Reference 2

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UNIVERSITY of ALASKA
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MEMORANDUM

TO: Board of Regents

THRU: President Patrick K. Gamble

FROM: Ashok K. Roy

DATE: May 16, 2013

SUBJECT: Sale of Diplomacy building & Purchase of Bragaw buildings

This is an action Agenda item for June 6. As you will recall, we first heard about the sale of the Diplomacy building last year. Since then we have developed some concrete numbers and will present them during the meeting.

This is a complex transaction and as such will be requiring 5 motions for approval. In order to give you a heads-up in the form of a big-picture panorama, I have put together the following:

The core of the transaction will be selling the Diplomacy building and rolling the proceeds into the Bragaw office complex purchase. Debt will be required to fund the balance.

A) Sale of Diplomacy building for an expected $16.5M (still in negotiation as of today). The building is owned by UAA (61%) and by our Inflation Proofing Fund (IPF)– LGTF (39%). The cost to defease the current outstanding 2009 Series P bonds is approximately $1.8M.
B) So, a motion will be required adopting the Resolution authorizing the partial defeasance of 2009 Series P.
C) This will leave net sales proceeds of $14.8M.
D) Purchase total cost of the 4 Bragaw buildings is expected at $31M + transaction costs + tenant improvements = $34M

E) A motion will be required to apply the proceeds from the sale of the Diplomacy building to the Bragaw buildings (i.e., $34M - $14.8M = $19.2M).

F) A motion will be required to permit borrowing up to $21M ($19.2M + cost of issue + funding Reserve @ 0.5% of debt service).

What does this do to our debt profile? Let me respond to that important question.

Per amortization schedules, a loan of $21M @ (say) 3.5% interest for 25 years will mean an annual debt service payment of approximately $1.3M per year. Alaska Statute permits UA to issue bonds up to $2.5M debt service.

UA total current debt of $191.2M + the proposed $21M = $212.2M

UA annual current debt service of $17.4M + the additional $1.3M = $18.7M

UA current debt service of 2.8% of unrestricted reserves would go up to 3% (Board Policy permits up to 5%)

Approximately 73% of gross rent (Bldgs. 1815 & 1835) will come from third party/non-university leases.