

**Arkansas State University
Board of Trustees
October 25, 2002**

The Arkansas State University Board of Trustees met by telephone conference call on Friday, October 25, 2002, in the conference room of the President=s Office on the Jonesboro campus. Mr. Richard Bell, Chair of the Board of Trustees, called the meeting to order at 11:00 a. m. A roll call confirmed the presence of the following Board members: Congressman John Paul Hammerschmidt, Vice Chair; Mr. Mike Medlock, Secretary; Ms. Florine Tousant Bingham, and Colonel Dallas Wood. Also joining by telephone were Dr. Ed Coulter, Chancellor of ASU-Mountain Home, Mr. Lyndle McCurley, Vice Chancellor for Administration of ASU-Mountain Home, and Mr. Jim Buttry, bond counsel with Friday, Eldredge & Clark. President Leslie Wyatt, members of the ASU staff and students, and the local media attended in person.

Mr. Bell presented Resolution 02-38, authorizing the issuance of bonds for the purpose of refunding the 1997 Jonesboro and Mountain Home issues, the ADHE 1999 loan for the Jonesboro campus, and for permanent financing of recent land acquisitions, and to engage Friday, Eldredge & Clark as bond counsel and Stephens, Inc., as investment banker.

Mr. Bell stated that information had been sent to the Board describing the necessary action to be taken, and discussion has taken place with Dr. Wyatt and Mr. Jennus Burton, Vice President for Finance and Administration. Mr. Bell asked if there were any questions or if Dr. Wyatt had anything further to add. Dr. Wyatt responded by saying that given the current financial market this is an opportunity to save money.

Mr. Bell stated that in the information submitted for review there were two options for consideration relating to the bonds being insured or uninsured. He asked what the implications of these options are. Mr. Burton replied that using an insurance company to insure against a debt service bond is actually paying a company to guarantee one year debt service as opposed to a second alternative which was given as Attachment B, which is to physically fund that debt service. The differences financially are that if the debt service is physically funded, more bonds must be issued because more proceeds are required up front. The insurance route will save more money over the life of the issue, and that is why this is the option recommended to the Board. Mr. Burton said the information provided on page one of Attachment A shows an average annual savings for the Jonesboro 1997 bonds at \$25,000 a year. The average savings for the ADFA loan is approximately \$5,400. The new bonds for the land acquisitions would be at a slightly higher interest rate because a short-term variable rate is being used now, but combined overall the university would reduce its debt service by \$16,000 a year for Jonesboro. The Mountain Home campus would have an absolute savings of almost \$25,000 a year. Mr. Burton reiterated that because of the substantial savings due to the low interest rate market, it is recommended that the bonds be refinanced. Colonel Wood asked that variable rate/adjustable rate versus a permanent rate be explained and when some type of fixed rate financing would be determined. Mr. Burton replied that the land acquisition bonds of approximately \$1,315,000 is with a local bank. Sometime ago the board gave approval to use a short-term financing mechanism, that business was opened to bid, and Bank of America was chosen as the institution to have that line of credit. The interest rate is extremely favorable at 1.83%, but it is basically pegged to the borrowing rate of the market

so it moves whenever the market moves. By taking that short-term line of credit out and replacing it with long-term fixed rate bonds, there is a guaranteed rate of the amount paid per year, which would allow the university to budget more easily and to eliminate the interest rate risk. Again, Mr. Burton said, that is why there is a recommendation to dispose of the short-term loan and adopt 25 year bonds.

Upon motion by Congressman Hammerschmidt, second by Mr. Medlock, Resolution 02-38 was approved.

Ayes: Bell, Hammerschmidt, Medlock, Bingham, and Wood

Nays: None

Upon motion by Ms. Bingham, second by Mr. Medlock, the Board adjourned at 11:09 a.m.

