Treasury Institute for Higher Education

cbmi
COLLEGE BUSINESS MANAGEMENT INSTITUTE

Introduction to Capital Financing

Eileen Byrne &
Mary Peloquin-Dodd

SACUBO
SOUTHERN ASSOCIATION OF COLLEGE AND UNIVERSITY BUSINESS OFFICERS

UK Auxiliary Services

Ready to get started?

Agenda

1. Capital Budgeting
2. Debt Basics
3. Major Players
4. Debt Instruments
5. Bond Closing
6. Post Issuance Compliance
7. Case Studies

CAPITAL BUDGETING

CAPITAL BUDGET

- Long term expenditures
- Major maintenance
- Renovate assets
- Buy or build assets
- Multi-year lives, such as buildings or equipment

Cornell University

Table 7: Sources & Uses of Capital Expenditures by Campus

(dollars in thousands)

Ithaca Campus - Sources	Projections through FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Estimated Total Budget
1. Gifts in Hand	44,025	104,776	-	-	-	-	148,801
2. Gifts Pledged	1,950	8,808	5,823	1,945	2,045	225	20,795
3. Gifts to be Raised	-	3,103	45,000	4,000	-	-	52,103
4. Gift Funds [α]	**45,975**	**116,687**	**50,823**	**5,945**	**2,045**	**225**	**221,700**
5. Unit & Central Resources [β, Γ]	70,158	188,495	36,218	7,245	39,724	5,563	347,403
6. State University Construction Fund [Δ]	56,229	4,319	21,715	40,709	-	-	122,972
7. Grants & Other External Sources [ε]	18,365	700	-	-	-	-	19,065
8. External Debt [π]	81,959	7,485	51,892	-	-	-	141,337
9. Estimated Total Budget - Ithaca Campus	**272,686**	**317,687**	**160,647**	**53,899**	**41,769**	**5,788**	**852,476**
Ithaca Campus - Uses							
1. Planning and Design	50	4,500	9,600	845	-	-	14,995
2. Net New Space - Program	136,231	129,867	38,947	-	-	-	305,045
3. Building Renewal	81,785	66,724	44,159	42,874	40,309	5,788	281,640
4. Renewal - Programmatic Fit	21,562	44,194	9,534	1,647	-	-	76,936
5. Renewal - Capital Infrastructure & Maintenance	32,605	71,170	57,360	7,495	-	-	168,629
6. Administrative Systems	454	1,232	1,048	1,038	1,460	-	5,232
7. Total Budgeted Capital Expenditures - Ithaca Campus	**272,686**	**317,686**	**160,647**	**53,899**	**41,769**	**5,788**	**852,476**

RENOVATION


Arena
ROLL TIDE
THE UNIVERSITY OF
ALABAMA

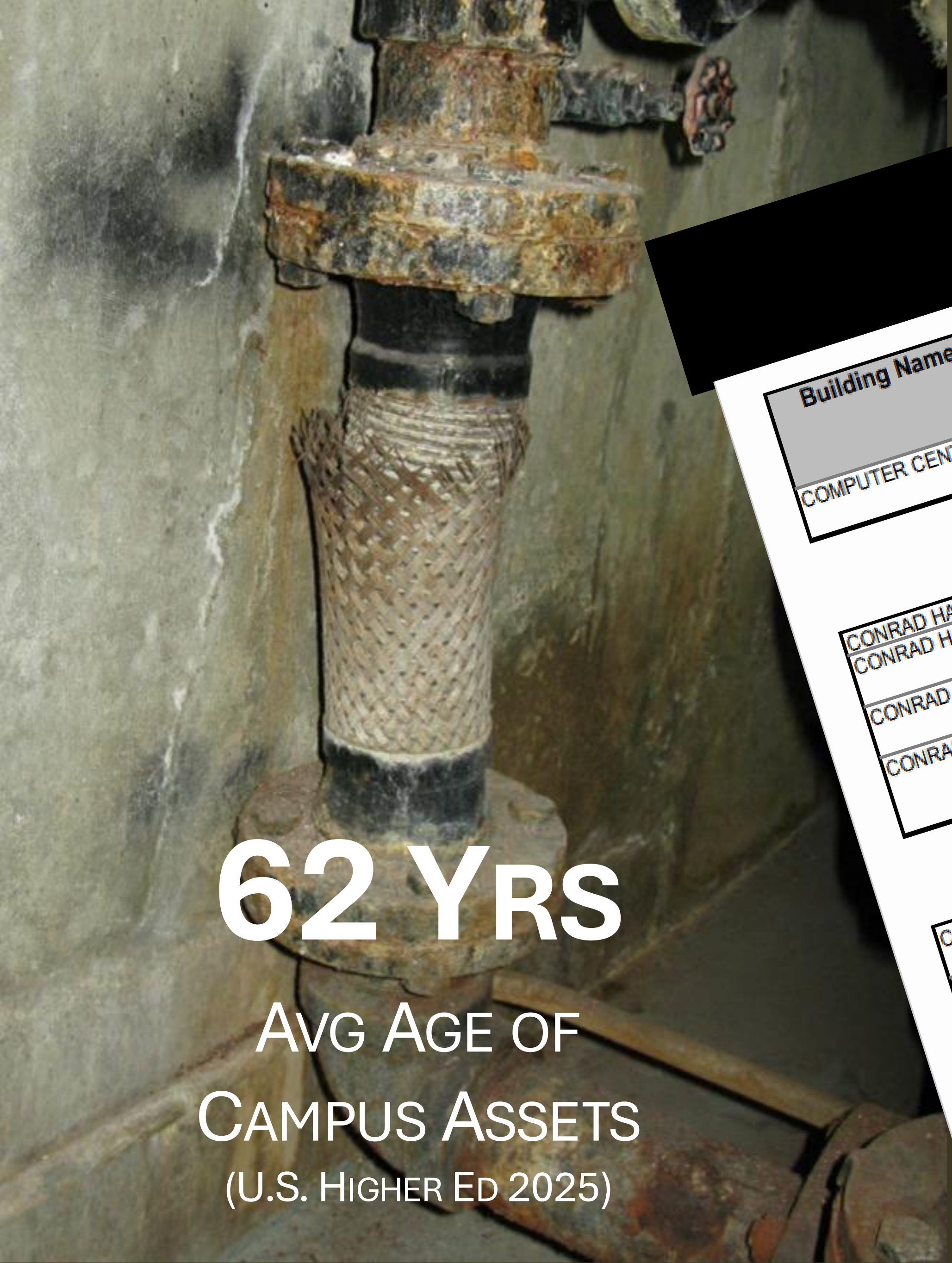

Auditorium
NYU


CLEMSON
UNIVERSITY
Visitor Center


Labs
HILLSBOROUGH
Community College

NEW CONSTRUCTION

DEFERRED MAINTENANCE



62 Yrs

Avg Age of Campus Assets

(U.S. Higher Ed 2025)

Michigan State University
Building Condition Assessment
2017-2021 Capital Renewal - Maintenance

Building Name	Bldg #	Work Plan Year-Proposed	Type	Description (Title)	Estimated Cost (2017 dollars)
COMPUTER CENTER	0035	2020	BUILDING SYSTEMS	SUBSTATIONS/TRANSFORMERS - 13.2 KV	$630,000
					$2,354,000
CONRAD HALL	0328	2017	BUILDING SYSTEMS	REPLACE BOOSTER COIL VALVES	$134,000
CONRAD HALL	0328	2017	BUILDING SYSTEMS	REPLACE OLD LIGHTING PANELS	$32,000
CONRAD HALL	0328	2018	BUILDING SYSTEMS	CHILLER - CH1	$225,000
CONRAD HALL	0328	2020	BUILDING SYSTEMS	REPLACE DOMESTIC COLD WATER SHUTOFF VALVES AND WATER METER WHERE WATER COMES INTO THE BUILDING.	$28,000
					$419,000
COWLES HOUSE	0009	2017	BUILDING ENVELOPE	REPLACE WINDOWS WITH NEW THERMALPANE INSULATED GLASS WINDOWS	$114,000
COWLES HOUSE	0009	2017	BUILDING SYSTEMS	REPLACE EXISTING HVAC CONTROLS WITH NEW DDC CONTROLS	$316,000
COWLES HOUSE	0009	2017	BUILDING SYSTEMS	REPLACE CHILLER	$32,000
COWLES HOUSE	0009	2017	BUILDING ENVELOPE	CONCRETE & MASONRY REPAIRS AT BUILDING ENTRANCES	$20,000
COWLES HOUSE	0009	2017	BUILDING SYSTEMS	COWLES HOUSE - REPLACE FIRE ALARM SYSTEM	$91,000
COWLES HOUSE	0009	2017	BUILDING SYSTEMS	NEW FAN COIL UNITS AND VENTILATION DUCTWORK	$177,000
COWLES HOUSE	0009	2017	BUILDING SYSTEMS	REPLACE 16 FAN COIL UNITS	$101,000
COWLES HOUSE	0009	2017	BUILDING	REPLACE 2 AIR HANDLING UNITS	$38,000
COWLES HOUSE					

$112B

Current U.S. Backlog

APPA & CBRE. (n.d.). *Higher Ed Facilities Forum: Deferred maintenance backlog and average asset age in U.S. higher education.*

Capital Project Summaries

PRIORITY **5** UW-STEVENS POINT

ALBERTSON HALL REPLACEMENT

$92,160,000

$92,160,000 GFSB

Project Request:
The UW System requests that the Board of Regents recommend this project of $92,160,000 General Fund Supported Borrowing to construct a replacement multi-use academic learning commons and student services facility and demolish the former learning resource center on the UW-Stevens Point campus be included in the proposed 2021-23 Capital Budget request that will be submitted to the Department of Administration and the State Building Commission.

Summary:

- New Learning Commons, Student Success Center, and Center for Inclusive Learning.
- Installs mobile, high-density shelving on the lower levels and open floor configurations.
- Appropriately locates Disability and Assistive Technology Center on the ground floor.
- Relocates campus data center out of the 100-year floodplain, serving several municipal and regional entities.
- Resolves building infrastructure deficiencies in the mechanical, electrical, communications, plumbing, and fire protection systems.
- Eliminates structural deficiency that has resulted in deflection and localized buckling ...

Albertson Hall
(proposed for replacement)

1970 Year
202,006 GSF

Physical Condition

Functional Condition

Fvi

Demolition	202,006 GSF
New Construction	180,100 GSF
Renovation	0 GSF

PROJECT SUMMARY	**Category:** Growth **Type:** Active

North Campus Student Housing - Phase IV(b) – Oak Hall/Denny Field

COVID update: *Project is nearing completion (Aug). Interruption would be too costly.*

REGENTS ACTIONS:

February 2019
- Approved project budget and funding plan.

OBJECTIVES:
- Complete Phase IV of ten-year plan to increase capacity and provide safe, affordable, quality student housing. Oak Hall will provide an additional 360 beds to the 1,774 beds completed in Phase IV(a) (Madrona, McCarty, and Willow Halls).

DESCRIPTION: This project will include the construction of Oak Hall and landscape improvements in the area behind Lewis Hall as well as the reconstruction of Denny Field as an artificial surface all-season field with lighting starting in May 2019 with occupancy in fall 2020. North Campus Housing Phase IV(b) originally included the demolition and minor site restoration of Haggett Hall. The demolition and potential redevelopment of Haggett Hall is accounted for in the Housing & Food Services (HFS) proforma in fiscal years 2021-2027 as a capital expenditure that is not yet approved by the University of Washington Board of Regents.

FINANCIALS:

Proposed Project Budget		
Consultant Services	$660,120	1%
Construction Cost	$51,922,061	79%
FF&E & Other Costs	$5,833,413	9%
Contingency	$2,516,754	4%
Haggett Hall	-	0%
Accrued Costs to Date	$4,567,652	7%
Total Project Budget	**$65,500,000**	**100%**

Proposed Funding		
UW - Housing & Food Services	$62,200,000	95%
UW - HFS previously funded	$3,300,000	5%
Estimated Total Funds	**$65,500,000**	**100%**

BENCHMARKS:

Project
Costs escalated to 2019 (project costs)
Stanford Benchmark of west coast university housing previous five years ($155,750/bed).
Maple and Terry Halls ($132,000/bed)
Lander Hall ($153,500/bed)

METRICS & INDICATORS:

Item	Current	Targets
Net Assignable SF	66,979	287,886
Gross SF	108,195	435,651
GSF/Bed	300	415
Efficiency (NASF/GSF)	62%	66%

Item	Current	Targets
Construction Cost/GSF	$455	$255
Project Cost/GSF	$563	$321
Project Cost/Bed	$161,000	$133,000

SCHEDULE:

UNIVERSITY of WASHINGTON

Interdisciplinary Engineering Building

PROJECT SUMMARY

Category: Growth
Type: Institutional Capital

College of Engineering Interdisciplinary Engineering Building - Phase I(a)

REGENTS ACTIONS:

June 2020
- Project approval for $75 million.
- Delegated authority to award Design Build contract.
- Site selection.

