



UNIVERSITY OF GUAM
UNIBETSEDAT GUAHAN
BOARD OF REGENTS

RESOLUTION NO. 21-07

RELATIVE TO APPROVING A PLAN FOR BORROWING FOR THE UNIVERSITY OF GUAM

WHEREAS, the University of Guam (UOG) is the primary U.S. Land Grant institution accredited by the Western Association of Schools and Colleges Senior College and University Commission serving the post-secondary needs of the people of Guam and the Western Pacific region;

WHEREAS, the governance and well-being of the University is vested in the Board of Regents (BOR);

WHEREAS, the University had a plan to fund the construction of a new Fine Arts Building and the Triton Engagement Center with a United States Department of Agriculture (USDA) loan;

WHEREAS, the recent experience with the USDA has discouraged the notion of another USDA loan and the University has been approached by bond underwriters who have indicated there is a likelihood for the University to conduct a bond issuance secured by non-appropriated funds;

WHEREAS, the financial condition of the University has made it difficult to contemplate funding the Triton Engagement Center at this time, however, the Fine Arts Building is at the end of its useful life and needs to be replaced;

WHEREAS, according to the terms and conditions of the loan currently being negotiated with USDA, the University is also being required to utilize approximately \$4 million of its own funds to satisfy shortfalls related to the projects to construct the Student Success Center and the Engineering Annex;

WHEREAS, the University desires to utilize the Faculty and Staff Development Fund and the Campus Maintenance Fund, whose uses have been restricted by the BOR, as the temporary source of funding for this shortfall;

WHEREAS, the University desires to explore the issuance of a UOG bond for the purpose of funding the Fine Arts Building and to replenish the funds from the Faculty and Staff Development Fund and the Campus Maintenance Fund;

WHEREAS, UOG, in the course of implementing the Student Success Center, the Engineering Annex, and the Fine Arts Building may pay certain expenditures (the "Reimbursement Expenditures") in connection with the projects within the period from the date 60 days prior to the adoption of this Resolution to the date of the issuance of the Bonds in the maximum amount of \$20 million;

WHEREAS, except for certain preliminary expenditures as defined in Section 1.1502(f)(2) of the Federal Income Tax Regulations (the "Regulations"), Section 1.150-2(e)(1) of the Regulations requires UOG to declare its reasonable official intent to reimburse prior expenditures for the Capital Improvement Projects with proceeds of a subsequent tax-exempt borrowing;

WHEREAS, UOG intends to reimburse the Reimbursement Expenditures with the proceeds of a bond issuance to be conducted by the University; and

WHEREAS, the Investment Committee, Budget, Finance and Audit Committee, and the Physical Facilities Committee have reviewed this resolution and recommend its approval by the full BOR.

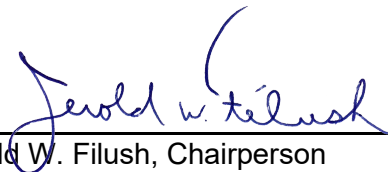
NOW, THEREFORE, BE IT RESOLVED, that the BOR hereby authorizes UOG to pursue a bond issuance for the purpose of constructing the new Fine Arts Building and to replenish University funds used for the Student Success Center and the Engineering Annex projects. The University is authorized to pursue legislation that will authorize such a bond issuance to be secured by the non-appropriated revenues of the University;

BE IT FURTHER RESOLVED, that the BOR hereby declares its official intent to use proceeds of Bonds to reimburse UOG for the \$20,000,000 amount UOG will soon begin to incur for the Student Success Center, the Engineering Annex, and the Fine Arts Building. This action is taken expressly and solely for the purpose of compliance with the Regulations, and nothing contained herein shall be construed to be a final decision to undertake and complete the projects, or to make any specific expenditure, incur any indebtedness or proceed with the issuance of the Bonds;

BE IT FURTHER RESOLVED, this Resolution is hereby to be a declaration of official intent of UOG under Section 1.150-2(e)(1) of the Regulations; and


BE IT FURTHER RESOLVED, the President is authorized to utilize the Faculty and Staff Development Fund and the Campus Maintenance Fund (currently restricted by the BOR) for the purpose of satisfying the upfront cash requirements of the terms and conditions of the USDA loan currently being negotiated.

Adopted this 18th day of February, 2021.



