SOUTH DAKOTA BOARD OF REGENTS

Budget and Finance

AGENDA ITEM: 8 – E
DATE: June 26-27, 2019

****

SUBJECT

SDBA Refinancing Series 2009 and 2011 Bonds

CONTROLLING STATUTE, RULE, OR POLICY

SCL 5-12-23

BACKGROUND / DISCUSSION

The South Dakota Building Authority (SDBA) issues bonds on behalf of the South Dakota Board of Regents (BOR). The proceeds from these bonds are used to build new facilities and fund M&R activities on our campuses. While the bonds are not in the name of BOR, there does exist a lease between SDBA and BOR for the term of the bond. BOR's lease payment matches SDBA's bond debt service with a service fee added to the lease payment for SDBA's management of the bond and building insurance.

SDBA has the right to refinance these bonds whenever it is fiscally advantageous to the State of South Dakota. Historically, SDBA and BOR do not amend the existing lease to reflect the new refinanced bond terms. Any savings from the refinancing are currently refunded to the State of South Dakota.

In May of 2019, SDBA refinanced the Series 2009 and Series 2011 bonds. The Series 2009 bonds paid for the construction of the building at Black Hills State University – Rapid City. These bonds were eligible for an interest subsidy from the federal government as a part of the Build America Bonds (BAB) program. The Series 2011 bonds funded M&R projects at four campuses: SDSU, NSU, USD, and BHSU. This refinancing is unique because of the BAB subsidy and, therefore, is being shared with the Board.

It is the BAB subsidy that makes this refinancing different from those that have been done in prior years. The BAB subsidy was transferred each year to BOR to offset the interest paid by BOR on its lease. When the Series 2009 bonds were refinanced, the BAB subsidy ceased to exist. The subsidy was not transferable to the Series 2019 bonds. However, the savings from the refinancing were substantial enough that it covered the value of the subsidy.

(Continued)

****

INFORMATIONAL ITEM

Per SDBA, the lease payments made to SDBA will not change for the 2009 and 2011 series bonds, similar to past practice on refinanced bonds. However, without the BAB subsidy credit, there would be an increase in overall debt cost. Instead of the BAB subsidy, SDBA will give the Board a credit each year equivalent to the BAB subsidy that would have been received from the federal government. By doing this, BOR will be held harmless and our annual debt service will remain the same as it has been.

IMPACT AND RECOMMENDATIONS

The refinancing of both bonds netted the State of South Dakota a total savings of approximately $1.97 million and that will be deposited with the state. This is in addition to the $1.8 million in savings that SDBA will be using to offset the loss of the BAB subsidy.

ATTACHMENTS

None