OBJECTIVES:
- Provide an educational experience that prepares undergraduate students to be leaders.
- Increase diversity and access to foster excellence.
- Build interdisciplinary collaborations that inspire innovation.
- Create industry partnerships to increase impact.
- Focus on key global challenges where they achieve greatest impact and excellence.

DESCRIPTION: The new IEB facility would provide much needed capacity to alleviate existing deficits within the College of Engineering, and provide student services and a "home base" for the freshmen and sophomore classes. The IEB would provide substantial project and curricular space, balanced with research and faculty office areas to support the growth in student enrollment. The IEB would also provide more space for industry-sponsored senior Capstone projects, which holistically combine theory, practice, and design. Pairing students with industry professionals opens doors to post-degree employment and strengthens University-industry connections.

FINANCIALS:

Proposed Project Budget			Proposed Funding		
Acquisition/Enabling Costs	$13,000,000	17.3%	OFM State Capital Request 17-19	$600,000	0.8%
Consultant Services	$5,061,036	6.7%	OFM State Building Account 19-21	$4,000,000	5.3%
Construction Contracts	$52,799,778	70.4%	OFM State Capital Request 21-23	$45,400,000	60.5%
Equipment	$1,249,635	1.7%	Donor Funding	$2,800,000	3.7%
Project Management	$2,471,013	3.3%	Debt (ILP)	$10,000,000	13.3%
Other Costs (inc Art)	$418,538	0.6%	Unit Equity	$12,200,000	16.3%
Total Project Budget	**$75,000,000**	**100%**	**Estimated Total Funds**	**$75,000,000**	**100%**

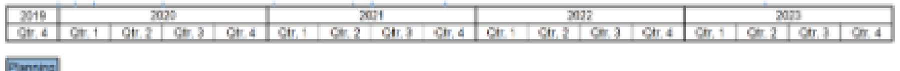
BENCHMARKS:

Project	Gross SF	Project Cost	Cost/GSF
Montana State University - Asbjornson Hall	109,000	$62,356,720	$572
University of Alaska - Integrated Science Facility	124,000	$99,500,080	$802
UW Gates Center for Computer Science & Engineering	135,000	$115,352,100	$854
UW Molecular Engineering Building	90,300	$95,097,639	$1,053

METRICS & INDICATORS:

Item	Current	Targets	Item	Current	Targets
Net Assignable SF		43,500	Construction Cost/GSF	-	$704
Gross SF		75,000	Project Cost/GSF	-	$1,000
Efficiency (NASF/GSF)		58%	Operating Costs/GSF	-	$7.54
			Renewal Costs/GSF	-	$9.36

SCHEDULE:



Funding of Capital Projects

- State Appropriations
- Tuition
- Restricted Fees
- Gifts and grants
- Endowment Income

Revenues Pledges by Source of Capital

Revenue

- Revenue Pledge
- Specifically Defined Revenue Source
- No Taxing Power
- Not Subject to Appropriation Risk

General Obligation

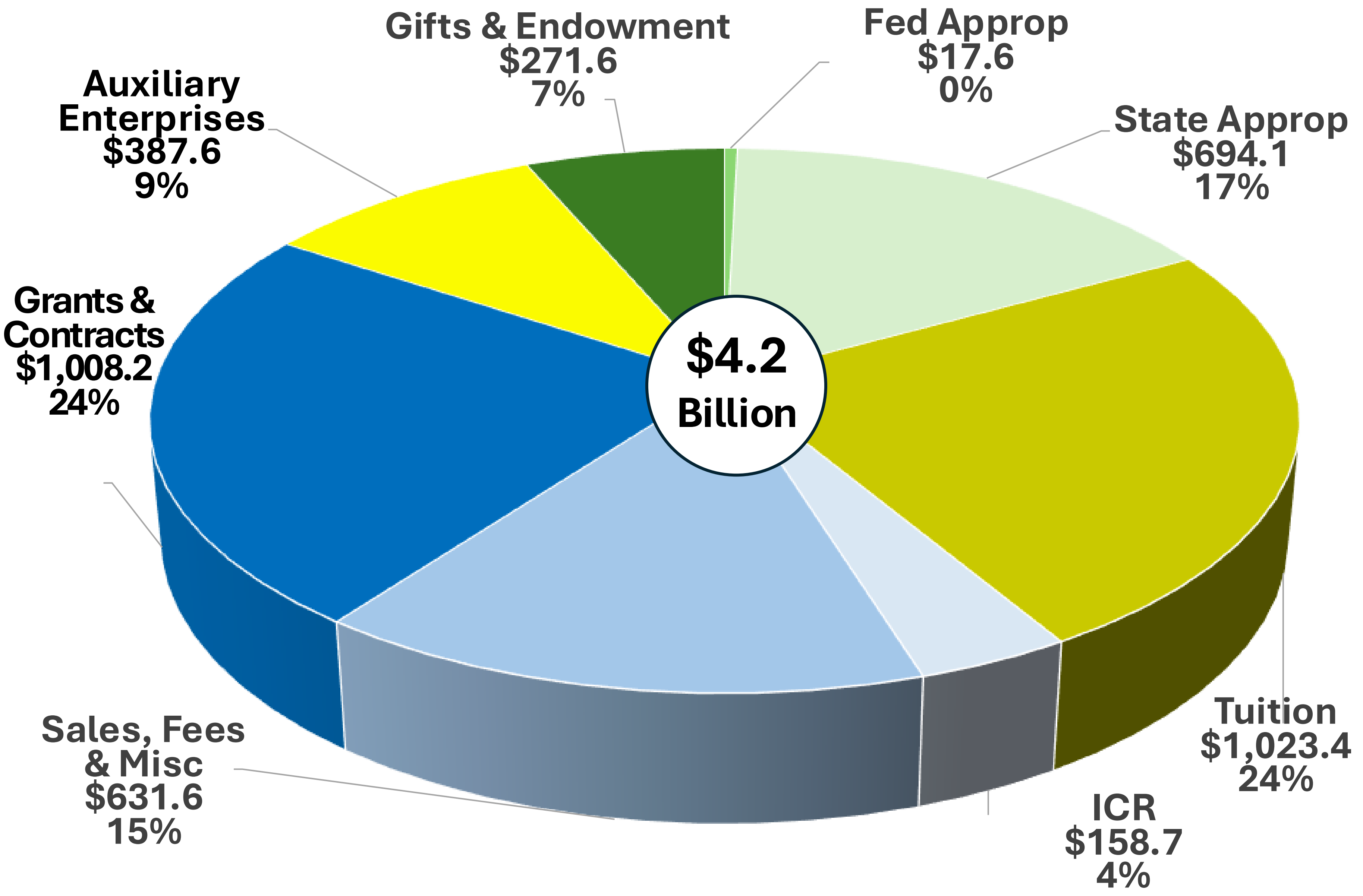
- Full Faith & Credit Pledge
- Taxing Power
- Not Subject to Appropriation Risk

Lease

- Special Obligation Pledge
- All Legally Available Revenues
- No Taxing Powers
- Subject to Appropriation Risk