Jerold W. Filush, Chairperson

ATTESTED:




Thomas W. Krise, Ph.D., Executive Secretary



MEMORANDUM

TO: PRESIDENT 

FROM: VPAF 

DATE: FEBRUARY 2, 2021

RE: BORROWING RESOLUTION/ PLAN FOR FUNDING USDA PROJECTS

As you are aware, the University of Guam has never issued bonds in its own name. There has never been an attempt for the University to try to issue bonds in its own name. The University has never made an attempt to be rated by a bond rating agency. There has been a general sense on the island that a UOG bond would not be received well by the bond markets.

At the same time, the University had tried to issue a loan for the Student Success Center and Engineering Annex using the financial strength of the government of Guam. However, before the loan could be completed, the government determined it had other priorities for its debt capacity and issued a bond of its own for its own purposes. Since that time, there have not been any discussions about the government using its debt capacity for the benefit of the University.

However, about three years ago, UOG was approached by representatives of Barclays. They indicated that colleges and universities very similar to the University of Guam have been able to issue bonds and that the issuances have been well received by the markets. They have indicated the University could issue bonds secured by a pledge of revenues from tuition and fees and not rely on security from the government of Guam. In fact, they indicated the bond would likely receive a rating higher than the government of Guam.

I'm not sure how to evaluate the comments from Barclays. They make money from clients who issue bonds and thus, have a strong incentive to try and get the University to the market. On the other hand, they are a highly reputable bank, and they are known for honest assessments of market conditions. With UOG's only experience being United States Department of Agriculture (USDA) loans and general obligation bonds of the government of Guam, it has seemed like the University's ability to issue bonds is a something for the very distant future.

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We have been trying to make minimal investments in the building to maintain building security and a minimum level of safety for students and faculty, however, the Facilities Maintenance and Service team has determined the building in its current state is not conducive to student learning.

Thus, it appears the University will need to pursue a bond issuance or some other funding structure at some point in the near future.

A problem faced by the University is the project costs for the Student Success Center and Engineering Annex were developed by a A&E firm around 2012. The project costs have now exceeded the \$21.7 million loan amount. USDA has indicated they are unable to accommodate any increases in the loan value resulting from inflationary construction increases. The estimated cost of construction is now nearing \$26 million.

One of the terms provided by USDA was that the University needed to come up with the difference between the estimated project costs and the loan amount and use that money before any funds are drawn from the loan. The amount included in the term sheet from USDA was 3.8 million.

As you know, the University has been operating on a very tight budget and doesn't have spare funds that can easily be committed for this purpose. However, in an attempt to take advantage of the attractive interest rate of 2.25% which was locked in when the loan was encumbered (and possibly could be further reduced to 2.125%), I tried to come up with a plan to comply with the USDA terms.

There currently exist in the UOG Endowment Fund two sub-accounts that have been restricted by the Board of Regents. They are the Faculty and Staff Development Fund and the Campus Maintenance Fund. The total amount of the funds is \$4.3 million and should be sufficient to cover the shortfall in the project costs.

My proposed plan is as follows:

- 1) Seek Board of Regents authorization to utilize the Faculty and Staff Development Fund and the Campus Maintenance Fund for purposes of meeting the project shortfall on the USDA projects.
- 2) Seek Board Authorization for a Borrowing Resolution to ensure that the funds could be replenished when the future bond issuance occurs.
- 3) Work with the Research Corporation of the University of Guam to seek funding from the United States Economic Development Administration (USEDA) to see if a grant can be

obtained for possibly the construction only of the Engineering Annex.¹ To the extent the USEDA grant can pay for funding of the Engineering Annex, the funds could be reimbursed to the two sub-accounts described above.

- 4) Start working with the Guam Economic Development Authority and the Guam Legislature to move toward a bond issuance for the Fine Arts Building. If it is determined that a bond issuance is feasible, the borrowing package would include the replenishment of any funds that have not yet been reimbursed to the two sub-accounts.

The funds in the two sub-accounts were set aside and restricted by the Board of Regents in the mid 2000's for the purposes of demonstrating financial sustainability as required by WSCUC. This plan includes two possible sources of replenishment of the funds so there is a high likelihood they can be utilized for the purposes for which they were intended.

This transaction is very complicated, but as mentioned previously, the interest rate on the USDA loan could be as low as 2.125%. If we were to pursue the bond funding approach, the interest rate could be as much as 2% or more higher. We have felt the savings in interest cost could be worth the hassle that attends a federal borrowing program.

Please let me know if you have any questions or concerns regarding this plan.


Randall V. Wiegand

¹ Note: USDA has advised that the projects cannot be separated without requiring a new application process. However, they have indicated that supplemental funding can be used for either one or both of the projects. My thinking is that the funding from USEDA could pay for construction of the Engineering Annex and the USDA loan could pay for the contents. There are details related to this that would need to be worked out.