

**MONTANA BOARD OF INVESTMENTS
SPECIAL BOARD MEETING CONFERENCE CALL**

2401 Colonial Drive, 3rd Floor Helena, Montana

Thursday, December 15, 2016

10:00 AM

AGENDA

1. Roll Call
2. Notice of Video Recording of Meeting
3. Public Comment – Public Comment on issues with Board Jurisdiction
4. INTERCAP Loan Request – University of Montana - Missoula – ***Decision***

Montana Board of Investments
INTERCAP Loan Summary and Approval



Borrower: Board of Regents of Higher Education of the State of Montana (BOR) on behalf of University of Montana-Missoula (University)

Date: December 7, 2016
Approval Date _____

The Borrower is requesting \$5 million to finance costs associated with completing and equipping the new Washington-Grizzly Champions Center currently under construction. In November 2014, BOR authorized the University to either use INTERCAP or issue a private placement revenue bond to finance the project. Seeing the University's ability to repay the loan in 15 instead of 20-30 years and to keep costs down, the Office of the Commissioner of Higher Education advised the University to choose INTERCAP as the preferred means to finance the Project.

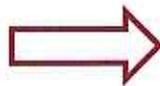
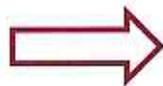
The loan will be in the form of a general promise to pay of the Borrower over a 15-year term based on allowable non-state revenues as specified in the Revenue Pledge section of this loan summary. The University anticipates closing on the loan in March and drawing all loan proceeds by June 2017.



Project Detail:

http://winapps.umt.edu/winapps/athletics/upwithmontana/south_wgs.aspx

Construction began in June 2016 for the \$14 million Washington Grizzly Champions Center (the "Project"). This over 48,000 square foot (sf) facility is tucked into the southwest corner of the Washington-Grizzly Stadium and connected to the Adams Center. The building will house a strength and conditioning center (weight room), meeting space, office space, and various other amenities, such as a small nutrition area to be used by all student athletes, 7,000sf football locker room, football lounge and team meeting space, still utilizing the existing player tunnel. Below are a few photos comparing the old facility versus the new. Although fundraising efforts continue for this project, the University is requesting the full authorized amount to ensure the proper equipment and furnishings are in place to effectively carryout the primary goals of the new facility. It is anticipated the project will be completed by September 2017.



UM-Missoula Washington Grizzly Champions Center - 1

Funding Sources:

University Athletic Fund	\$ 400,000
Private Donations (cash in hand)	8,600,000
INTERCAP Loan	<u>5,000,000</u>
Total	\$ 14,000,000*



*includes \$525,000 contingency

Authorization:

20-25-302 Montana Code Annotated (MCA) The regents of the Montana university system may: (6) do all things necessary to plan for and propose financing, including all necessary loan applications, for: (c) stadiums, fieldhouses,...

20-25-402 MCA (1) In carrying out the powers provided in ... 20-25-302, the regents may: (a) borrow money for any purpose or purposes stated in parts 3 and 4 of this chapter... (c) issue bonds, notes, ... (d) pledge for the payment of ... the principal and interest on bonds, notes, or other securities authorized in this chapter or otherwise obligate: (ii) receipts from student building, activity, union, and other special fees prescribed by the regents for all students; and... (iii) (B) receipts from athletic and other contests, exhibitions, and performances; and (e) make payments on loans or purchases from any other available income not obligated for those purposes, including receipts from sale of materials, equipment, and fixtures of the facilities or from sales of the facilities themselves, other than land;

20-25-309 MCA. Exemption from state construction and contract laws for certain university projects. (1) The board of regents may lease land or land and facilities to a private nonprofit foundation ... for the purpose of constructing or renovating athletic facilities. (2) The design and construction of projects pursuant to subsection (1) are not subject to the requirements of Title 18, Chapters 2 and 8...

- Note: The usual Governor’s written consent for facility construction financed with private funds per 18-2-102 MCA is not required for this project under 20-25-309 MCA.