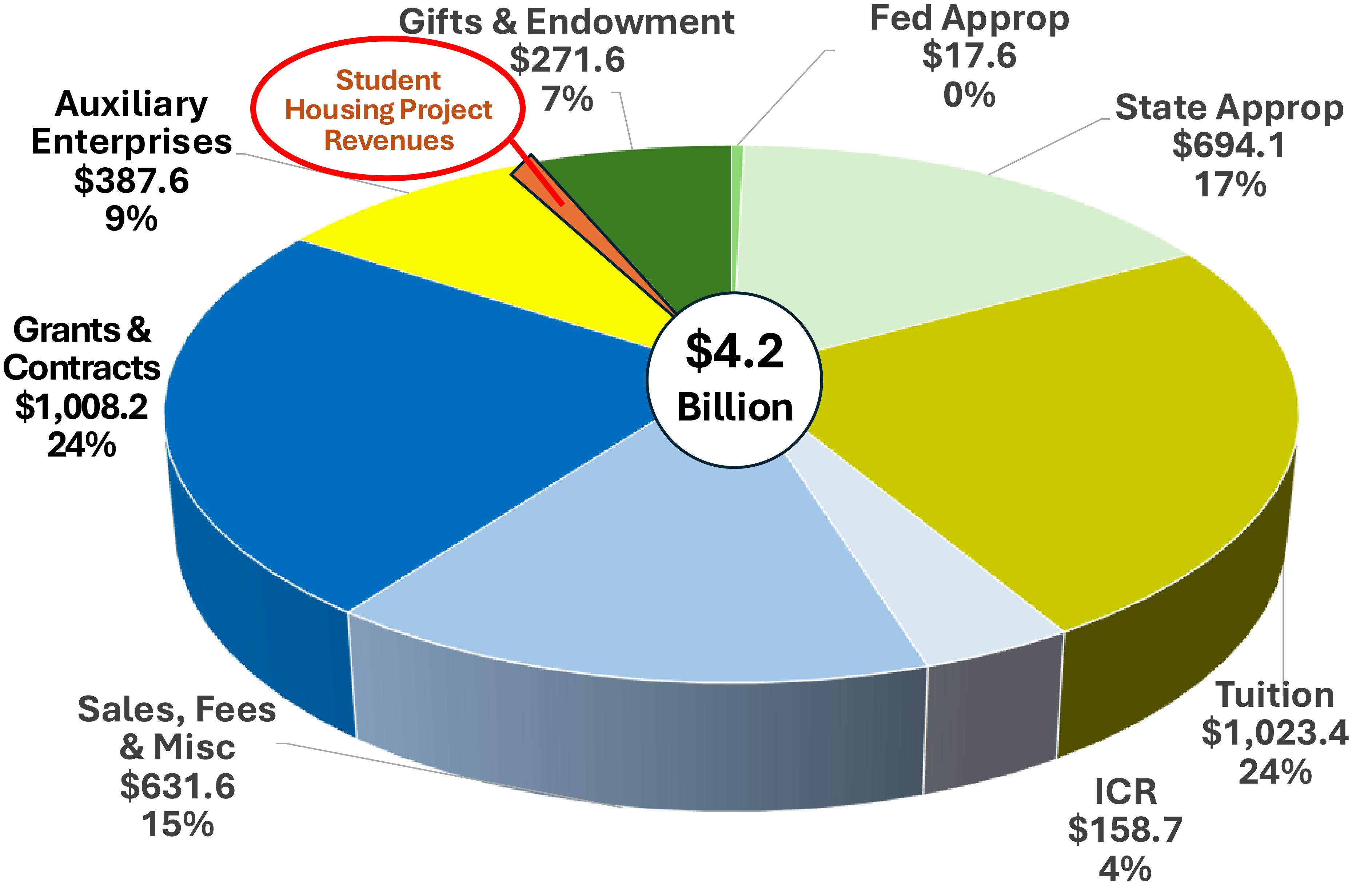
FUNDING OF CAPITAL PROJECTS

University of Minnesota
Budgeted Revenues FY20
in millions



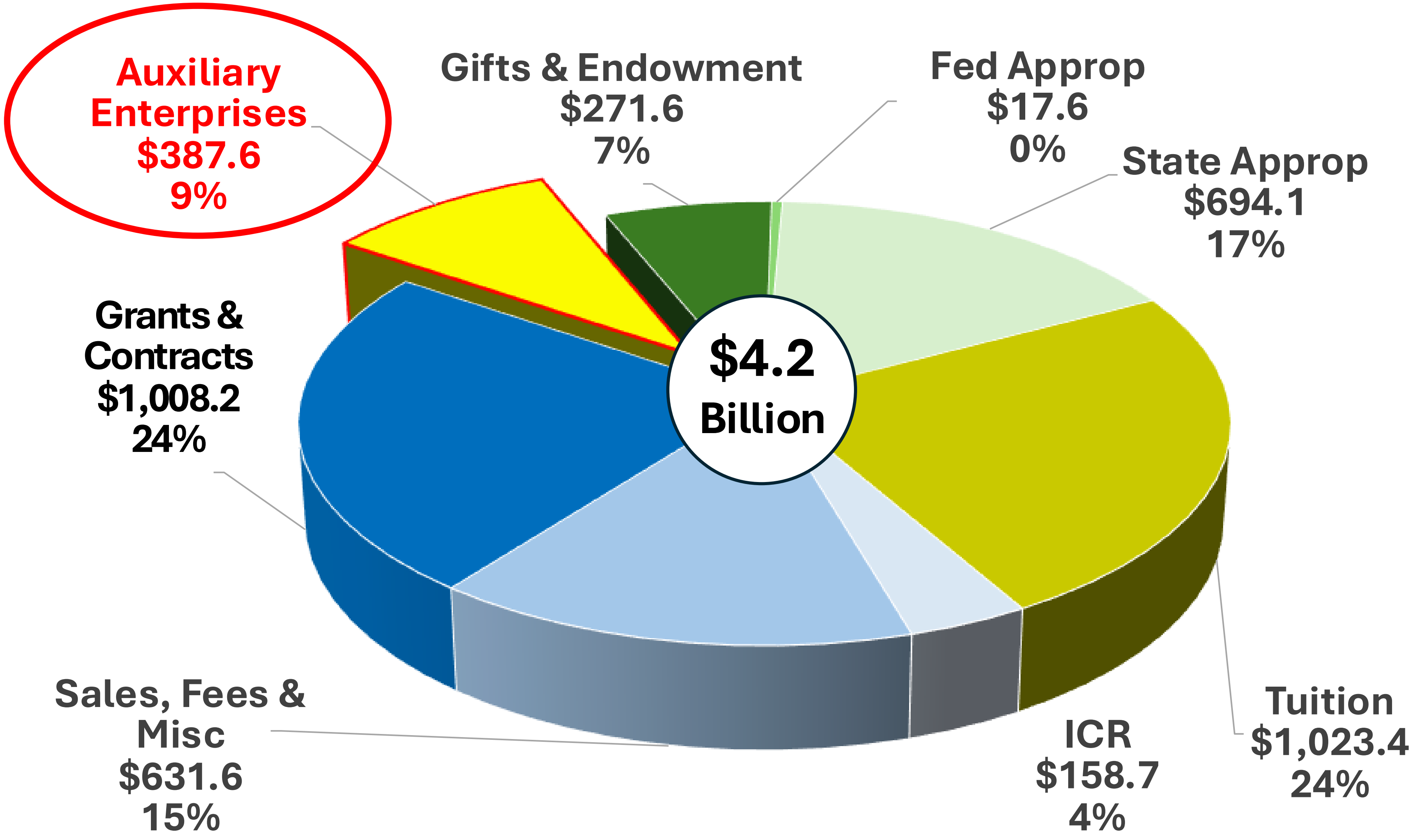
Funding of Capital Projects

University of Minnesota
Budgeted Revenues FY20
in millions



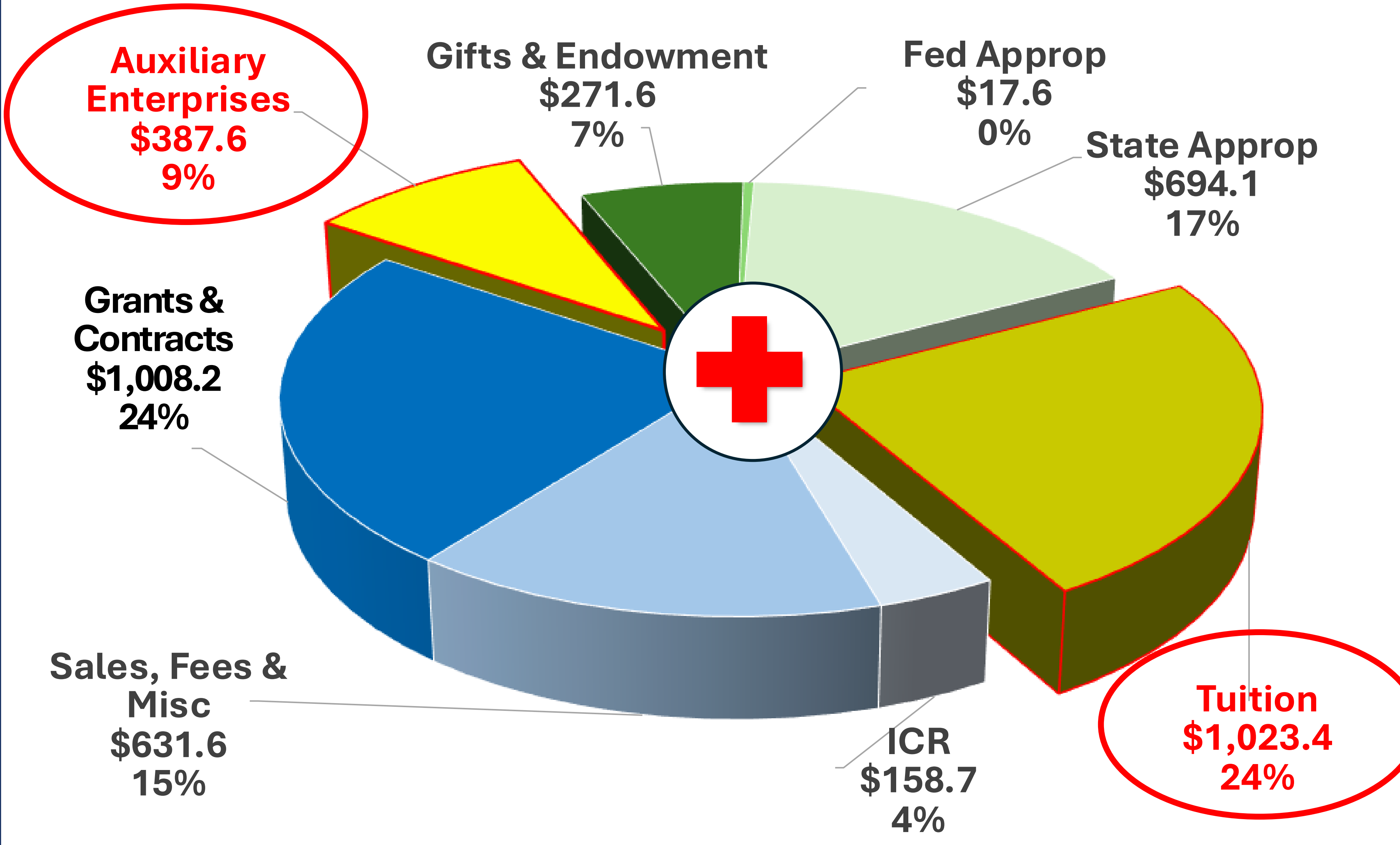
Funding of Capital Projects

University of Minnesota
Budgeted Revenues FY20
in millions



Funding of Capital Projects

University of Minnesota
Budgeted Revenues FY20
in millions



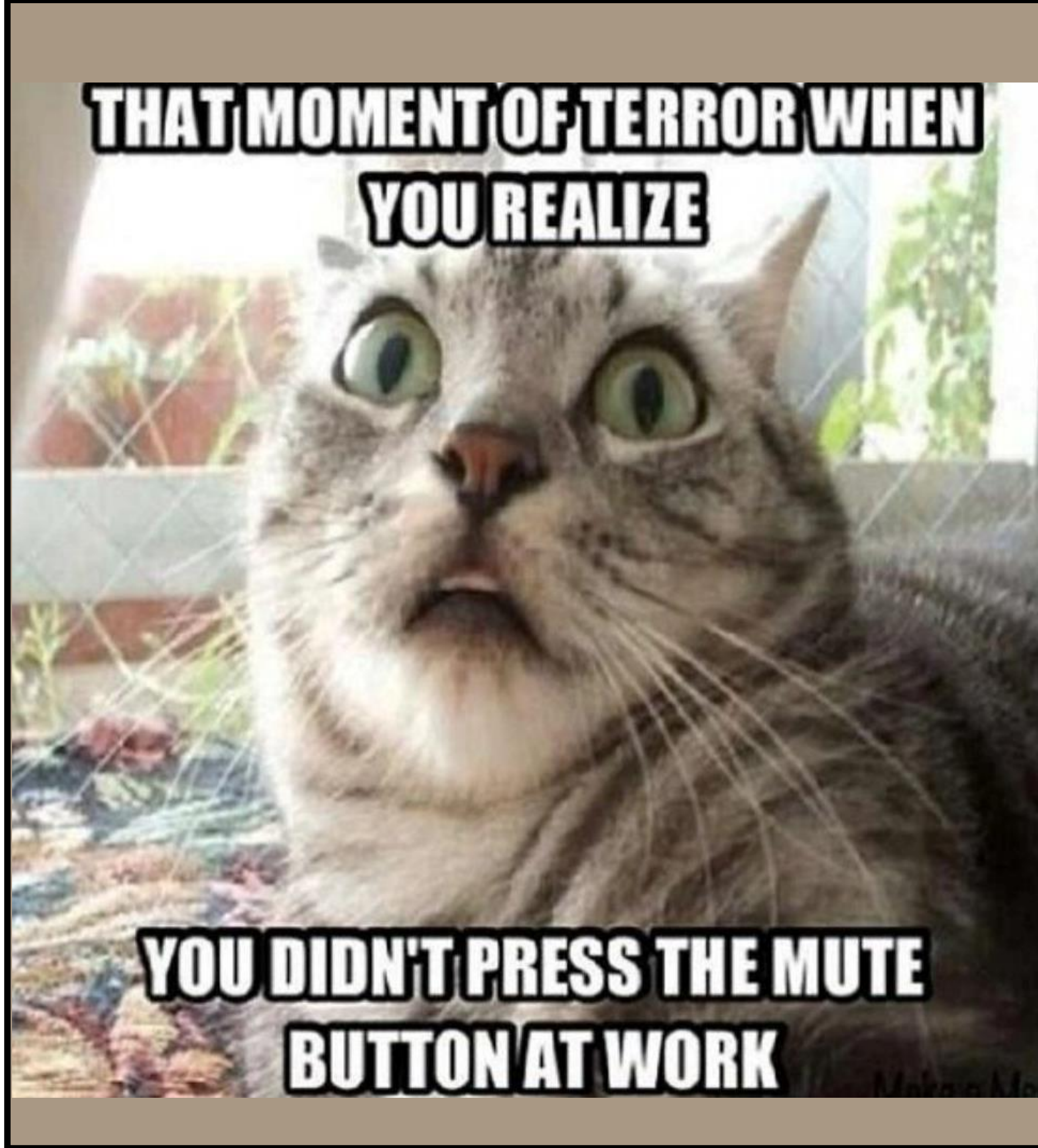
WHERE DEBT IS BORN!

	Money Markets	Capital Markets
Maturity period:	Short-term: <= 1 year	Long-term: > 1 year
Safety:	Lower risk	Higher risk
Examples:	Treasury bills Commercial paper Certificates of deposit (CDs)	Treasury bonds Municipal bonds Corporate bonds Stocks (equity)

DEBT BASICS

IT'S NOT SCARY...

WE PROMISE‼



WHAT IS DEBT?

- A loan from a person, corporation, government, or nonprofit entity
- Generally, interest bearing
- For a specific period - *long-term* or *short-term*
- Usually with agreed upon repayment schedule
- Examples of types of debt

Loan (e.g. home, auto, student)	Note
Bond	Credit card
Commercial paper	IOU

DEBT vs. EQUITY

DEBT

- A financial obligation owed by one person to another
- Based on promise to repay amount borrowed + interest
- No ownership component
- Borrower commits to repay from some stream of revenues or assets
- To not pay on time is a default

EQUITY

- Ownership in a thing
  - Company
  - Real estate property
  - Vehicle
- If you own stock of a company, you are part owner of the company
- <u>No guarantee stockholders will receive</u>
  - Return on investment (e.g. dividend)
  - Price paid for stock
  - Or anything else

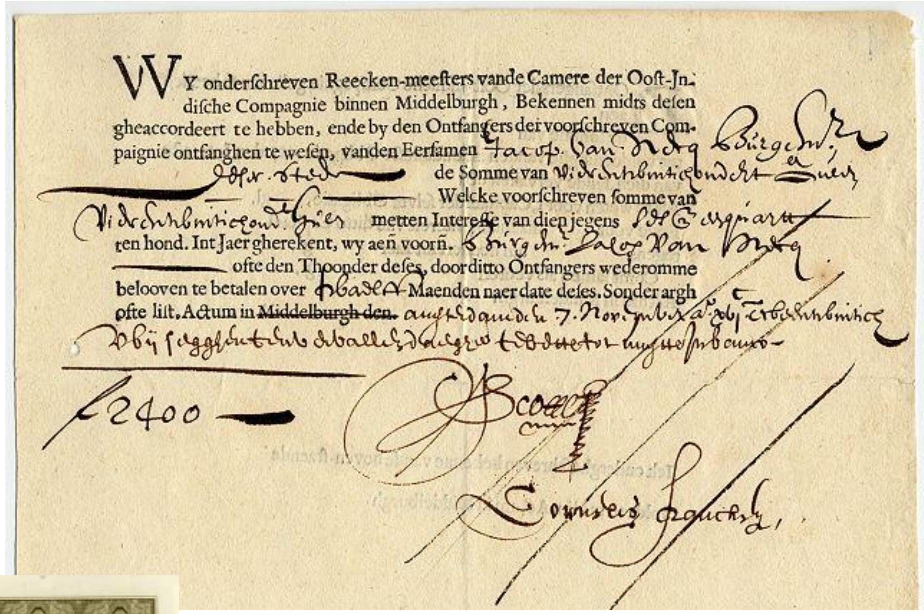
WHAT ARE BONDS?

