MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Sale and Award of $9,535,000 Dormitory Revenue Refunding Bonds, Series U.N.I. 2002

Date: October 7, 2002

Recommended Action:

Recommend that the Board adopt the following resolutions (see G.D. 14), subject to receipt of acceptable bids:

1. A Resolution providing for the sale and award of $9,535,000 Dormitory Revenue Refunding Bonds, Series U.N.I. 2002, and approving and authorizing the agreement of such sale and award.


Executive Summary:

The Banking Committee is requested to recommend that the Board adopt two resolutions related to the sale, award and issuance of $9,535,000 Dormitory Revenue Refunding Bonds, Series U.N.I. 2002.

At its September 2002 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds, which would be sold to refund outstanding maturities of the 1964, 1967-C and 1992 Series of U.N.I. Dormitory Revenue Bonds.

The 1992 Dormitory bonds, with an outstanding principal of $7,560,000, became callable on July 1, 2002, and can be called on any interest payment date after that time. The next interest payment date is January 1, 2003. The outstanding maturities of the bonds would be called and principal payments made on that date.

The refunding of 1992 bonds makes possible the refunding of the outstanding Series 1964 and Series 1967-C Dormitory Revenue Bonds, which are outstanding in the total amount of $1,850,000. (A refunding of only these two series would not be cost effective.)
The restrictive provisions of the 1960's bond covenants will expire with the refunding of the 1964 and 1967-C issues.

The net and present value savings from the refunding are estimated to total more than $1.0 million and $.8 million, respectively. The maturity schedules for the bonds would not change with the refunding.

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**Background:**

**Interest Rates**
Bond coupon rates and the net interest rate for Regent bonds are very dependent upon market conditions at the time of issuance.

As interest rates decline, bonds can be refunded and annual and total debt service costs reduced.

**Definition of Refunding**
A refunding is the issuance of bonds whose proceeds are used to pay principal, interest and/or call premium, if any, of an existing debt obligation; the old (refunded) debt is replaced with new (refunding) bonds.

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**Analysis:**

**Bonds to be Refunded**

**1964 Series**
The 1964 bonds were issued in the amount of $6,250,000 to pay the costs of constructing and equipping Campbell Hall and two of the four dormitories in the Regents Complex, which includes Rider, Noehren, Shull and Hagemann Halls.

- The bonds became callable on January 1, 1997, without payment of any call premium;
- The outstanding principal is $600,000, with the last maturity being July 1, 2004; and
- The coupon (interest) rates on the two remaining maturities are 3.7% (July 1, 2003 principal) and 3.0% (July 1, 2004 principal).

**1967-C Series**
The 1967-C bonds were issued in the amount of $6,200,000 to pay the costs of constructing Bender and Dancer Halls and the Towers Dining Center.

- The bonds became callable on July 1, 1998, without payment of any call premium;
- The outstanding principal is $1,250,000, with the last maturity being July 1, 2005; and
- The coupon (interest) rates on the outstanding maturities are 4.0%. 
1992 Series

The 1992 bonds were issued in the amount of $9,145,000 to pay the costs of constructing and equipping the Residence on the Hill (ROTH).

- The bonds became callable on July 1, 2002, and may be called on any interest payment date without any call premium;
- The outstanding principal is $7,560,000 with a last maturity of July 1, 2018;
- The coupon (interest) rates on the outstanding maturities range from 5.75% to 6.0%.
- Current interest rates for bonds maturing in the same years are significantly lower.

Refunding Bond Issue

The refunding issue size of $9,535,000 includes issuance costs estimated at $50,000.

Internal Revenue Service Requirements

Under Internal Revenue Service regulations, a current refunding must occur no more than 90 days prior to the payment of the refunded bonds; no escrow needs to be established for a current refunding.

- The sale of the refunding bonds would close in mid November and the refunded bonds would be called on January 1, 2003, meeting the requirements of the 90-day time period.

Receipt of Bids

The receipt and opening of bids is scheduled for 10:00 a.m. and the award is scheduled for 11:30 a.m. on Thursday, October 17, 2002.

A representative of Springsted, Inc., will report on the bids received and make a recommendation to the Board for award of the bonds.

Bond Specifics

Average Maturity: 8.2 Years
Bonds Dated: November 1, 2002
Interest Due: July 1, 2003 and January 1 and July 1 to maturity
Principal Due: July 1, 2003 – 2018
Optional Call: Bonds maturing on or after July 1, 2013, are callable commencing July 1, 2012, and any date thereafter at par
Denomination: $5,000 and integral multiples thereof

Resolutions

Copies of the resolutions, which were prepared by Ahlers Law Firm and reviewed by Springsted, Inc., are available from the Board Office.