

**SOUTH DAKOTA BOARD OF REGENTS**

**Budget and Finance**

**REVISED  
AGENDA ITEM: 6 – T  
DATE: December 5-7, 2017**

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**SUBJECT**

**BOR 2017 Series Housing and Auxiliary Facilities System Revenue Bonds**

**CONTROLLING STATUTE, RULE, OR POLICY**

- [13-51A](#) Board of Regents Revenue Bonds
- [13-51A-4](#) Borrowing power of the board.
- [13-51A-13](#) Power to issue bonds.

**BACKGROUND / DISCUSSION**

Bonding Summary

The Board is being asked to approve the issuance of Housing and Auxiliary Facilities System Revenue Bonds, Series 2017, which will provide for the refinancing of \$67,080,000 of the outstanding 2009 Series bonds; provide \$18,000,000 in bond proceeds to finance the SDSU Southeast Neighborhood Apartments; and provide \$10,790,320 to finance the purchase of Placer Hall at SDSM&T.

Refinancing of 2009 Build America Bonds

The 2009 Series bonds were Build America Bonds for which the federal treasury provides a 35% subsidy on the interest. That subsidy has since been reduced by sequestration to approximately 32%. There is significant chatter in the municipal bond world that there is the possibility that the subsidy will be further reduced or even eliminated. Given the historically low tax-exempt borrowing rates, we can lock in a rate that would be even better than the original 2009 rate including the BAB subsidy. While the savings is minimal on the refinancing, we would no longer be reliant on the treasury subsidy, removing a substantial financial risk. Because of the uncertainty of future market rates, the institutions involved have decided that we should take the benefit of the current low rates and eliminate the BAB risk.

(Continued)

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**DRAFT MOTION 20171205\_6-T:**

I move to approve Action items 1, 2, 3, 4, and 5 as set forth in the body of this Board item. (Each action should be approved on separate motion and seconded, and a roll call vote on each should be taken and recorded.)

#### SDSU Southeast Neighborhood Townhouse Units and Apartment

The Board approved the Preliminary Facility Statement in June of 2017 for the Southeast Neighborhood Redevelopment project. The Board is being asked to give final approval of the project at the December 2017 meeting and approve the bond issuance related to the project at the same meeting. The current plan will include construction of a four-story apartment and two-story townhouse units. There will be a mix of one to four bedroom apartments within a total gross square footage of 90,000-120,000 (dependent upon finalization of unit mix sizes, number of stories, and amenities included). The number of beds could vary depending on the best design and unit mix sizes. The current planning is between 190-232 beds.

The site selected is located on the southeast corner of the campus. It is bounded by 7th Street on the south, 8th Street on the north, 14th Avenue on the west, and Jackrabbit Avenue on the east. The existing State Court complex is included within these boundaries and would be razed as part of the project. Off-street parking, in-unit laundries, computer networking and individually metered utilities would be features of the apartments. Multipurpose spaces and community spaces will be developed as appropriate for the cost and rental rate structure. The total cost of the project is estimated at \$20.0M with \$2.0M in cash coming from the auxiliary system and \$18.0M in revenue bonds debt serviced from student rent revenues in the new facility.

#### SDSM&T Property Purchase

The SDSM&T purchase of Placer Hall was approved by the Board at the October 2017 meeting. The transaction would purchase Placer Hall, currently leased from the South Dakota School of Mines & Technology Foundation. Once the property is purchased it would become part of the housing and auxiliary operation. The proposed purchase would acquire Placer Hall and its grounds located at 209 East St. Joseph Street in Rapid City including the real property, furnishings and equipment relating thereto. The Bonds will be serviced with rent revenues and operating income from the new facility. The property is currently under a thirty-year lease for use as a residence hall by SDSM&T and would be purchased from the SDSM&T Foundation. The current lease was approved by the Board of Regents on June 30, 2016. Placer Hall is in its second year of operation and currently has a 94% occupancy rate. The cost of \$11,000,000 is based on the property real estate value determined at the time of the lease adjusted for inflation and the balance of the construction loans currently held by the Foundation. The land value determined at that time was based on the Foundation's acquisition costs plus inflation and would result in a land value currently of \$1,790,320 (as of December 2017). Appraisals performed at the time of construction determined the value to be in excess of this amount. The balance of the loan is \$9,000,000 making a current purchase price as of December \$10,790,320. Costs for issuing the bonds is estimated to total \$209,680, for a total bonding of \$11,000,000.