- Debt issued for a period of one or more years
- Bonds can be outstanding for 30 years or more, even 100 years
- Short-term bond typically matures in less than 3 years
- Borrower pays interest periodically — often every 6 months
- Borrower repays principal amount of bond at specified times — often one payment per year

cbmi
COLLEGE BUSINESS MANAGEMENT INSTITUTE

A Bit of History

Dutch East India Co. issues bond on Nov. 7, 1623


WY onderschreven Reecken-meesters vande Camere der Oost-Indische Compagnie binnen Middelburgh, Bekennen midts desen gheaccordeert te hebben, ende by den Ontfangers der voorschreven Compagnie ontfanghen te wesen, vanden Eersamen
de Somme van
Welcke voorschreven somme van
metten Interesse van dien jegens
ten hond. Int Jaer gherekent, wy aen voorn.
ofte den Thoonder deses, door ditto Ontfangers wederomme belooven te betalen over
Maenden naer date deses. Sonder argh ofte list. Actum in Middelburgh den
f 2400

1812

New York City issues 1st U.S. local govt debt instrument to fund local canals

a "municipal bond"

cbmi
COLLEGE BUSINESS MANAGEMENT INSTITUTE

What if you had the cash?

Should you spend it in one or two years?

WHY BORROW?

When does it make sense to do so?

INSTITUTIONS HAVE OPTIONS

PAY WITH CASH OR BORROW?

Pay-As-You-Go

- Construct or acquire only as revenues become available
- Current users bear cost
- Construction/acquisition capacity limited to available funds on hand
- Lower total cost of financing
- Financial sustainability

Debt Financing

- Construct or acquire assets as needed
- Current & future users bear cost
- Enhanced construction/ acquisition capacity
- More affordable as payments spread over time
- Finance over useful life of assets

WHY BORROW?

NEW MONEY DEBT

For capital projects

- Housing, classrooms, research buildings, athletic facilities, etc.

For short-term operating needs

- In anticipation of gifts
- To cover cash flow during fiscal year

For strategic initiatives:

- Avoid liquidating endowment during periods of market weakness
- Pay for new acquisitions, e.g, land & other real estate assets

WHY BORROW?

REFINANCING

To pay off existing debt

To create debt service savings by issuing new bonds at lower interest rate

To remove restrictive requirements of outstanding bonds / avoid covenant default

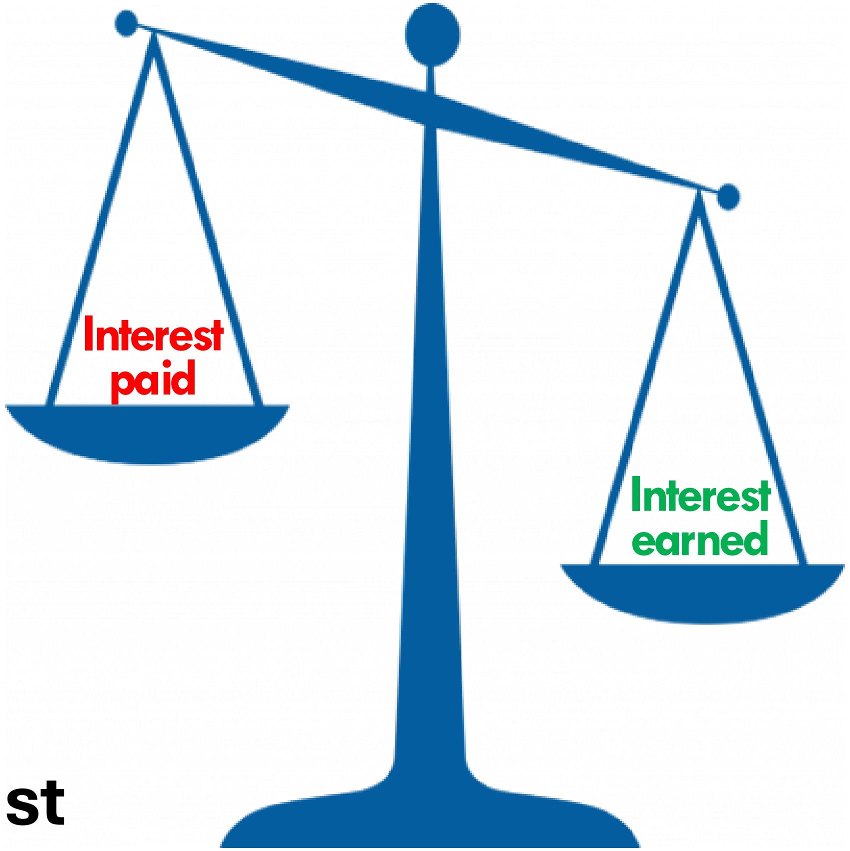
WHY BORROW?

Financial Leverage

Your Money

vs.

OPM



If investment income > than "all in" cost of borrowing, then advantageous to borrow

Public Institutions Have Other Reasons

State appropriations insufficient or not available

- Scarce state funds
- Capital outlay priority system
- Auxiliary enterprises usually not funded by the state
- State debt limits
- States' priorities differ

PRIORITY 1 – EMERGENCY
- LIFE SAFETY PROJECTS
- STATE FIRE MARSHALL DEFICIENCIES
- SPECIAL PROJECTS, AS ASSIGNED BY THE AVP F&S

PRIORITY 2 – URGENT – BASIC HUMAN NEEDS PROJECTS
- POTABLE WATER
- INDOOR AIR QUALITY
- PROPERLY FUNCTIONING RESTROOMS
- PROTECTION FROM THE ELEMENTS (WATER INTRUSION, ROOF/WINDOW LEAKS)

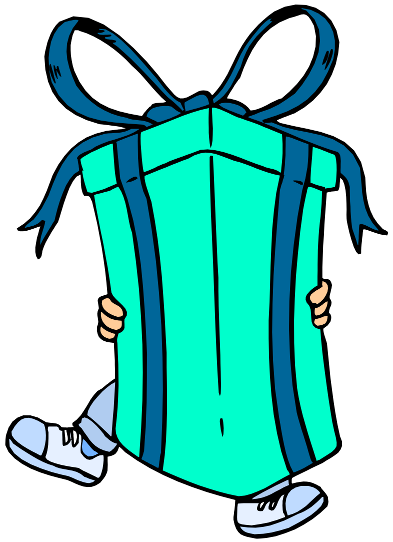
PRIORITY 3 – EXPEDITE – EDUCATION SPACE IMPROVEMENTS
- EDUCATION – CLASSROOMS
- RESEARCH – LABS
- WORKPLACE ENVIRONMENT PROJECTS (HVAC/POWER/LIGHTING)

PRIORITY 4 – EXPEDITE – NON-EDUCATION SPACE IMPROVEMENTS
- RESIDENCE LIFE
- RETAIL
- RECREATION
- FACULTY & STAFF SPACE

PRIORITY 5 – ROUTINE
- FINISHES
- FLOORING
- PAINT

PRIORITY 6 – EXTERIOR (EMERGENCY REPAIRS CAN BE ASSIGNED TO PRIORITY 1 OR 2)
- LANDSCAPE
- WALKWAYS
- ROADWAYS

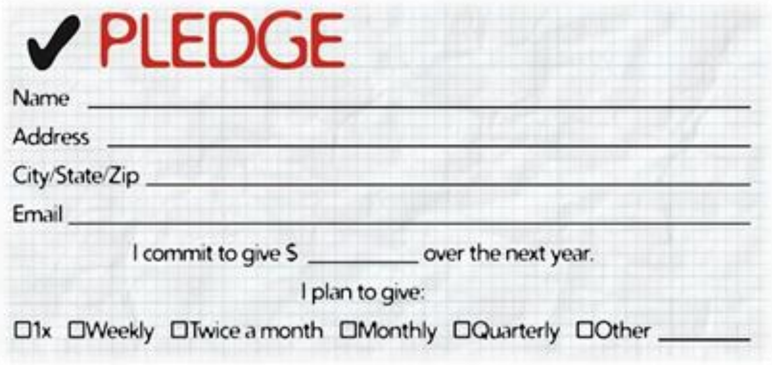
WHY BORROW MONEY?



- Capital projects = $$$
  - Difficult to fund with cash on hand
  - Construction inflation
- Competing campus needs
- Gifts

Promises of gifts

- Capital campaigns
- Multi-year pledges



✔ PLEDGE

Name ____________________

Address ____________________

City/State/Zip ____________________

Email ____________________

I commit to give $ ________ over the next year.

I plan to give:

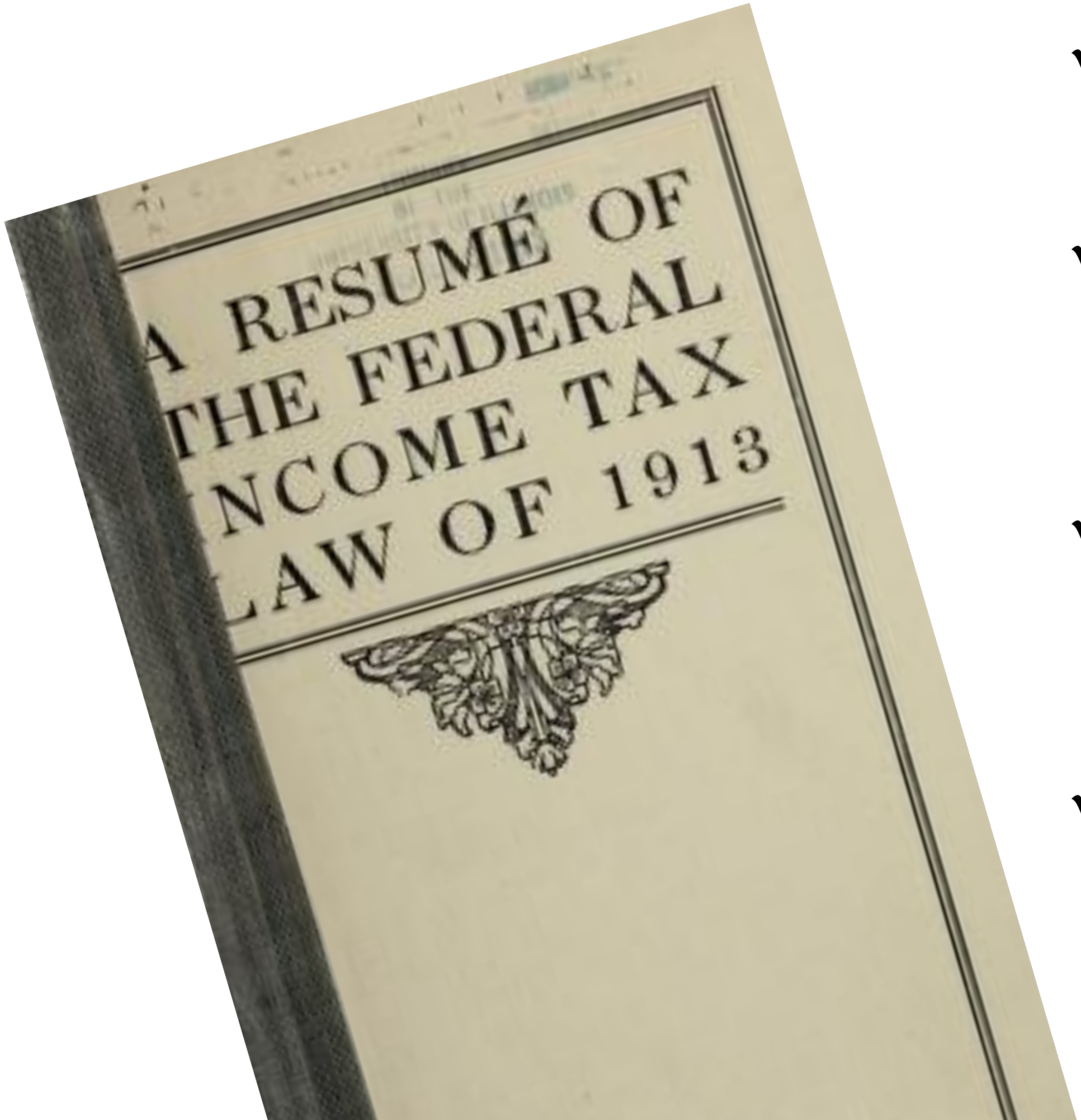
☐1x ☐Weekly ☐Twice a month ☐Monthly ☐Quarterly ☐Other ______

