

## **EXECUTIVE SUMMARY**

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**ACTION ITEM:** Northern Arizona University requests the Board to approve (i) the formation of Pine Ridge Village/Campus Heights L.L.C. (the “Company”), (ii) the assignment to the Company of the existing ground lease from the Board to Northern Arizona Capital Facilities Finance Corporation (“NACFFC”) for the Pine Ridge Village student housing facility, (iii) the issuance by the Company of its Lease Revenue Bonds in a principal amount not exceeding \$45 million for the purposes of refinancing the bonds originally issued to finance the construction of the Pine Ridge Village student housing facility and financing the cost of constructing the Campus Heights student housing facility, and (iv) the lease of the Pine Ridge Village and Campus Heights student housing facilities to NAU.

### **ISSUE:**

In order to meet federal tax-exempt bond rules in connection with the refinancing of the Pine Ridge Village student housing facility and the construction of the Campus Heights student housing facility on the NAU mountain campus, NAU requests the Board to approve (i) the formation of the Pine Ridge Village/Campus Heights L.L.C., an Arizona limited liability company of which NACFFC will be the sole member, (ii) the assignment by NACFFC to the Company of the existing ground lease from the Board to NACFFC for the Pine Ridge Village student housing facility, (iii) the issuance of not to exceed \$45 million in aggregate principal amount of the Company’s Lease Revenue Bonds for the purposes of refinancing the bonds originally issued by NACFFC to finance the construction of the Pine Ridge Village facility and for financing the construction of the Campus Heights facility, and (iv) the lease of the Pine Ridge Village and Campus Heights facilities to NAU..

### **BACKGROUND:**

- At its June 29/29, 2001 meeting, the Board authorized entering into a Ground Lease with NACFFC to facilitate the design, financing and construction of the Pine Ridge Village student housing facility. The Pine Ridge Village facility was built and is currently operational.
- The financing undertaken by NACFFC in 2001 involved the issuance of Variable Rate Bonds with an initial fixed rate term through October 2004. Under this approach, NACFFC needs to arrange for long-term financing for the remainder of the financing term, which is until August 2033.
- At its March 7, 2003 meeting, the Board authorized entering into a Ground Lease with a non-profit entity to facilitate the design, financing and construction of

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the Campus Heights student housing facility. Both the architect and general contractor have been selected and the facility is currently under design and scheduled to begin construction in January of 2005.

- To accomplish the financing of the Campus Heights facility and the refinancing of the Pine Ridge facility, it is proposed that Lease Revenue Bonds be issued by Pine Ridge Village/Campus Heights L.L.C. (the "Company"). The Company will be a newly formed limited liability company whose sole member will be NACFFC. This structure is similar to that used for recent non-profit financings at Arizona State University and is designed so that the Company is a single purpose entity for bond financing purposes. As a part of the refinancing, the existing Ground Lease between ABOR and NACFFC for the Pine Ridge facility will be assigned to the Company.
- To achieve a lower borrowing cost, the Company will lease the Pine Ridge Village and Campus Heights facilities to NAU for the financing term under a master lease agreement. NAU, in turn, will operate the facilities and lease units to students. The revenues from leasing the facility units to students is intended to provide the funding for the University to make the payments under the Lease Agreement. Utilizing this financing approach will also release the University from a number of restrictive covenants in the existing bond documents associated with the Pine Ridge Village facility, as well as reduce the administrative cost and burden associated with the existing financing.
- The not to exceed \$45 million of Lease Revenue Bonds issued by the Company will be payable solely from the lease revenues received under the Lease Agreement and further secured by the Company's leasehold interest in the two projects. Upon retirement of the Company's debt, the Ground Lease will terminate and title to the buildings and all improvements thereon will become the property of NAU at no additional cost.
- The Lease Revenue Bonds to be issued by the Company will have a final maturity no later than original bonds issued for the Pine Ridge Village facility, which is August 1, 2033. The Bonds are anticipated to be issued as fixed rate bonds unless the Company and the University can achieve a lower effective financing cost through the issuance of variable rate debt and/or through the use of interest rate derivative agreements. It is anticipated that the bonds will be sold with municipal bond insurance as a mechanism to further decrease the borrowing costs. The proceeds of the bond issue will be used solely to pay off and retire the existing bonds of NACFFC that were issued for the Pine Ridge Village facility financing, to finance the design and construction of the Campus Heights facility and to pay costs incurred in issuing the bonds.

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- The bond counsel for the proposed financing, Snell & Wilmer L.L.P of Phoenix, AZ, advises that, in order for the Company's bonds to be issued on a tax-exempt basis, the Board is required to approve the formation of the Company and the issuance of the Company's bonds, as well as certain other matters, including an agreement by the Board to accept title to the Project upon retirement of the Bonds.

## **RECOMMENDATION:**

**RESOLVED: That the Board approves formation of the Pine Ridge Village/Campus Heights L.L.C.; the assignment from NACFFC to the Company of the existing Ground Lease with ABOR for the Pine Ridge Village facility; the entering into a Ground Lease with the Company for the Campus Heights facility pursuant to the Board's prior authorization; a lease of the Pine Ridge Village and Campus Heights facilities from the Company to NAU pursuant to a Lease Agreement; and the issuance of not exceeding \$45 million in principal amount of the Company's lease revenue bonds for the purposes of refinancing the bonds originally issued to finance the construction of the Pine Ridge Village facility and financing the design and construction of the new Campus Heights facility; and**

**That the President, Executive Vice President and Vice President of Administration and Finance of Northern Arizona University are each authorized to negotiate, sign and deliver the Ground Lease and the Lease Agreement on substantially the terms described herein and any other necessary and appropriate documents in connection with the transactions described herein and to take all necessary and appropriate actions in this connection, provided that counsel to the Board has reviewed the Ground Lease and the Lease Agreement.**