November 21, 2014 - BOR Item 165-1001-R1114 authorizing the University to construct the facility up to \$14 million total, finance \$5 million through INTERCAP or issue a private placement revenue bond, and lease the facility to the UM Foundation during Project construction in accordance with 20-25-309 MCA passed 7-0.

- Note: Though exempt under 20-25-309 MCA, the University staff assures the Board that the UM Foundation followed broadly advertised Request for Proposals (RFP) processes in selecting architects and contractors for the Project. The purpose of the non-monetary lease was so the UM Foundation may procure services and select vendors who are able to offer donated goods and services towards the Project, rather than choosing based on cash prices alone. In addition, the Board’s bond counsel discussed their findings from conversations with the University staff regarding the use of the Project facility including the lease and naming rights agreements with tax counsel. Bond and tax counsel concurred that this would not be considered private activity causing INTERCAP to exceed its 5% limit on private loans to non-governmental borrowers for non-governmental purposes under Internal Revenue Code, Title 26, Section 141.

November 4, 2016 - Office of the Commissioner of Higher Education (OCHE) approved the INTERCAP application and repayment source in accordance with the INTERCAP Program Agreement between the Board and BOR dated January 2, 2007 (the “Agreement”), Article II, Section 2.01(a).

- Note: OCHE approval certifies that it performed sufficient due diligence as to the appropriateness of the Project in the context of the overall plans and policies of BOR and the University, and that the proposed loan complies with existing contracts, statutes, the BOR Indenture, and all legislative directives, mandates, and limitations.

INTERCAP Debt:

BOR has been using INTERCAP since 1992 financing just over \$48.4 million on behalf of the University of Montana and Montana State University campuses for various projects. Total outstanding to date for all the campuses is \$15.8 million with the longest term maturing June 2029. At this time, the universities have approximately \$5.1 remaining INTERCAP commitments that if drawn upon would make a potential total outstanding of nearly \$20.9 million.

The UM campuses combined have close to \$3.1 million in remaining INTERCAP commitment and \$7.0 million principal outstanding. Including this loan request pending approval, UM campuses total potential outstanding will be nearly \$15.1 million, or 15.5% of the total \$97.3 million of INTERCAP Bonds currently outstanding, which falls below the Board’s 19% cap.

Revenue Pledge (non-state):

There will be approximately \$450,000 annual debt service on the proposed 15-year note. Annual operations and maintenance (O&M) for the new facility will be approximately \$215,000 increasing 2% per annum. BOR Item 165-1001-R1114 authorized non-state revenues from the University’s athletic events receipts i.e. donations, existing Washington Grizzly Stadium (WGS) Club memberships, and ticket sales as the repayment source. The University stressed that the focus is on existing event revenue, not student fees nor an increase to either. Looking at the five-year history provided, athletic tickets/fees and WGS membership prices remain static. A sample of strong public support for UM Athletics is seen in the football program. According to the University’s Athletics website, the Washington-Grizzly Stadium averaged 24,139 fans of its 25,217 seating capacity per-game over the course of a seven-game home slate last year.

Based on the historical and projected revenues for Athletics and the WGS Club Funds, the University should be able to service the debt with the revenue pledge BOR authorized without dependence on additional donations. Furthermore, the Agreement between the Board and BOR pledges the surplus net revenue of the pledged fund(s) and if insufficient, BOR will, as authorized by and according to applicable provisions and limitations of law, budget and appropriate any allowable non-state revenues sufficient to pay the principal of and interest on the loan when due. Spectator receipts, multimedia rights/sponsorships, etc. are amongst many of the revenues, including student athletic fees, directed to the Athletic Fund.

The following Financial Report reflects the University’s overall financial position and more specifically the Pledged Funds.