TAX-EXEMPT MUNICIPAL BONDS

- Over 80,000 municipal bond issuers in U.S.
- State or local governments bonds
- Public purpose projects
  - Governmental
  - Nonprofit organization
- Interest paid to investors exempt from certain income taxes
  - Federal Income Tax
  - Some State Income Tax
- Includes higher education bonds

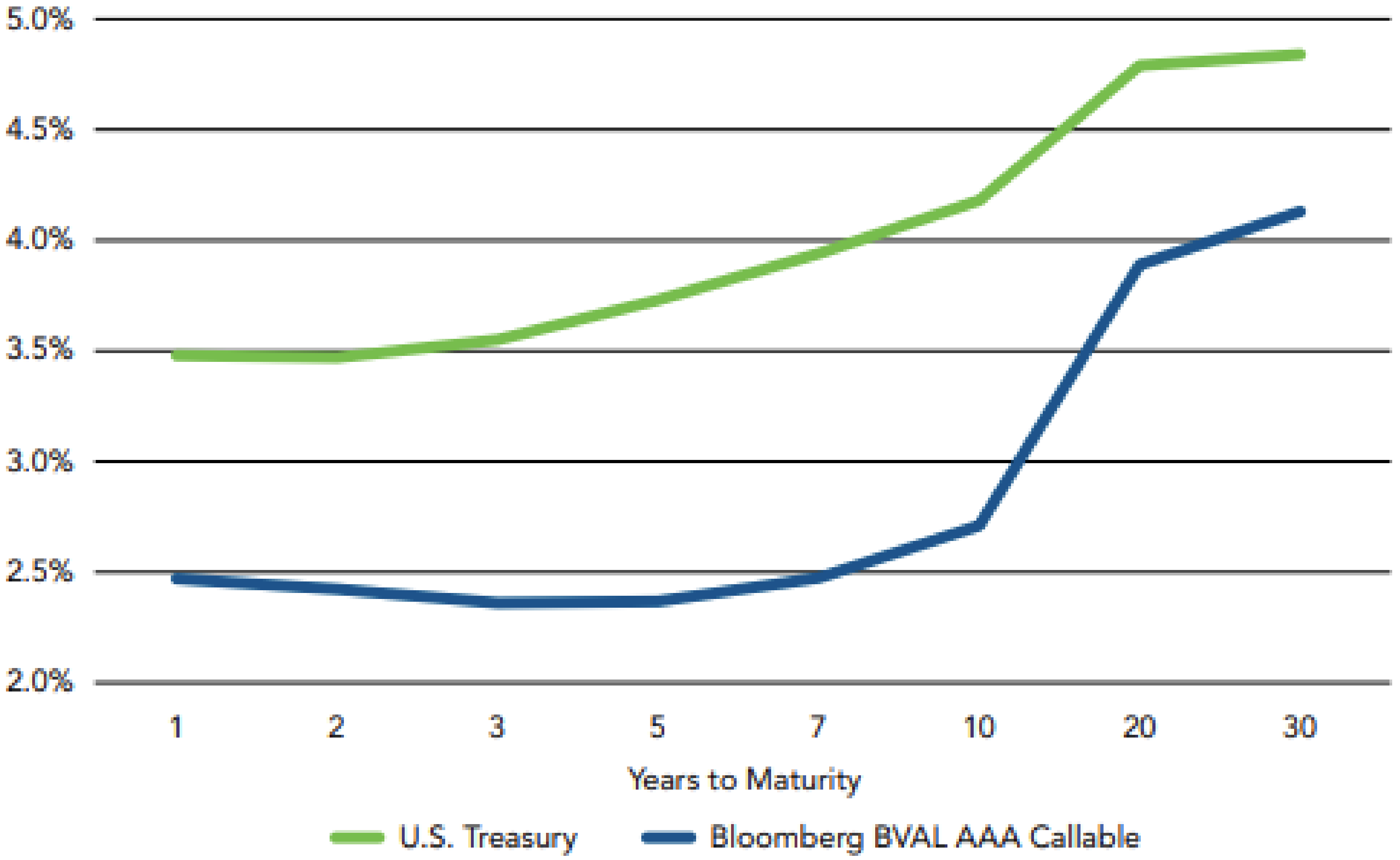
cbmi
COLLEGE BUSINESS MANAGEMENT INSTITUTE

TAX EXEMPTION



- ✓ In 1913, tax-exempt debt created by Congress
- ✓ Revenue Act of 1913 excluded interest income from municipal bond issues from federal taxes
- ✓ Borrowing was not most common method of financing facilities until federal programs of 1950s
- ✓ Codified in Title 26 of the Code of Federal Regulations (CFR)

BENCHMARK TAX-EXEMPT AND TREASURY YIELDS
As of December 31, 2025



The tax exemption enables highly rated municipal issuers to issue debt at rates even lower than the Treasury market and allows municipalities to provide essential services and projects cost effectively.

Source: Bloomberg Finance L.P, U.S. Department of Treasury

SHOULD TAYLOR SWIFT BUY BONDS?

Higher Ed Bond Market Issuance

1880s Port of New Orleans - first U.S. "authority" to issue revenue bonds

1921 Port of New York and New Jersey becomes 1st interstate authority – "Special District"

1960s Use expands for purposes previously financed by G.O. bonds (e.g. utility projects, local public housing)

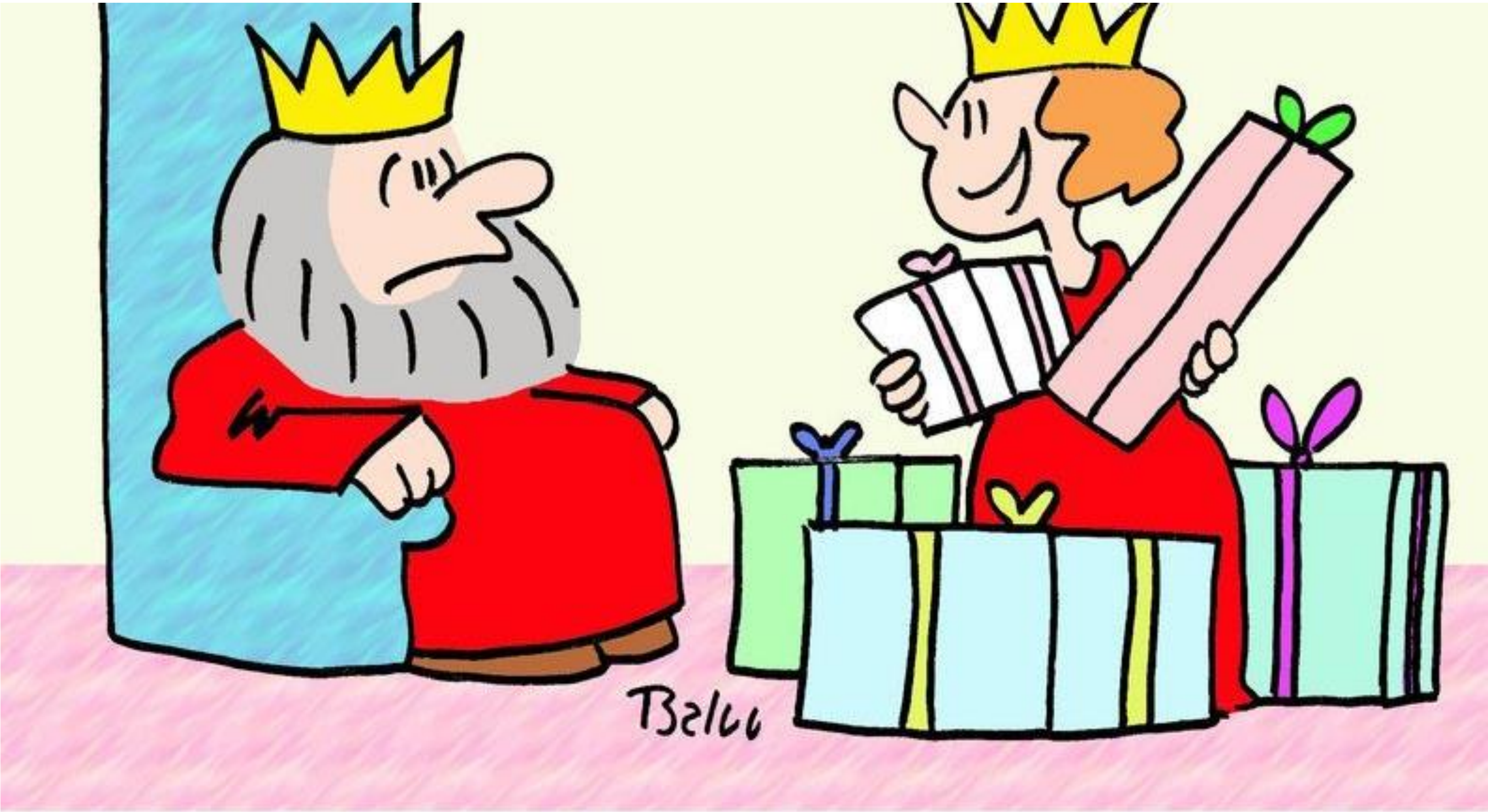
2020 Nearly 54% of all U.S. muni revenue bond issues

2025 $44B sold in 2025; up by 8%

SO, YOU HAVE DECIDED TO BORROW…
BUT WHAT RISKS TO CONSIDER?

- Affordability
- Staff workload
- Changes in tax law
- Unpredictable investor behavior
- Compliance reporting
- Disclosure requirements
- Counterparty risk
- External monitoring
  - Rating agencies, trustees, investors
- Contractual risk
- Covenant violations
- Changes in interest rates

cbmi
COLLEGE BUSINESS MANAGEMENT INSTITUTE



"Don't worry — I used a bond issue."

HIGHER ED MUNI BOND DEFAULTS

Year	Institution	State
2014	Thomas Jefferson School of Law	CA
2015	Dowling College	NY
2017	Birmingham-Southern College	AL
2020	Bradford College	MA
2022	Cazenovia College	NY
2024	University of the Arts	PA
2024	College of Saint Rose	NY
2025	Notre Dame College	OH
2026	Hampshire College	MA
2026	Harrisburg Univ of Sciences & Tech	PA

cbmi
COLLEGE BUSINESS MANAGEMENT INSTITUTE

BREAK

Major Players

GOING TO MARKET:
THE WORKING GROUP

Issuer & Borrower	Lenders/ Bondholders/ Investors	Trustee	Investment Banker/ Underwriter	Financial Advisor	Credit Enhancer AKA Credit Provider

ISSUERS

- States & Political Subdivisions
  - Public Colleges & Universities
    - Institution's corporate entity (board), if authorized by law to issue debt
- Debt Issuing Authority
- Public Trust
- Governmental Issuing Authority
- Special Purpose Nonprofit Corporation – a "63-20 Corp"
  - Formed under state nonprofit law for purposes of issuing obligations *on behalf of* a political subdivision

CONDUIT ISSUER:

- Issues bonds for project, then loans proceeds to borrower
- Compensated at closing and annual fee
- May require additional compliance and contracts
- External monitoring
  - Additional tasks associated with agencies, trustees, investors

BORROWERS

The actual user of bond proceeds

May also be the Issuer if have legal authority

Entity that will own facility

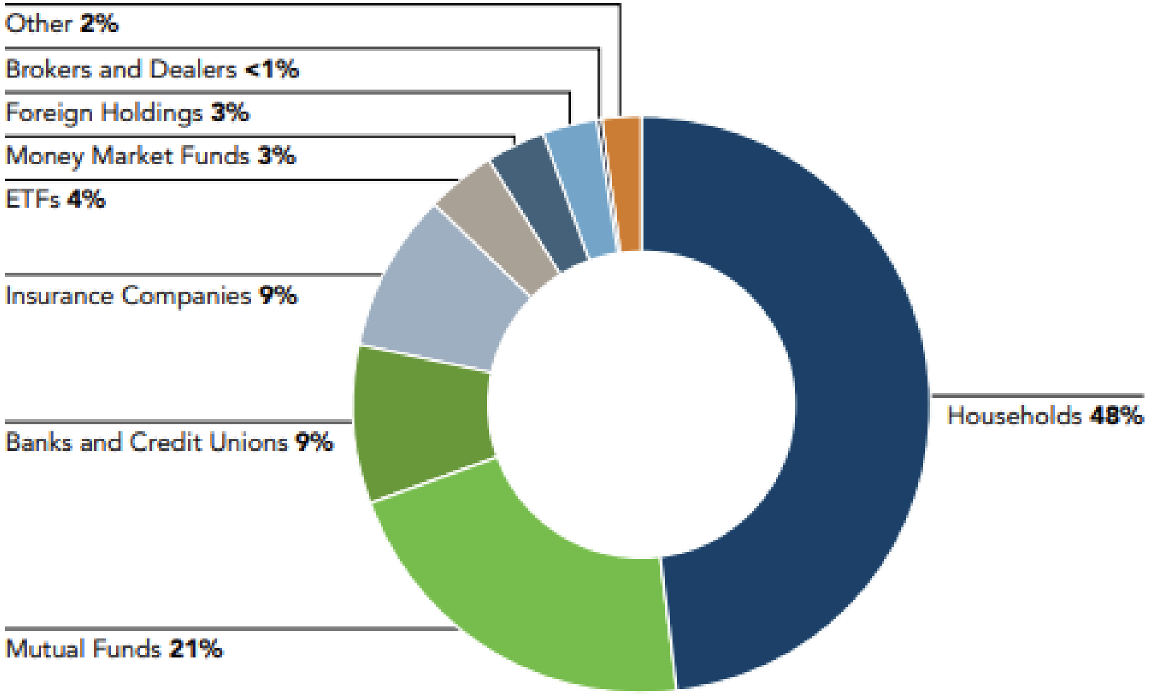
Borrows bond proceeds from Issuer

Provides revenues to Issuer for repayment of debt

- Revenues usually assigned directly to Trustee

MUNI BOND INVESTORS
AKA Lenders / Bondholders

Holders of Municipal Bonds—As of September 2025



Individual investors are by far the largest holders of municipal bonds, holding nearly 70% of outstanding securities, 48% directly and approximately 21% through mutual funds.