Ayes: Bell, Hammerschmidt, Medlock, Bingham, and Wood

Nays: None

Mike Medlock, Secretary

Richard Bell, Chair

EXECUTIVE SUMMARY

Contact: Jennus L. Burton (870-910-8200)

ACTION ITEM:

Arkansas State University (ASU) requests Board approval to issue twenty-five (25) year bonds for the purpose of refunding the 1997 Jonesboro and Mountain Home issues, the 1999 loan from The Arkansas Department of Higher Education (ADHE) which is financed through The Arkansas Development Finance Authority (ADFA), and to replace with permanent financing the Bank of America line of credit. Also, the University desires to engage the firm of Friday, Eldredge & Clark, LLP as bond counsel and Stephens Inc. as investment banker.

ISSUE:

The University wishes to refund the two 1997 issues and the 1999 loan at a projected average coupon rate of 3.8% interest. The Bank of America short-term line of credit issued in 2002 will also be converted to fixed financing of approximately the same interest rate.

BACKGROUND:

- The University issued bonds in 1997 at an average coupon rate of 5.07% interest, and has a loan outstanding with an interest rate of 5.05%. With interest rates at an all time low, it is timely to refinance these outstanding issues and issue new long-term debt to pay off a short term line of credit.
- The 1997 Jonesboro bonds were issued to assist in renovations of Kays Hall and Twin Towers. The 1997 Mountain Home bonds were issued to assist in constructing the new campus facilities.
- The 1997 bonds will not mature until 2017 and have interest rates up to 5.25%. Savings over the remainder of the life of the bonds, of approximately \$131,798 can be realized for the Jonesboro campus and savings of approximately \$303,132 can be realized for the Mountain Home campus through refunding.
- The loan from ADHE, financed through ADFA, matures in 2013 and has a fixed interest rate of 5.05%. Refunding will result in a savings of approximately \$88,989 over the remaining life of the note. The refinancing structure will align as closely as possible to the existing repayment schedule.
- The ADHE/ADFA loan of \$1.8 million was required to complete construction of the Fowler Center.
- None of the individual bonds shall bear interest at a rate in excess of 5.2% per annum, or overall an average coupon rate of 4.5%.
- The Bank of America loan is a flexible rate, but must be converted into fixed financing within five years of its initial draw. The Board approved this short term financing at its March 2002 meeting with the understanding that the short-term borrowing would eventually be paid off through a fixed rate long-term financing.

- The short-term line of credit was created to assist the Jonesboro campus in purchasing certain properties adjacent to the campus, e.g., the Buddy Kays' estate of single-family residences, and the Benton Center, located on the corner of Caraway Road and Johnson Avenue.
- The Chair of the Board, the President of the University, and the Vice President for Finance and Administration are authorized to execute such writings and take such action as may be appropriate to cause the bonds to be issued, including without limitation, and with respect to each issue, the execution and delivery of a trust indenture or trust indentures, a Bond Purchase Agreement with Stephens, Inc., a continuing disclosure agreement, in compliance with the Securities and Exchange Commission Rule 15c2-12, and an Official Statement.
- All prior resolutions in conflict with these new issued and refinanced debt are hereby repealed to the extent of such conflict.
- The new bonds shall mature over a period not greater than twenty-five (25) years. The refunding bonds shall mature within the same time frame as the existing bonds.
- The Underwriters Discount shall not be more than 1.2% of the principal amount thereof.
- Attachments A and B are included as supporting documentation for these issues.

RECOMMENDATION/RESOLUTION

Be it resolved that Arkansas State University is authorized to issue bonds in an amount not to exceed \$12,500,000 for the purpose of refunding the 1997 Jonesboro and Mountain Home issues, the 1999 loan for the Jonesboro campus, and for permanent financing of the recent land acquisitions. Furthermore, the University is authorized to engage the firm of Friday, Eldredge & Clark as bond counsel and Stephens Inc. as investment banker.

Mike Medlock, Secretary

Richard Bell, Chair