Deferred Maintenance & Refunding (refinancing) Series “S” Bond Issue

Board of Regents’ meeting, February 21, 2013

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&

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Debt status of university:

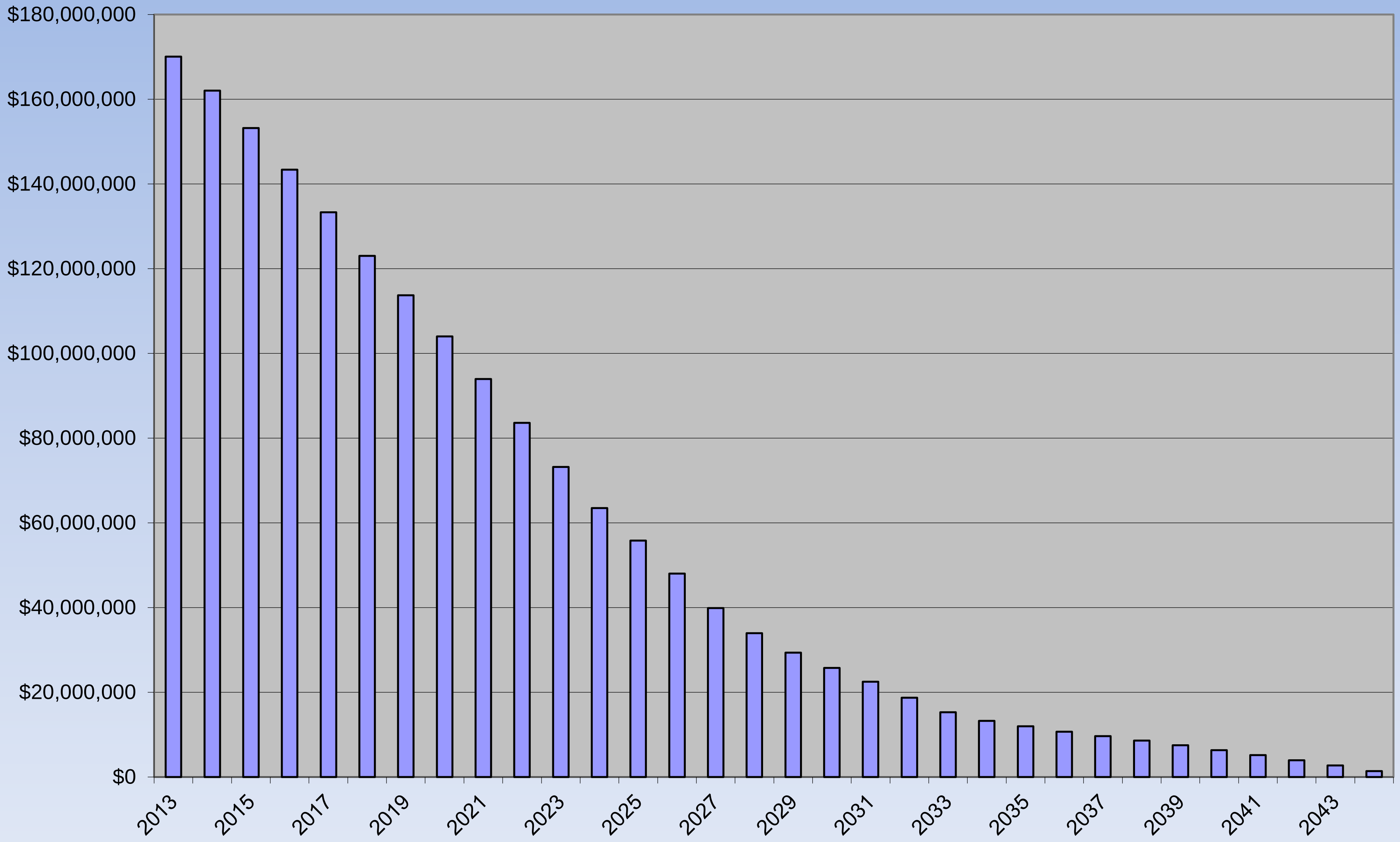
Total debt of university: $170.5M + Series “S” = $190.8M

Maximum annual debt service of university: $15.6M + $1.9M from series S = $17.5M

Debt service will become approximately 3% of unrestricted revenues (per Board Policy annual debt service ceiling = 5%)

Credit rating: Aa2 from Moody’s; AA- from S & P.

