

EXECUTIVE SUMMARY

ACTION ITEM: Arizona State University (ASU) requests authority to (i) sell new Lease Purchase Certificates of Participation (COPs) to refinance all or a portion of the ASU Lease Purchase COPs, Series 2002 and pay the costs of issuance of the refinancing and (ii) take related actions, and enter into and execute necessary agreements.

ISSUE: ASU seeks Board authorization to sell fixed interest rate COPs to refinance all or a portion of its Lease Purchase Certificates of Participation (COPs), Series 2002 and to pay the issuance costs. In connection with this refinancing, ASU seeks authorization to take all related actions and to enter into all necessary agreements, including a fourth amendment to lease-purchase agreement, and to purchase any appropriate surety bonds, and execute and deliver certificate purchase, depository trust, and continuing disclosure agreements.

BACKGROUND: Currently \$93.1 million principal amount of the 2002 COPs are outstanding, all or a portion of which ASU may wish to refinance through the issuance of Refunding COPs. Current relatively low interest rates may enable ASU to realize debt service savings over the term of the COPs.

FINANCING PLAN:

Fixed interest rates have recently been very volatile with the tax exempt municipal long-term fixed interest rates, in October, hitting a level that is near the lowest level over the last 10 years. On the basis of current interest rates, a refunding of the 2002 COPs would save approximately \$2.1 million over the next 20 years on a net present value basis, after all issuance costs, with the present final maturity of 2026 staying the same. This amounts to debt service savings equal to 3.3% of the certificates being refunded.

The feasibility of the COPs being refunded is very interest rate sensitive. The currently estimated interest rate is 4.05%. If market interest rates increase 10 basis points (10 one-hundredths of one percent), or to 4.15%, the net present value savings would be \$1.9 million or 2.9% of the COPs being refunded. On the other hand, if interest rates decrease by 10 basis points, to 3.95%, the net present value savings would increase to \$2.4 million, or 3.6% of the COPs being refunded.

The norm within the municipal tax exempt bond industry is that a refunding not be done unless the net present value savings are at least 2 to 3% of the bonds or COPs being refunded. The goal for ASU is to achieve the best refunding debt service cost savings possible, and with a savings of at least 2.5% of the par amount of the COPs being refunded.

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The requested approval is to issue new COPs, in a maximum par amount of \$70 million in order to refinance all or a portion of the 2002 COPs, at any time during the next two years that a net present value savings of at least 2.5% of the par amount of the COPs being refunded can be obtained.

ASU will monitor interest rates, and at an appropriate time, may refinance the COPs described above by selling refunding COPs in amounts sufficient to accomplish the defeasance of the outstanding refinanced COPs and to pay the issuance costs. The COPs will be fixed rate and mature over the same period of time as the refinanced COPs, with a final maturity of 2026.

ASU will enter into various agreements in connection with the COPs, such as agreements relating to the purchase of "bond insurance" for the COPs, reserve fund surety bonds, a fourth amendment to lease-purchase agreement, a depository trust agreement, a continuing disclosure undertaking, and certificate purchase agreements.

Marketing of Refunding Certificates; Timing. All of the refunding COPs will be sold at current market rates at the time of pricing. The fixed rate COPs would not exceed a yield of 4.75% per annum.

ASU intends to utilize its current bond counsel, Snell & Wilmer, its current financial advisor, RBC Dain Rauscher, Inc., 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 COPs would be marketed and sold through a negotiated basis to several of the investment banking firms previously selected through a competitive process and approved by the Board.

RECOMMENDATION/CONCLUSION:

RESOLVED: That Arizona State University be, and hereby is, authorized to sell fixed interest rate COPs in amounts to produce sufficient proceeds to refinance all or a portion of its COPs Series 2002 with a net present value savings of at least 2.5% of the par amount of the COPs being refunded, and to pay costs related to the refinancing, and to take all related actions, and enter into and execute all necessary agreements, including a fourth amendment to lease-purchase agreement, a depository trust agreement and a continuing disclosure undertaking, reviewed by Board counsel and staff.

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, including a fourth amendment to lease-purchase agreement, a depository trust agreement and a continuing disclosure undertaking, advisable or convenient and proper to complete the transactions consistent with the terms described herein.