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To: Dick Crofts, Commissioner
Montana University System

FROM: Geoffrey Gamble
President

DATE: October 25, 2002

RE: Information Item for November 21-22 Board of Regents Meeting
Exploration of Benefits from the Refinancing of Bonds
Montana State University

As reported at the September 2002 Board of Regents meeting, the four campuses of Montana State University currently have seven Revenue Bond Issues in force. The outstanding principal balance of these issues totals \$89,536,720, and their dates of maturity vary from 2005 and 2007, to 2016 and 2021.

Given that revenue bond interest rates have now declined to a 40-year low, there may be an opportunity for MSU to refinance some of its existing revenue bonds, for current or future financial benefit. Just as with the refinancing of a home mortgage, this could either result in the reduction of future year debt service loads or, the creation of upfront cash at the time of closing.

A very preliminary review by our Bond Underwriter has indicated that the refinancing of about \$25 million of a select set of our current bonds may result in about \$1 million of net present value savings, which is equivalent to 4% of the principal.

During the next few weeks MSU intends to explore, in detail, the possibilities for refinancing a portion of its current revenue bonds, the potential for consolidating other current short term (higher interest rate) loans that our campuses may have in effect, or perhaps the extension of certain debt obligations to better align an asset life with its related debt service schedule. The objective of this analysis will be to determine if the projected financial benefits significantly outweigh the investment of staff time and effort of producing a new bond issue, as well as the actual costs of issuance.

If the University decides that it is worthwhile to proceed with some sort of refinancing, we will submit a formal request to the Regents, for authorization to complete the sale, issuance and delivery of a new series of revenue bonds.