Individual investors are drawn to municipal securities because of the tax exemption and their relative safety given historically low default rates.

Source: Financial Accounts of the United States, Board of Governors of the Federal Reserve System, January 2026

TRUSTEE

- Bank trust department
- Holds funds in trust for bondholders
  - Represents bondholders over life of bonds
  - Maintains funds/accounts
    - Project/Construction Funds
    - Principal & Interest Funds
    - Debt Service Reserve Funds
  - Approves requisitions/invoices
  - Compensated at closing and also annual fee

cbmi
COLLEGE BUSINESS MANAGEMENT INSTITUTE

INVESTMENT BANKER

AKA UNDERWRITER

- Provides advice on structure of bond issue
- Purchases bonds
- Resells those bonds to investors
- Manages bidding for competitive sale
- May manage investment of bond proceeds

Goldman Sachs

Jefferies

PIPER | SANDLER

RAYMOND JAMES®

RBC Capital Markets

STIFEL NICOLAUS
INVESTMENT SERVICES SINCE 1890

WELLS FARGO

Financial Advisor (FA) / Municipal Advisor (MA)

- Borrower's representative
- Often registered investment banker
- Performs initial analytical work
- Advises on bond issuance structure, timing and terms, and method of sale
- Manages sales process
- (competitive or negotiated)

NAMA

National Association of Municipal Advisors

CREDIT ENHANCER

Bond Insurer

Letter of Credit (LOC) provider

WHAT DO ALL THESE LAWYERS DO???!!!

Institution's counsel

Bond counsel

Underwriter's counsel

Trustee's counsel

Issuer's counsel

Credit Enhancer's counsel

BOND COUNSEL

Specialize in bond transactions

Legal opinion

- Certify issue meets tax-exempt regulation
- Legal, valid and binding obligation

Ensure procedures necessary to make commitments binding have been followed

orrick

KUTAKROCK
ATTORNEYS AT LAW

McCALL
PARKHURST & HORTON
Focused on Public Finance since 1919.

Hawkins
DELAFIELD&WOOD LLP
est. 1854

NORTON ROSE FULBRIGHT

BOND COUNSEL OPINION

- ✓ 501(c)(3) status
- ✓ Conduit issuer status
- ✓ Covenant compliance
- ✓ Satisfaction of additional bonds test
- ✓ "Agreed upon procedures" for financial disclosure
- ✓ Allocation & accounting of private use
- ✓ Determination of useful lives of assets
- ✓ Arbitrage / rebate recordkeeping, analysis, reporting & returns
- ✓ Bond validation

THE BOND BUYER

INDUSTRY TOPICS WASHINGTON REGIONS MARKETS TECH

TOLL REVENUE BONDS

Oklahoma Supreme Court validates turnpike bonds

By Karen Pierog August 02, 2023, 11:33 a.m. EDT 3 Min Read

The Oklahoma Turnpike Authority triumphed in a hard-fought battle over the issuance of initial debt to finance a $5 billion expansion project, with the state Supreme Court Tuesday validating the bonds.

In a 6-3 decision, the high court approved $500 million of second senior lien revenue bonds, rejecting arguments OTA lacks legislative authorization to build or bond finance certain routes included in its 15-year ACCESS (Advancing and Connecting Communities and Economies Safely Statewide) Oklahoma program.

BOND COUNSEL SELECTION

Retain experienced counsel who knows institution well

Select through RFP process

Require listing in *"**The Bond Buyer's Municipal Market** Place Directory"*

"RED BOOK"

UNDERWRITER’S COUNSEL

- Represents investment bank underwriting the bond sale
- Responsible for protecting underwriter from legal and financial liabilities
- Performs due diligence review of issuer/borrower ensuring that issuer's financial condition, future plans, and other pertinent details are accurately disclosed
- Ensures offering complies with securities law and rules set by Municipal Securities Rulemaking Board (MSRB)
- Drafts Bond Purchase Agreement and reviews other bond documents

RATING AGENCIES

SECURITIES & EXCHANGE COMMISSION (SEC) OFFICE OF CREDIT RATINGS

Examines and monitors credit rating agencies registered as ***nationally recognized statistical rating organizations*** (NRSROs)

Develops and administers rules affecting NRSROs

Rating agencies reviewing higher education credit typically look at the same things:

- Demand
- Management
- Finances
- Debt

https://www.sec.gov/about/divisions-offices/office-credit-ratings/current-nrsros

11 NRSRO Entities

3 credit rating agencies are most commonly seen in higher education:

Moody's Investors Service

S&P Global Ratings

FitchRatings

RATING AGENCIES

- Generally are rating a security's credit worthiness and risk of default for a particular bond issue
- Many sophisticated investors do their own credit research, but… ratings play a critical role in perception of Borrower's creditworthiness
- Public credit ratings allow for a bigger investor base and enhanced market access

Investment Grade Rating Scales

Moody's	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
S&P/ Fitch	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-

cbmi
COLLEGE BUSINESS MANAGEMENT INSTITUTE

Debt Instruments

TAX-EXEMPT, AMT & TAXABLE BONDS

Tax-Exempt Bonds	Alternative Minimum Tax (AMT)	Taxable
• Lowest cost • Interest is Federally tax-exempt & might be State tax-exempt too • Issued by State and Local governments, certain non-profits • Finance projects owned, operated, or used by a government for its own public purposes	• Slightly higher cost • Interest subject to Federal AMT • Private Activity Projects – outside realm of pure governmental functions • Airports, housing agencies • Not for profit 501(c)(3)	• Highest cost • Interest is included in gross income for federal income taxes • Projects are taxable if do not provide significant benefit to general public

cbmi
COLLEGE BUSINESS MANAGEMENT INSTITUTE

TYPES OF MUNICIPAL BONDS

General Obligation (G.O.) Bonds

"Full faith and credit" –all revenues, maybe all assets

Secured by a govt. agency's pledge of tax revenues

Power/obligation to tax strengthens credit

Revenue Bonds

Secured by specified revenue stream of an entity

User fees, tolls, rents, tuition, services charges, license fees, special purpose tax assessments

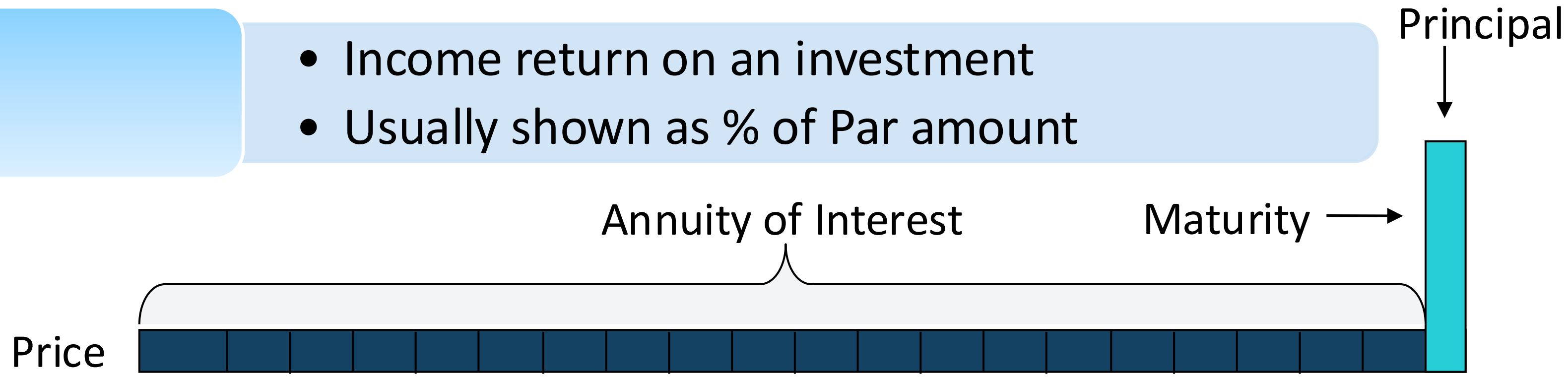
Private Placements/Limited Offerings

Non-public offering

Between 1 to 35 bondholders

GENERAL BOND TERMINOLOGY

Principal /Par Amount	• Total amount of indebtedness
Maturity Date	• Repayment ate of bond issue
Coupon Rate	• Annual interest rate on bond issue • Usually expressed as % of Par amount
Price	• Amount paid to buy a bond in exchange for future receipt of principal & interest pmnts
Yield	• Income return on an investment • Usually shown as % of Par amount



BOND CHARACTERISTICS

Tax Status	Maturity Term	Bond Sales	Interest Rate Determination

• Tax-Exempt Bonds
  • Must meet public purpose rules
  • Cannot finance privately used projects
• Taxable Bonds
  • More expensive
  • Less compliance reporting
	• Long Term Bonds
	  • Interest usually higher the longer the maturity
	• Short-term Debt
	  • Often used in form of bank lines
	  • Must be paid down each year
	• Bridging
	  • Common for projects financed with gifts
		• Competitive sale
		• Negotiated Sale
		
		• Public Offering
		• Private Placement -
		  • Non public offering with 1-35 lenders
			• Fixed interest rates for entire maturity or entire life of bond issue
			• Variable interest rates for the entire maturity of bond issue

BOND CHARACTERISTICS

Par Amount

Coupon Rate

Maturity Date

Principal Amount

City of CDFA
$4,420,000 Public Improvement Bonds, Series 2015

Due March 1st	Principal Amount	Coupon Rate	Yield	CUSIP No.
2015	$255,000	2.000%	0.350%	354730XG3
2016	300,000	2.000%	0.450%	354730XH1
2017	305,000	2.000%	0.650%	354730XJ7
2018	315,000	2.000%	0.900%	354730XK4
2019	320,000	2.000%	1.350%	354730XL2
2020	325,000	2.000%	1.700%	354730XM0
2021	330,000	2.000%	1.850%	354730XN8
2022	340,000	2.500%	2.100%	354730XP3
2023	350,000	2.500%	2.250%	354730XQ1
2024	355,000	2.500%	2.350%	354730XR9
2025	365,000	2.600%	2.600%	354730XS7
2026	375,000	2.750%	2.750%	354730XT5
2034	485,000	4.000%	3.750%	354730XV0

SOURCES & USES EXAMPLE

<u>Sources</u>	
Par amount (Principal)	$ 81,000,000
Less: Underwriter's discount	<u>(414,000)</u>
Total Sources	**$ 80,586,000**
<u>Uses</u>	
Project (Construction) Fund	$ 68,311,350
Capitalized Interest Fund	3,842,500
Costs of Issuance	1,542,150
Debt Service Reserve Fund	<u>6,890,000</u>
Total Uses	**$ 80,586,000**

NOTE THAT ONLY 85% OF PAR VALUE GOES INTO *THIS* PROJECT

TYPES OF BOND SALES

Public Offering

Competitive Sales:

Procure bids from a variety of underwriters

Negotiated Solicitation:

Selects one or more underwriter works to sell via negotiated process

Private Placement

Bonds purchased by an investor directly from the Issuer

- Borrower negotiates a price directly with Investor(s)
- Can be more expensive as smaller universe of potential investors

