

EXECUTIVE SUMMARY

ACTION ITEM Arizona State University (ASU) requests authority to: (1) sell Certificates of Participation (COPs) in an amount not to exceed \$105.0 million for the purpose of financing the Polytechnic Academic Complex Project; (2) pay the costs of issuance for the COPs; and (3) take all actions and enter into all necessary agreements related to the COPs.

ISSUE

ASU seeks Board authorization to sell one or more series of COPs, not exceeding a \$105.0 million principal amount, for the purpose of financing the Polytechnic Academic Complex Project. ASU also seeks authorization to pay the costs of issuing the COPs and take all actions and enter into all necessary agreements, including a certificate purchase agreement and a “bond” insurance or similar credit enhancement agreement.

BACKGROUND

The project to be COPs financed and the total financing size are:

	<u>Total Cost (In Millions)</u>
Polytechnic Academic Complex (PI: 9/27/06, PA: 12/1/06)	\$103.0
Estimated Cost of Issuance, including bond insurance and underwriting fees	<u>2.0</u>
Total	<u><u>\$105.0</u></u>

This project has received the needed ABOR project implementation (PI) approval and favorable review by the Joint Committee on Capital Review in order to commence the financing. The funding source for this project is state general fund appropriations.

The existing debt service as a percentage of total expenditures (State Law Basis) and unrestricted expenditures (ABOR Policy Basis), is 3.8 percent and 4.8 percent respectively, versus permitted maximums of 8 and 10 percent, respectively. The debt service on the financing of this project, based on an assumed 5 percent interest rate, will increase ASU debt service as a percentage of total expenditures and unrestricted expenditures by an estimated 0.4 percent and 0.5 percent, respectively, or overall percentages of 4.2 percent and 5.3 percent, respectively. The estimated annual debt service requirement, based on an assumed 5 percent interest rate, is \$ 6.8 million.

FINANCING PLAN

Financing Approach. Depending upon market conditions at the time of sale, ASU may issue the entire or a portion of the financing, through variable rate or adjustable rate COPs. Although ASU has benefited in recent years from low fixed interest rates on its borrowings, it also has had favorable experience with the variable rate borrowings for various projects.

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ASU also may, if deemed beneficial to managing ASU's debt profile, consider entering into interest rate exchange (swap) agreements simultaneously with the issuance of variable rate COPs or at a later date, producing a "synthetic fixed rate" obligation for ASU at a debt service cost that may be lower than directly issuing fixed-rate COPs to the market, or "interest rate lock" agreements to secure beneficial interest rates for the future delivery of these COPs. Any COPs not issued as variable rate would be issued as fixed rate obligation instruments.

Marketing the Bonds and their Timing. All of the COPs will be sold at market rates at the time of pricing. Any fixed rate COPs will not exceed an overall yield of 5.75 percent per annum, and initial rates on any variable rate COPs would not exceed 5.25 percent per annum.

ASU intends to utilize its current bond counsel, Snell & Wilmer, its current financial advisor, RBC Dain Rauscher Incorporated, and its current trustee, Bank of New York Trust Company, all of whom were selected through a competitive proposal process and previously approved by the Board. The bonds would be marketed and sold on a negotiated basis to one or more of the investment banking firms previously selected by ASU through a competitive proposal process and previously approved by the Board.

ASU will enter into various agreements in connection with the COPs, such as a "bond" insurance agreement to lower the net borrowing costs, a lease-purchase agreement, and a possible reserve fund surety agreement, rate lock, and if ASU decided to issue variable rate COPs, liquidity and possibly interest rate swap agreements. The financing period for the COPs is 30 years.

The action being requested would authorize ASU to execute this financing within the parameters approved by the Board.

RECOMMENDATION:

That the President of ASU, the Executive Vice President and Chief Financial Officer of ASU, and the Associate Vice President of ASU for Finance and Treasurer be, and each of them hereby is, authorized in the name and on behalf of ASU, to execute and deliver any and all agreements, documents and instruments and take any and all other actions that he or she, acting alone, determines to be necessary, advisable or convenient and proper to complete the transactions consistent with the terms described herein.

RESOLVED: That Arizona State University is authorized to: (1) sell one or more series of COPs, not exceeding \$105.0 million principal amount, for the purpose of financing the Polytechnic Academic Complex project; (2) pay the costs of issuance of the COPs; and (3) take all actions, and enter into all necessary agreements as needed or appropriate for this financing.