Total University of Alaska Debt Outstanding
February 1, 2013



Series “S” details:

Negotiated sale in March.

Underwriter: Barclays Capital, Inc.

Trustee: Bank of New York Mellon Trust, Seattle

Bond counsel: Wohlforth, Brecht, Cartledge & Brooking, Anchorage

Financial advisor: Kaplan Financial Consulting, Chicago

Yield: 2.29% (estimated based on current market)

Par amount: $31.5M (estimated based on current market)

In FY12, $50M general revenue bond authority was received.

Of this, $27.4M was issued in October 2011 (Series “Q”).

We are now seeking approval for Series “S.”

Series "S" consists of:

A. <u>Deferred Maintenance component:</u>

$22.6M (i.e., balance of $50M authority)

UAF: $11.4 M annual debt service:$940,000(estimated)

UAA: $10.4M annual debt service: $850,000(estimated)

SW: $752,000 annual debt service: $85,000 (estimated)

Source of payment: un-restricted revenues

B. Refunding (refinancing) component on Series “L,” “ M” & “N” :

(issued pursuant to AS14.40.040 & AS 14.40.253

Currently, no bonds outstanding prior to Series “L.”

We chose these bonds to refund because of measurable savings.

Estimated debt service savings = $1M thru 2036 or $45,000 annually.

Our savings estimated to be 9% vs. minimum rule-of-thumb 3% for refunding/refinancing bonds.

C. <u>Reserve fund elimination: current balance $6.3M</u>

Based on recommendation of financial advisor and involvement of bond counsel, underwriter, and trustee, Series “S” Supplemental Indenture includes, inter alia, elimination of the reserve fund. Elimination will occur only after all bonds prior to series S are no longer outstanding (earliest October 1, 2022 and the latest October 1, 2035).

University’s balance ($6.3M) has been funded with bond proceeds so when you have low interest rates (as in last few years), it creates negative arbitrage.

New Regulation 05.10.080

Per new Regulation 05.10.080 delegation of the authority to waive student tuition & fees to the chancellors by the President shall be in writing, for a limited term, *cannot be further delegated*, and renewed no less frequently than each fiscal year. The Regulation also requires each MAU to report the amount of tuition and fee waivers granted during the preceding fiscal year to the CFO.

<u>Notes</u>: a) from an “approval” standpoint, we are interested only in waivers that are funded through unrestricted funds and those that may be ad hoc. Not interested in waivers funded through programs approved by the Board and/or President (e.g., senior citizens, UA Scholars).

b) from a “reporting” standpoint, we need to code all waivers except for restricted funds.

New Regulation 05.10.080

<u>Rationale for why delegation should not be extended beyond Chancellor level:</u>

- For control and accountability over the number and cost of waivers.
- Per IR & A, UA could potentially have collected an additional $1.8M in revenue from 632 students over FY12 via non-resident surcharge. Only 3 (Chugiak-Eagle River; Kodiak, Matanuska) of the 13 community campuses assess non-resident surcharge. Reasons given include history, approvals by former Presidents (Kommisar, Hamilton) and chancellors (Ulmer, Gorsuch).
- Revenue shortfall for everyone.
- We do not have a sound process for documenting and storing delegations. This was emphasized in a contract authorization review by Internal Audit. Weak controls give rise to opportunity for abuse.
- Have consistency of approach for waivers .
- Know who grants the waivers (transparency, accountability).
- *Delegatus non potest delegare* or no delegated powers can be further delegated.