for ongoing maintenance for any new facilities constructed with bond proceeds. The University of Arkansas, Fayetteville has embarked upon a multiyear plan to eliminate deferred maintenance and fund the annual upkeep of all facilities. The comprehensive plan includes a \$10/credit hour facilities fee, and other projected revenue which will cover the Nanoscale Science and Engineering Building and include it in the ongoing planned and

preventative maintenance program which covers the campus already. This planned and preventative maintenance program is not reactive as the campus has dealt with facilities in the past but is designed to keep new and renovated buildings fully maintained going forward. The campus went through a complete reorganization of resources moving budget from subsidizing new construction and funding renovation for repurposing facilities to planned and preventative maintenance.

Educational and General Issue:

Relevant data follows:

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| Budgeted 2009-10 Net Tuition and Fee Revenue (\$124,117,286 – 14,252,083) | \$109,865,203 |
| Maximum Allowable Debt Service (\$109,865,203 x 25%) | 27,466,301 |
| Existing Debt Service..... | 14,220,133 |
| Estimated Debt Service for Proposed Issue | 2,751,489 |
| Amount Remaining for Additional Debt Service | \$10,494,679 |

Auxiliary Issue:

Relevant data follows:

| | |
|--|--------------|
| Projected Net Housing Revenue | \$11,261,557 |
| Other Auxiliary Profits | 6,156,405 |
| Total Net Revenue | 17,417,962 |
| Maximum Annual Debt Service (\$17,417,962/120%) | 14,514,968 |
| Existing Auxiliary Debt Service | 12,933,459 |
| Estimated Debt Service for Proposed Bond Issue | 642,536 |
| Net Auxiliary Revenue Remaining for Additional Debt Service | \$ 938,973 |

The above data demonstrates that the University of Arkansas, Fayetteville has sufficient revenue to support a bond issue of \$54 million with a term of up to 30 years at an annual interest rate not to exceed 5.5 percent.

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 not to exceed \$54 million (\$44 million for E&G purposes and \$10 million for Auxiliary purposes) for a period of up to 30 years at an annual interest rate not to exceed 5.5 percent for purposes as requested.