Financial Report

<u>UM-Missoula overall</u>	<u>FY16</u>	<u>FY15</u>
Net Assets, beginning of year	\$ 141,167,540	\$ 178,364,704
Fund Balance Capital Asset Gain/(Loss)	(98,060)	77,850
Revenues	409,481,003	399,234,412
Expenditures	<u>388,423,125</u>	<u>385,826,049</u>
GASB 68 Pension Adjustment	(8,470,520)	(50,683,377)
Net Assets, end of year	\$ 153,656,838	\$ 141,167,540
Net Change in Fund Balance	\$ 21,057,878	\$ 13,408,363
Non-State Revenue	\$ 337,600,115	\$ 331,034,663
Fund Balance Cash	\$ 18,210,469	\$ 19,907,751
Fund Balance Unrestricted	\$ 103,211,934	\$ 99,970,049

COMMENTS

The implementation of Statement No. 68 Accounting and Financial Reporting for Pensions issued by the Governmental Accounting Standards Board (GASB 68) in June 2012 is reflected in both years in the overall report. The Net Change in Fund Balance shown above does not factor in the fund balance capital asset adjustments or the GASB 68 Pension Adjustment.

The Pledged Funds are the Athletics and WGS Club Funds. Below, Board staff combined the two funds for ease of credit analysis purposes.

<u>Pledged Funds</u>	<u>FY16</u>	<u>FY15</u>	<u>FY14</u>	<u>FY13</u>	<u>FY12</u>
Beginning Fund Balance	\$ 851,402	\$ 824,238	\$ 862,656	\$1,007,942	\$ 819,103
Athletics Revenues	8,961,040	8,919,334	8,916,315	8,563,224	8,829,832
WGS Club Revenues	<u>525,964</u>	<u>553,547</u>	<u>583,712</u>	<u>498,354</u>	<u>574,951</u>
Total Revenue	9,487,004	9,472,881	9,500,027	9,061,578	9,404,783
Athletics Expenses	8,428,669	8,490,641	8,312,477	7,937,318	7,915,531
WGS Club Expenses	237,681	311,521	172,594	207,550	300,823
Athletics Debt Service	346,600	343,555	743,374	620,996	625,254
WGS Club Debt Service	<u>300,000</u>	<u>300,000</u>	<u>310,000</u>	<u>441,000</u>	<u>374,336</u>
Total Expenses	9,312,950	9,445,717	9,538,445	9,206,864	9,215,944
Ending Fund Balance	\$ 1,025,456	\$ 851,402	\$ 824,238	\$ 862,656	\$ 1,007,942
Net Change in Fund Balance	\$ 174,054	\$ 27,164	\$ (38,418)	\$ (145,286)	\$ 188,839
Fund Balance Unrestricted	\$ 1,025,457	\$ 851,402	\$ 824,239	\$ 862,657	\$ 1,007,942

The Pledged Funds experienced an approximate \$206,000 net gain over the past five (5) fiscal years. Debt service obligations shown in FY12-FY14 for the WGS Club matured in FY14. The \$300,000 WGS Club Debt Service line item in FY15 & FY16 was actually placed in a separate reserve account earmarked to expend towards the Project. Athletics contributed \$250,000 towards the Project in FY16 and \$150,000 in FY17.

FY15 Without the one-time (\$300,000) in capital outlay, the net change in fund balance would have been \$327,164.

FY16 Without the one-time (\$550,000) in capital outlay, the net change in fund balance would have been \$724,054.

In FY18, the annual debt service for this loan will begin based on the draw down estimate. Reviewing the University's budget projections, the Project's annual O&M will also begin in FY18 along with an anticipated \$485,000 capital outlay to replace the stadium turf.

Board staff noted a significant increase in annual revenue beginning in FY18 that is mainly from the sale of multimedia rights (see box). The current communications company's media rights contract with Athletics is expiring in FY17. The initial RFP responses and contract negotiations underway gave the University



BROADCASTING & MEDIA RIGHTS

According to the World Intellectual Property Organization's website, "Television and media organizations pay huge sums of money for the exclusive right to broadcast top sporting events live.

For most sports organizations, the sale of broadcasting and media rights is now the biggest source of revenue, generating the funds needed to finance major sporting events, refurbish stadiums, and contribute to the development of sport at grassroots level. The royalties that broadcasters earn from selling their exclusive footage to other media outlets enable them to invest in the costly organizational and technical infrastructure involved in broadcasting sports events to millions of fans all over the world."

the validation to project \$2.1 million annual revenue with moderate increases in future years. The contract expiring in FY17 revenue ranged from \$500,000 beginning FY11 to \$850,000 for FY17 making the \$2.1 million a substantial increase in comparison to the highest achieved with the old contract. Athletics has \$190,000 and \$100,000 of annual principal debt service maturing in FY20 and FY23, respectively. Considering the rising expenses contemplated in Athletics future, the media revenue increase may need to bridge some of the newly proposed debt service until the existing debt matures. Negotiations on this contract are expected to finalize in the next few months and Board staff suggests waiting for confirmation from the University the contract is finalized and that sufficient revenue will be received prior to releasing any loan proceeds.