Factors such as security type, transaction size, and length of repayment typically help determine best method of sale

New Muni Bond Issuance by sector

As of 12/31/2025

Use of Bond Proceeds	Tax-Exempt		Taxable	
	Amount ($ Billion)	Percentage	Amount ($ Billion)	Percentage
General Purpose/ Public Imp	$120.1	23%	$10.9	33%
Primary & Secondary Education	101.0	19%	1.7	5%
Water & Sewer Facilities	46.1	9%	0.6	2%
Higher Education	41.6	8%	2.9	9%
General Acute Care Hospital	35.9	7%	0.4	1%
Public Power	34.4	7%	0.4	1%
Toll Roads, Highways & Streets	23.1	4%	0.2	<1%
Single and Multi Family Housing	37.5	7%	12.1	36%
Mass Transportation	15.7	3%	0.1	<1%
Other Proceeds	69.4	13%	4.1	12%
Industry Total	**$524.9**		**$33.3**	

Source: LSEG

cbmi
COLLEGE BUSINESS MANAGEMENT INSTITUTE

OTHER SOURCES OF DEBT-LIKE CAPITAL

- Outsourcing
- Bank Loans
- Operating Leases
- Capital Leases

CAPITALIZED INTEREST ("CAPI")

- Borrow early interest payments
- Buys time before project revenues are generated to pay debt service
  - Construction period
  - Project normalization/stabilization
- One or two years
- Increases bond par value
- Must be offset by earnings on bond proceeds

DEBT SERVICE RESERVE FUND (“DSRF”)

Security against temporary failure to make P&I payments

Often 1 year of debt service payments

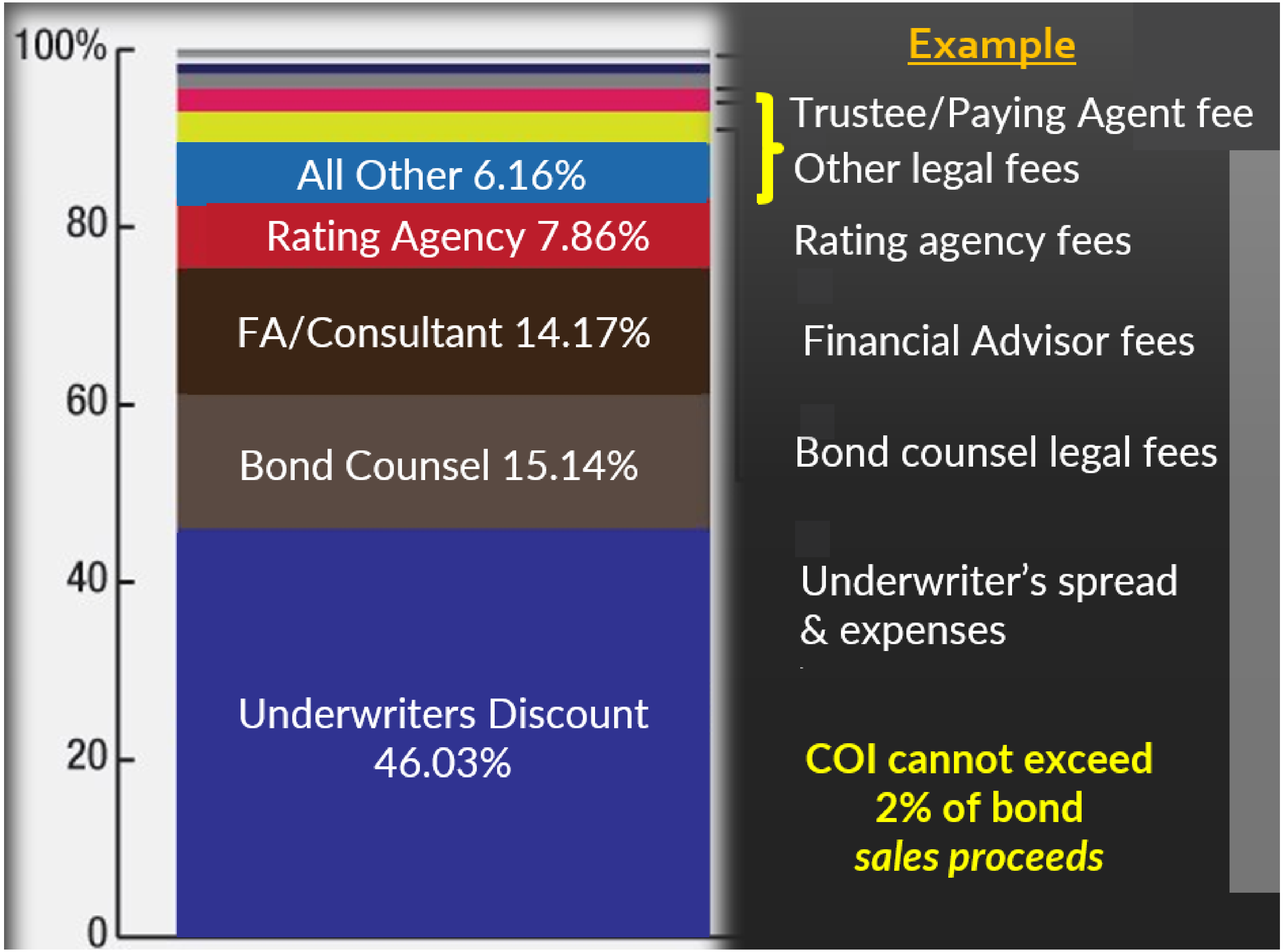
Max Annual Debt Service (MADS)

Can be funded out of bond proceeds

Surety bond can substitute

cbmi
COLLEGE BUSINESS MANAGEMENT INSTITUTE

COSTS OF ISSUANCE ("COI")



BOND PRICING

Bond price is often quoted as % of the face value of a bond

Discount Bonds

Coupon Rate < Yield

Investor pays less than stated price

pays a "discounted" amount

Par Bonds

Coupon Rate = Yield

Investor pays stated price

pays "par" amount

Premium Bonds

Coupon Rate > Yield

Investor pays more than stated price

pays a "premium" amount

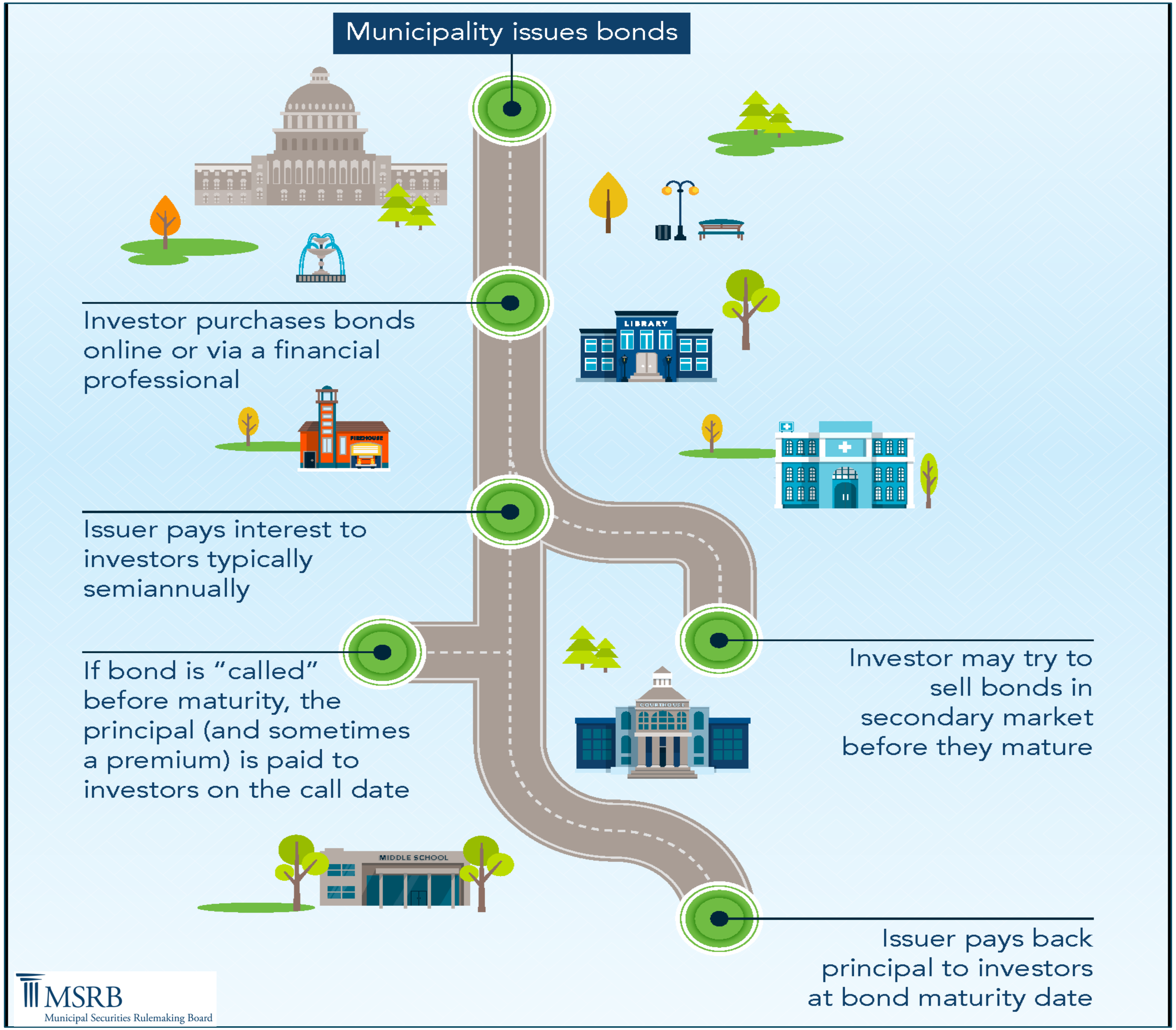
CALL REDEMPTION PROVISIONS

- Calls exercised at option of issuer - not investors
- Calls usually exercised to achieve savings or restructure debt
- Optional 10-year call for flexibility is common
  - Call must be exercised on specified date during specified timeline
  - May be required by law
  - May be required by legal structure of transaction
- Extraordinary Call
  - Call exercised upon occurrence of certain events
  - May be optional
- Redemption Prices for Calls Vary
  - Par
  - Premium
  - Make-Whole

PATHWAY TO DEBT ISSUANCE

Thinking About a New Project on Campus	Review of Demand & Financial Feasibility of Project	Determine Type of Debt & Finalize Working Group	Prepare Bonds for Sale While Monitoring Market Conditions	Sale Completed & Proceeds are Distributed at Closing
• Finance Office approached about issuing bonds for new campus residential housing project • Training at CBMI! • Confirm institution has capacity to pursue this project — there are usually competing needs!	• Begin ground- work: understanding project and financial feasibility • Explore creation of a campus Working Group • Request For Proposals (RFP) or Request For Qualifications (RFQ) for outside professionals (e.g.bond counsel, municipal advisor, underwriters)	• Assemble working group, gain an understanding of any tax or legal issue • AND begin document preparation • Match debt structure to forecasted project cash flow • Confirm type of bond sale • Pursue approvals	• Finalize legal documents • Obtain credit ratings • Obtain final authority, resolution, and certificates • Monitor market conditions for timing of sale • Complete due diligence/collect information	• Begin post-issuance compliance period • Tax-exempt proceeds must be used timely • Compliance reporting and use tracking • Credit monitoring • Arbitrage tracking

Typical Lifecycle of a Muni Bond



cbmi
COLLEGE BUSINESS MANAGEMENT INSTITUTE

Lots of Docs

Trust Indenture

Loan Agreement & Assignment of Revenues

Tax Regulatory Agreement

Ground Lease Agreement

Project / Facilities Lease Agreement

Bond Resolution

Preliminary & Final Official Statement (“OS”)

Bond Purchase Agreement (“BPA”)

Mortgage and Security Agreement

Continuing Disclosure Agreement

Tax Certificate and Non-Arbitrage Certificate

Legal Opinions

And many more!

OFFICIAL STATEMENT

- Primary offering document used to sell bonds
- It includes
    - Terms of the offering
    - Legal security
    - Tax status
    - Financial information about Borrower

BOND CLOSING

BOND CLOSING

- Culmination of purchase and sale transaction
- Legal opinions delivered
- Documents assembled and signed

- Bonds "delivered"
- Funds are wired to Borrower (though Trustee)

OFFICIAL STATEMENT & CLOSING

SPEND THE MONEY!