#### Bond Details

The issuance of Housing and Auxiliary Facilities System Revenue Bonds, Series 2017 (the "Bonds") will (i) refinance a portion of the outstanding Series 2009 Bonds for the

Institutional System for Northern State University (“*NSU*”) (\$1,000,000 Par Amount), the Institutional System for South Dakota School of Mines and Technology (“*SDSMT*”) (\$7,610,000 Par Amount), the Institutional System for South Dakota State University (“*SDSU*”) (\$23,900,000 Par Amount) and the Institutional System for the University of South Dakota (“*USD*”) (\$34,570,000 Par Amount), (ii) purchase a residence hall for SDSMT (\$11,000,000 Bond Proceeds) and (iii) construct new residences for SDSU (\$18,000,000 Bond Proceeds). A brief summary of each component follows:

**NSU Refinancing** – The refinancing of \$1,000,000 of outstanding bonds is estimated to provide total net present value savings of \$32,518 or total savings of \$36,699 over the next 17 years. The savings will be used to reduce annual debt payment over that period.

**SDSM&T Refinancing** – The refinancing of \$7,610,000 of outstanding bonds is estimated to provide total net present value savings of \$239,998 or total savings of \$297,496 over the next 17 years. The savings will be used to reduce annual debt payment over that period.

**SDSU Refinancing** – The refinancing of \$23,900,000 of outstanding bonds is estimated to provide total net present value savings of \$752,489 or total savings of \$931,365 over the next 17 years. The savings will be used to reduce annual debt payment over that period.

**USD Refinancing** – The refinancing of \$34,570,000 of outstanding bonds is estimated to provide total net present value savings of \$697,314 or total savings of 903,664 over the next 22 years. The savings will be used to reduce annual debt payment over that period.

**SDSM&T Residence Hall Facility** – The \$10,790,320 in Bond proceeds will be used to purchase Placer Hall, a residence hall, from the South Dakota School of Mines and Technology Foundation, including the real property, furnishings and equipment relating thereto. The Bonds will be serviced with rent revenues and operating income from the new facility, and additional revenues as more fully described in the Thirteenth Supplemental Bond Resolution (defined below).

**SDSU Townhouse Units and Apartment Complex** – The \$18,000,000 in Bond proceeds will be used to construct new upper-class townhouse units and an apartment complex, including furnishings and equipment relating thereto. The Bonds will be serviced with rent revenues and operating income from the new facility, and additional revenues as more fully described in the Thirteenth Supplemental Bond Resolution.

Bond Rating

The last Housing and Auxiliary System Revenue Bonds deal in 2016 was assigned a rating of “Aa3” by Moody’s. These bonds have not yet been assigned a rating by Moody’s. The rating will be available Thursday, December 7, 2017.

Underwriter and Bond Counsel

Piper Jaffray & Co. is the underwriter for the bonds. Chapman and Cutler LLP serves as bond counsel for revenue bonds.

Bond counsel and counsel to the underwriter have prepared the appropriate resolutions and documents to proceed with the next phases of the financing.

Board Action

The Board is requested to authorize the financing of (i) the costs of advance refunding a portion of the Board’s outstanding Housing and Auxiliary Facilities System Revenue Bonds, Series 2009 (Build America Program – Taxable) (the “*Series 2009 Bonds*” and the portion of such bonds to be refunded, the “*Refunded Bonds*”) on April 1, 2019 (the redemption date of the Refunded Bonds); (ii) the costs of purchasing the Placer Hall residence hall for SDSMT (the “*SDSMT Project*”); (iii) the costs of constructing new townhouse units and an apartment complex for SDSU (the “*SDSU Project*”); and (iv) the costs of issuance of the Bonds, through the issuance of the referenced Bonds.

The bond counsel for the Bonds has prepared appropriate resolutions and documents to proceed with the next phases of the financing. The five action items needing approval by the Board include the following resolutions:

**Action 1**

1. Authorizing the issuance of an additional series of Bonds under the Amended and Restated Bond Resolution adopted by the Board on October 21, 2004 (the “*Original Resolution*”) to finance:
  - (i) the refunding of a portion of the Refunded Bonds, but only if (a) the net present value of the savings from the portion of the Bonds attributable to the refunding shall be at least \$1,000,000 and (b) the aggregate debt service on the portion of the Bonds attributable to the refunding does not exceed the aggregate debt service on the Refunded Bonds;
  - (ii) the SDSM&T Project;
  - (iii) the SDSU Project; and
  - (iv) costs of issuance of the Bonds;

(Attachment I—Thirteenth Supplemental System Revenue Bond Resolution (the “*Thirteenth Supplemental Bond Resolution*”));

**Action 2**

2. Approving the contract with the underwriter, Piper Jaffray & Co., who will market the Bonds for the Board; *provided, however*, that the aggregate principal amount of Bonds sold pursuant thereto shall not exceed \$95,000,000 shall mature not later than April 1, 2039, shall bear interest at a true interest cost not exceeding 3.5%, and shall be sold at an underwriter’s discount of not more than .575% of the proceeds of the Bonds (Attachment II—Bond Purchase Agreement);