Taking the above into consideration, the University Administration and Finance office also provides the following assurances:

- ✓ Athletics is responsible for creating its budget and fiscal plans including repayment of debt service. However, Administration and Finance retains fiscal control and responsibility to withdraw resources to meet obligations including debt service, if necessary.
- ✓ Since it is the objective of the University to use events receipts as repayment, the University staff assures the Board that there is insurance in place to cover debt service if a natural disaster or other unforeseen occurrence was to disrupt or discontinue use of the stadium.
- ✓ Over the years, the University has managed funds in a way to responsibly respond to unforeseen debt obligation problems. Despite enrollment challenges, fiscal affairs to meet debt obligations are in order. Currently, the University has cash on hand of \$7.3 million to meet future debt obligations, and each year approximately \$1 million is recovered from auxiliary and designated funds due to refunding of revenue bonds, which would be available to help pay the debt service of this loan, should Athletics be unable to meet their obligation.

Recommendation

Board staff is assuming the authenticity of and relying upon the information furnished by the University website and Administration and Finance office in conjunction with input from the Office of the Commissioner of Higher Education and the Board's bond counsel to express the above findings. From examination of the information received, it is Board staff's opinion that the Borrower will have the resources to service the debt in place when the following conditions specific to this loan are met.

1. Prior to releasing funds, the Board will require BOR to pass an additional BOR Item that amends and supersedes prior authorization of the Project and clarify the revenue pledged to repay the 2017 INTERCAP Note used to finance the Project. The BOR Item must:
 - Reaffirm BOR's support of the Project financing;
 - Acknowledge that the revenue pledged to repay the debt include all the surplus net pledged revenue and any other allowable non-state revenues as defined and in accordance with the INTERCAP Program Agreement dated January 2, 2007 by and between the Board and BOR (the Agreement); and
 - Acknowledge that though it is the intent not to raise student fees in relation to the Project, BOR maintains the right to do so giving the Associated Students of the University of Montana senate opportunity to express student opinion regarding the fee in accordance with BOR Policy 506.1.

- o Direct University staff that any future pledges from donors for the Project other than individuals that involve naming rights, such as meeting rooms within the facility, must be discussed with the Board's bond counsel in advance to ensure the naming right does not affect the way the Board is looking at the facility as it pertains to private activity use.
 - o Direct OCHE to seek Board staff's input on program funds availability for any future BOR Items contemplating INTERCAP financing greater than OCHE approval level of \$500,000 provided by BOR Policy 950.1 prior to approaching BOR for approval.
2. Prior to releasing funds, the Board will require a copy of written evidence confirming multimedia rights contract(s) currently in negotiations have been finalized and the annual sponsorship revenue beginning fiscal year 2018 will be no less than \$2.1 million over the next 7-year maximum term allowed for state contracts per 18-4-313, Montana Code Annotated.

Staff Loan Committee

David Ewer, Executive Director		Date <u>12/7/16</u>
Geri Burton, Deputy Director		Date <u>12-7-16</u>
Louise Welsh, Sr. Bond Program Officer		Date <u>12/7/16</u>

Special Board Meeting Conference Call – December _____, 2016

- | | |
|-----------------------------|---|
| Mark Noennig, Chair | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Abstain |
| Karl Englund, Vice Chair | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Abstain |
| Kathy Bassette, Member | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Abstain |
| Teresa Olcott Cohea, Member | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Abstain |
| Quinton Nyman, Member | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Abstain |
| Jack Prothero, Member | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Abstain |
| Jon Satre, Member | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Abstain |
| Sheena Wilson, Member | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Abstain |

Approval Date _____