(FINAL) OFFICIAL STATEMENT

- Once pricing is final, a final Official Statement is prepared and distributed

CLOSING

- Legal process of approving & authorizing bond issuance concludes
- Closing preparations begin
- Bond proceeds are delivered
- Can immediate begin spending bond proceeds on authorized projects

Once you close the clock starts ticking on spending the money…

cbmi
COLLEGE BUSINESS MANAGEMENT INSTITUTE

PAY DAY!!!! PAY DAY!!!! PAY DAY!!!!

Post-Issue Compliance

POST ISSUANCE COMPLIANCE

Bond Covenants

- Debt Service Reserve Fund (DSRF)
- Debt Service Coverage Ratio (DSCR)
- Rate Maintenance
- Additional Bond Test

Credit Rating Maintenance

- Issuer is required to provide ongoing updates to rating agencies

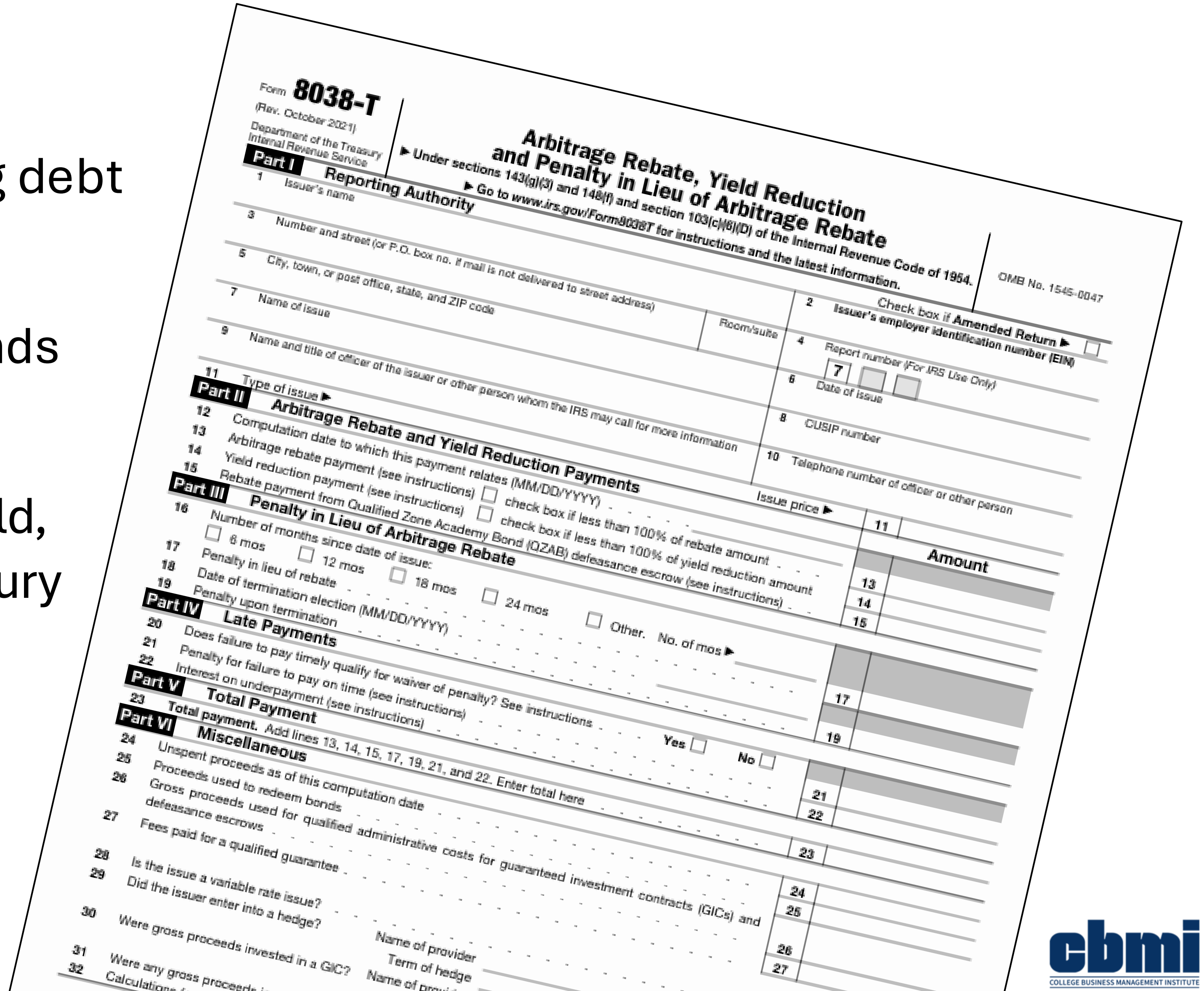
Continuing Disclosure

- Routine financial information on an annual basis (annual reports)
- Periodic notification upon certain events (notices of material

POST ISSUANCE COMPLIANCE

Arbitrage Rebate

- Prevent borrowers from issuing debt purely to invest & make a profit
- Independent analysis of bond funds required every 5 years
- If investment earnings > bond yield, must rebate excess to U.S. Treasury
- Certain exceptions in tax code



Form 8038-T
(Rev. October 2021)
Department of the Treasury
Internal Revenue Service

Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate
► Under sections 143(g)(3) and 148(f) and section 103(c)(6)(D) of the Internal Revenue Code of 1954.
► Go to www.irs.gov/Form8038T for instructions and the latest information.

OMB No. 1545-0047

Check box if Amended Return ►

Part I Reporting Authority

1 Issuer's name
2 Issuer's employer identification number (EIN)
3 Number and street (or P.O. box no. if mail is not delivered to street address)
Room/suite
4 Report number (For IRS Use Only) 7
5 City, town, or post office, state, and ZIP code
6 Date of issue
7 Name of issue
8 CUSIP number
9 Name and title of officer of the issuer or other person whom the IRS may call for more information
10 Telephone number of officer or other person
11 Type of issue ►
Issue price ► 11

Part II Arbitrage Rebate and Yield Reduction Payments

Amount

12 Computation date to which this payment relates (MM/DD/YYYY)
13 Arbitrage rebate payment (see instructions) ☐ check box if less than 100% of rebate amount 13
14 Yield reduction payment (see instructions) ☐ check box if less than 100% of yield reduction amount 14
15 Rebate payment from Qualified Zone Academy Bond (QZAB) defeasance escrow (see instructions) 15

Part III Penalty in Lieu of Arbitrage Rebate

16 Number of months since date of issue:
☐ 6 mos ☐ 12 mos ☐ 18 mos ☐ 24 mos ☐ Other. No. of mos ►
17 Penalty in lieu of rebate 17
18 Date of termination election (MM/DD/YYYY)
19 Penalty upon termination 19

Part IV Late Payments

20 Does failure to pay timely qualify for waiver of penalty? See instructions Yes ☐ No ☐
21 Penalty for failure to pay on time (see instructions) 21
22 Interest on underpayment (see instructions) 22

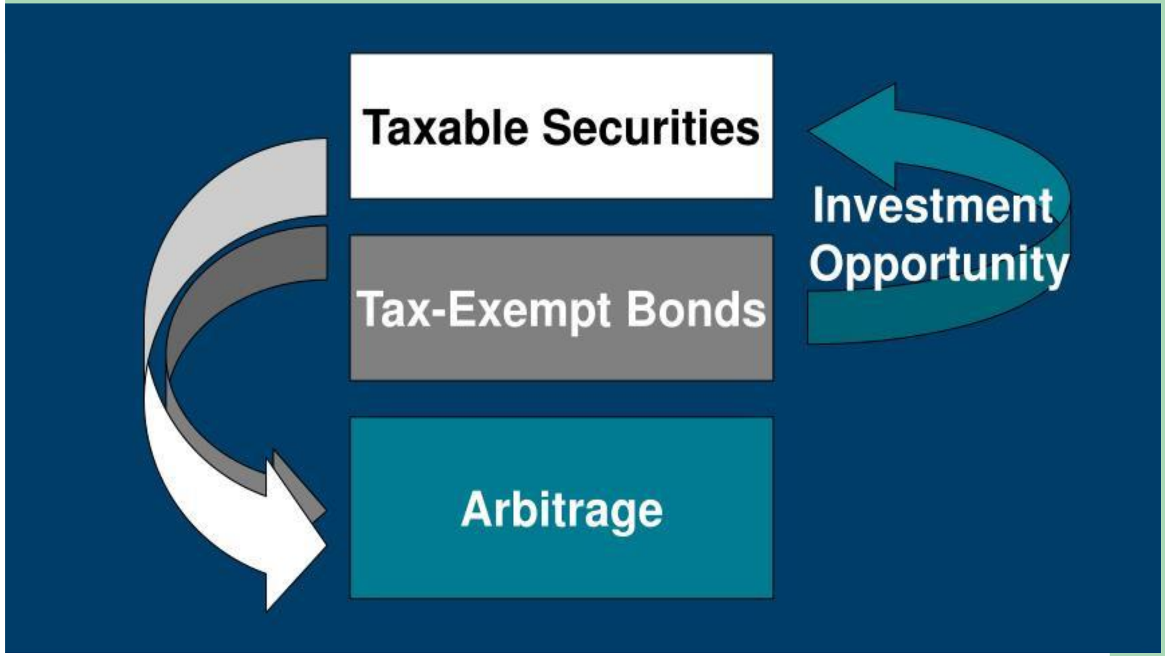
Part V Total Payment

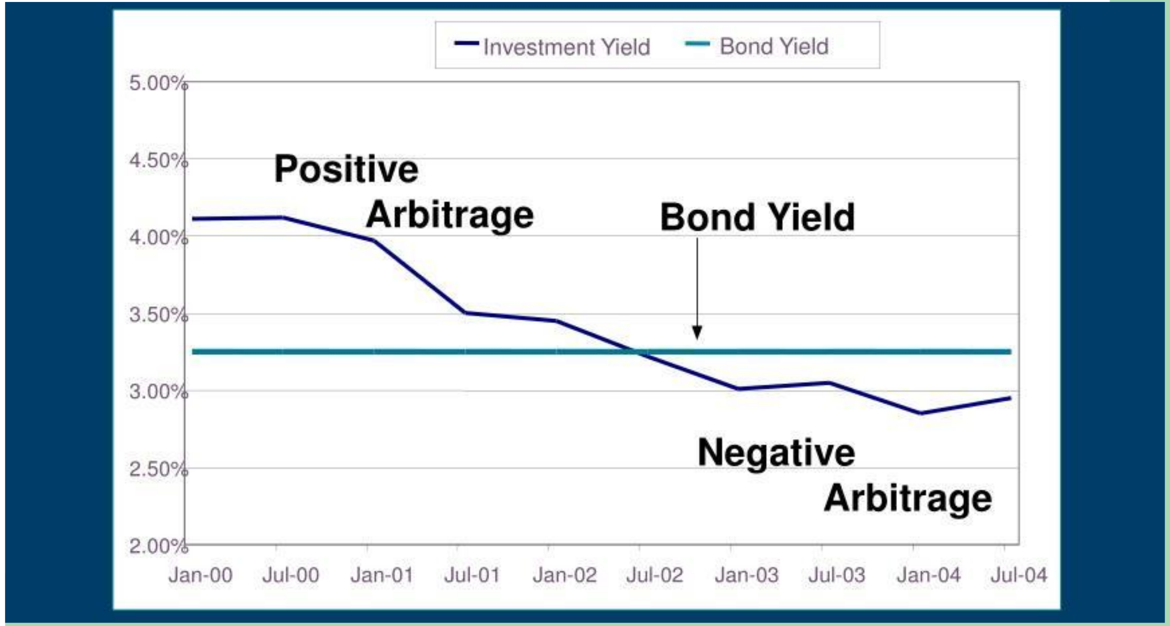
23 Total payment. Add lines 13, 14, 15, 17, 19, 21, and 22. Enter total here 23

Part VI Miscellaneous

24 Unspent proceeds as of this computation date 24
25 Proceeds used to redeem bonds 25
26 Gross proceeds used for qualified administrative costs for guaranteed investment contracts (GICs) and defeasance escrows 26
27 Fees paid for a qualified guarantee 27
28 Is the issue a variable rate issue?
29 Did the issuer enter into a hedge? Name of provider Term of hedge
30 Were gross proceeds invested in a GIC? Name of provider
31 Were any gross proceeds i...
32 Calculation...

ARBITRAGE





- If earning 4.25% on invested proceeds
- And cost of borrowing is 3.25%
- Advantageous to borrow and keep investments working
- Net result is earn 1% per year

CASE STUDIES

BEST PRACTICES

- Build the best financing team possible
- Plan…plan…plan…
- Engage in the process
- Measure the risks
  - Understand long-term commitments *before* issuing debt
- Know your limits
  - Legal, debt capacity, time staff can commit
- Life after issuance…
  - Ratings
  - Continuing disclosure
  - Arbitrage rebate

Remember that your institution is committed to these terms for the life of the bonds