**Action 3**

3. Approving an escrow agreement with First Bank & Trust in Brookings, Brookings, South Dakota, the Bond Registrar for the Refunded Bonds, to provide for the defeasance of the Refunded Bonds (Attachment III - Escrow Agreement);

**Action 4**

4. Ratifying the distribution of the preliminary official statement and approving the distribution of the official statement to reflect the actual terms of the transaction once they are determined and the Bonds are ready for sale (Attachment IV—draft Preliminary Official Statement);

**Action 5**

5. Authorizing the President of the Board, the President of Northern State University, the President of South Dakota School of Mines and Technology, the President of South Dakota State University, the President of the University of South Dakota, the Executive Director of the Board and other Board officials to perform those acts and to execute those documents necessary to complete the Bond issue and the refunding of the Refunded Bonds, and the execution and delivery of the Thirteenth Supplemental Bond Resolution, the Bond Purchase Agreement and the Escrow Agreement; and
6. Making the certifications required prior to the issuance of additional Bonds under Section 14(K) of the Original Resolution based on the Actual Net Revenues of the System for each of the two most recent Fiscal Years and the Projected Net Revenues of the System for each of the specified three Fiscal Years (Attachment V).

Except for the distribution of the preliminary official statement, the documents approved under this action will not be completed and executed until the Bonds are issued; *provided*

that the Bond Purchase Agreement and the official statement will not be completed and executed until the Bonds are sold to the underwriter.

The contents of the documents referenced in the first four items are as follows:

The first document referenced in the resolution is the Thirteenth Supplemental Bond Resolution, under which the Bonds are to be issued. The Thirteenth Supplemental Bond Resolution supplements the Original Resolution, as supplemented and amended to date, and describes the terms of the Bonds as additional parity bonds under the Original Resolution, and outlines the conditions under which the Bonds may be redeemed, describes the disposition that will be made of the Bond proceeds, stipulates that the Bonds will not constitute a debt chargeable to the general revenues of the State, and, when adopted, authorizes the sale of the Bonds.

The second document referenced in the resolution is the Bond Purchase Agreement between the Board and the underwriter. This document reiterates the various assurances that the Board must give in order to establish that the issuance of the Bonds is within its legal authority and is otherwise consistent with State law; that the issuance has been effected in the manner required by law; that the statements made on the Board's behalf in the various documents prepared in furtherance of the transaction are accurate; that no proceedings are underway, by referendum, court action or otherwise, to impede the completion of the Bond issue; that the Board will cooperate with the underwriter as needed to complete the sale of the Bonds; that the Board operates the properties of the System consistently with governing law, and that the Board will notify the underwriter of any changed circumstances or new information that would affect the accuracy of the documents or the marketability of the Bonds. The document also provides for termination of the agreement, identifies additional certifications and opinions of counsel required to complete the transaction, provides for mutual covenants and stipulates that Board members will not be liable to the underwriter.

The third document referenced in the resolution is the Escrow Agreement between the Board and the escrow agent. This document authorizes the initial deposit of certain Bond proceeds in trust with the escrow agent into an escrow fund, directs the investment of the moneys in the escrow fund, and directs the payment of the principal of and interest on the Refunded Bonds from the escrow fund when due and on the redemption date.

The fourth document referenced is the Preliminary Official Statement, which is provided to prospective purchasers in order to assist them in determining whether the Bonds are a sound investment. The Preliminary Official Statement describes the Bonds to be issued, the manner of their purchase, transfer and redemption, the expected use of Bond proceeds, the source of funds for their repayment, the various financial, demographic and programmatic factors that provide assurance that there will be sufficient System revenues to retire the Bonds, the Bond rating and their federal tax treatment and the continuing

disclosure obligations of the Board with respect to the Bonds. The Official Statement will be prepared in final form once the amount, interest rate and the date of sale are determined.

The Thirteenth Supplemental Bond Resolution and the Escrow Agreement were prepared by bond counsel. The Preliminary Official Statement and the Bond Purchase Agreement were prepared by counsel to the underwriter.

### **IMPACT AND RECOMMENDATIONS**

Approval of the bonds will allow SDSM&T to purchase the residence hall from the Foundation, allow SDSU to move forward with the Southeast Neighborhood Redevelopment project and will provide savings on the 2009 Series bonds and eliminate reliance on the BAB subsidy.

### **ATTACHMENTS**

The attachments are provided as links. Hard copies are available upon request.

Attachment I – [Thirteenth Supplemental Bond Resolution](#)

Attachment II – [Bond Purchase Agreement](#)

Attachment III – [Escrow Agreement](#)

Attachment IV – [Preliminary Official Statement](#)

Attachment V – [Projected Net Revenues for the System](#)