

EXECUTIVE SUMMARY

ACTION ITEM: **The University of Arizona (UA) requests authority to sell System Revenue Bonds (SRBs) to produce sufficient proceeds not exceeding \$700,000 to finance the Residence Life Building Renewal Phase 3A project and to pay costs of issuance of the SRBs, and to take related actions, to enter into necessary agreements, and to execute documents.**

ISSUE:

The UA seeks Board authorization to sell one or more series of SRBs sufficient to finance (a) the Residence Life Building Renewal Phase 3A project and (b) the costs of issuance related to the SRBs, and to take related actions, to enter into necessary agreements, and to execute related documents, including bond insurance, reserve fund surety bonds and bond purchase, liquidity, interest rate swap, rate lock, and continuing disclosure agreements.

BACKGROUND:

Residence Life Building Renewal Phase 3A. This project focuses on the replacement of the fire sprinkler system in Cochise Hall. The purpose of this project is to extend the useful life of aging residential facilities and reduce the risk of potentially disruptive system failures that would adversely affect both the health and safety of the occupants. The fire sprinkler system replacement at Cochise Hall was originally included in Phase 2, Part A, and received Project Approval at the March 2006 Board Meeting with the goal to complete the project during the summer of 2006. The Joint Committee on Capital Review (JCCR) did not meet on time to approve the bond sale to facilitate this schedule and the budget. Therefore, the project was rescheduled for construction during the summer of 2007. The University of Arizona proposes to designate Cochise Hall as Phase 3A, leaving Coronado Hall as Phase 3. The UA is seeking authorization to finance the total project cost of \$700,000 from SRBs. This issue would be combined with other previously approved issues to maximize costs of issuance efficiency. The UA anticipates funding debt service from auxiliary funds. Operations and maintenance costs will be funded by auxiliary funds.

PREVIOUS BOARD ACTIONS:

Capital Development Plan Approval	June 2006
Project Implementation Approval	September 2006

The UA received a favorable review from the JCCR in September 2006.

Contact: Joel D. Valdez, (520) 621-5977
 Sr. Vice President for Business Affairs
 jvaldez@u.arizona.edu

EXECUTIVE SUMMARY

FINANCING PLAN:

The UA intends to finance the projects described above by selling SRBs to produce sufficient proceeds to finance (a) the project budgets not exceeding \$700,000 and (b) the costs of issuance of the SRBs. The UA expects that the SRBs would mature over a period ending not later than June 2037.

Depending upon market conditions at the time of sale, the UA may issue the entire financing, or some or all of the portion allocable to the Residence Life Building Renewal Phase 3A, through variable rate or adjustable rate SRBs. Although the UA 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. The UA also may consider entering into interest rate exchange (swap) agreements simultaneously with the issuance of variable rate SRBs or at a later date, producing a "synthetic fixed rate" obligation for the UA at a debt service cost that may be lower than directly issuing fixed-rate SRBs to the market, or "interest rate lock" agreements to secure beneficial interest rates for the future delivery of these SRBs. Any SRBs not issued as variable rate would be issued as fixed rate obligation instruments.

The UA will be called upon to enter into various agreements in connection with the SRBs, such as bond insurance for the SRBs, reserve fund surety bonds, rate lock and bond purchase agreements, and if UA decided to issue variable rate SRBs, liquidity and possibly interest rate swap agreements.

Debt Ratio Impact. The SRBs, when issued, would bring the UA's projected highest debt ratios to 5.17% under the State's statutory debt ratio limit (leaving 2.83% or \$40.9 million of debt service capacity), and 7.72% under the ABOR debt ratio (leaving 2.28% or \$22.4 million of debt service capacity).

Marketing of SRBs; Timing. All SRBs would be sold at current market rates at the time of pricing unless the interest rates had been secured previously through a rate lock mechanism. Fixed rate SRBs would not exceed a yield of 7.5% per annum and initial rates on variable rate SRBs would not exceed 6.0% per annum. The UA expects that the SRBs will be marketed and sold during the calendar year 2007 in order to meet the construction and acquisition schedules.

The UA intends to utilize its current bond counsel, Squire, Sanders & Dempsey L.L.P., and its current financial advisor, RBC Dain Rauscher, Inc., in conjunction with the proposed financing. The SRBs would be marketed and sold on a negotiated basis to one or more of the investment banking firms previously selected by the UA through a competitive process.

The action being requested would authorize the UA to execute these financings within the parameters set by the Board.

EXECUTIVE SUMMARY

RECOMMENDATION/CONCLUSION:

RESOLVED: That The University of Arizona be, and hereby is, authorized to sell one or more series of SRBs to produce sufficient proceeds to finance not exceeding \$700,000 for the Residence Life Building Renewal Phase 3A project and to pay the costs of issuance of the SRBs, to take related actions, to enter into necessary agreements, and to execute documents.