

2. Act on Request to Adopt Bond Resolution for Expansion of Existing Chilled Water Plant; Approve the Execution of Various Documents – KSU

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General Counsel**

Summary and Staff Recommendation

Kansas State University requests that the Board of Regents adopt a Resolution for the issuance of revenue bonds, proceeds of which will be used to expand the existing chilled water plant at the Manhattan campus.

The Resolution would authorize the issuance of KDFA Revenue Bonds in one or more series in a total aggregate amount sufficient to finance project expenditures of not to exceed \$56,000,000 plus costs and reserves. The purpose of these Bonds is to finance the costs of constructing an addition to the existing chilled water plant. The Bonds will be secured with a pledge of generally available unencumbered funds of the University.

The University, in consultation with KDFA, is also considering issuance of Refunding Bonds, to be secured by generally available unencumbered funds of the University but debt serviced by fees collected for each specific purpose, to refund certain outstanding revenue bonds of the University at a present value savings of at least 3% of the principal amount of the outstanding Refunded Bonds. However, in accordance with the new debt policy adopted by the Board last spring, Board approval of a Resolution for a refunding of this nature is not required.

As of December 2014, the University and its affiliated corporations had approximately \$389M in outstanding revenue bonds. The University has identified a specific revenue source to pay the debt service on all outstanding bonds, and \$220M of the \$389M is also supported by a pledge of generally available unencumbered funds of the University.

The Resolution further authorizes the Chair and the President and CEO to execute the Resolution and various other documents relating to the security and payment of such Bonds in such form as is approved by the General Counsel to the Board and necessary to accomplish the purposes set forth in the Resolution and the issuance of the Bonds, and authorizes the President of the University to execute the Pledge of Revenues Agreement and various other documents relating to the security and payment of such Bonds in such form as is approved by the university general counsel and necessary to accomplish the purposes set forth in the Resolution and the issuance of the Bonds.

Background

The Kansas Development Finance Authority (KDFA), created by the 1987 Kansas Legislature, K.S.A. 74-8901, *et seq.*, has authority to issue bonds on behalf of the State for projects authorized by the Legislature. K.S.A. Supp. 74-8905(b) provides, in part, that:

The authority may issue bonds for activities and projects of state agencies as requested by the secretary of administration. Research facilities of state educational institutions shall be subject to the provisions of this subsection (b). No bonds may be issued pursuant to this act for any activity or project of a state agency unless the activity or project either has been approved by an appropriation or other act of the legislature or has been approved by the state finance council acting on this matter which is hereby characterized as a matter of legislative delegation and subject to the guidelines prescribed in subsection (c) of K.S.A. 75-3711c, and amendments thereto.

Authority to initiate and complete a capital improvement project, and to issue revenue bonds, for the chilled water plant expansion project has been granted by the Legislature in Chapter 93, Section 10(c), of the 2014 Session Laws which provides:

In addition to the other purposes for which expenditures may be made by Kansas state university from moneys appropriated from the state general fund or from any special revenue fund or funds for fiscal year 2015 authorized by chapter 136 of the 2013 Session Laws of Kansas, this act or other appropriation act of the 2014 regular session of the legislature, expenditures shall be made by Kansas state university from moneys appropriated from the state general fund or from any special revenue fund or funds for fiscal year 2015 to provide for the issuance of bonds by the Kansas development finance authority in accordance with K.S.A. 74-8905, and amendments thereto, for a capital improvement project to expand the chilled water plant: *Provided*, That such capital improvement project is hereby approved for Kansas state university for the purpose of subsection (b) of K.S.A. 74-8905, and amendments thereto, and the authorization of the issuance of bonds by the Kansas development finance authority in accordance with that statute: *Provided further*, That Kansas state university may make expenditures from the moneys received from the issuance of any such bonds for such capital improvement project: *Provided, however*, That expenditures from the moneys received from the issuance of any such bonds for such capital improvement project shall not exceed \$56,000,000, plus all amounts required for costs of bonds issuance, costs of interest on the bonds issued for such capital improvement project during the construction of such project, credit enhancement costs and any required reserves for the payment of principal and interest on the bonds: *And provided further*, That all moneys received from the issuance of any such bonds shall be deposited and accounted for as prescribed by applicable bond covenants: *And provided further*, That debt service for any such bonds for such capital improvement projects shall be financed by appropriations for any appropriate special revenue fund or funds: *And provided further*, That Kansas state university may make provisions for the maintenance of the chilled water plant.

Pursuant to these authorizations, and after consulting with KDFA, the University proposes to issue Revenue Bonds in an aggregate principal amount sufficient to finance expenditures for costs of the Project in an amount not to exceed \$56,000,000, plus any additional amounts required to finance costs of issuance, costs of interest on such revenue bonds during the construction of the project, credit enhancement costs, and any required reserves for the payment of principal and interest on such revenue bonds. After consultation with KDFA, the University is proposing that the Bonds be secured by a pledge of generally available unencumbered funds of the University.

This Project, and anticipated use of revenue bond financing, was first submitted in the capital improvement project plan to the Board at its June 2014 meeting.

The Project

Construction of the original chilled water plant was completed in 1984 and was designed to house five 1,250 Ton chillers for a total capacity of 6,250 Tons. Over the past 31 years, the plant has been renovated with newer, more efficient equipment, but the total reserve capacity has dwindled to the point where no additional facilities can be accommodated for cooling, and peak summer loads are very near the total plant capacity. Increased demands for chilled water on campus are attributed to positive campus growth, increased student enrollment, and an expanded research focus.

The original chilled water plant serves 25 buildings on Campus which accounts for approximately 2.7M square feet of Campus, or 44% of the total Campus cooling load. After this project is complete, 8 existing buildings, and 6 new buildings will be connected to the Campus chilled water system eliminating their dependency on stand-alone cooling systems for a total of 4.3M square feet, or 76% of the total Campus cooling load.

This chilled water expansion project will construct a second chilled water plant to supplement the original, add a significant amount of underground distribution piping, and will upgrade mechanical building systems and controls to more efficiently utilize chilled water in each facility.

K-State 2025 Theme 6: Facilities and Infrastructure identified the need to develop utility infrastructures accessible to all and capable of supporting the evolving needs of the campus community. The new chill plant and expanded distribution system is designed for current and future chilled water needs and will accommodate all existing buildings that are not currently served by the campus chilled water system. The new plant is designed to house four 2,950 Ton chillers, but only two of them will be installed when the plant becomes operational in 2016. This forward-thinking approach for chilled water infrastructure will accommodate the future renovation of older buildings being cooled with window-air conditioners and stand-alone systems, onto the campus chilled water system.

The total cost of the project is estimated to be \$56M, which will be fully funded from the issuance of bond funds.

The debt service will be paid using a combination of projected energy savings, tuition funds available due to internal reallocation of departmental funds and tuition rate growth.

The Refunding Bonds

KDFA has previously issued Revenue Bonds to provide financing for other projects at the University. The University, in consultation with KDFA, is considering requesting that refunding revenue bonds be issued by KDFA on behalf of the University to refund a portion of such outstanding Revenue Bonds to achieve interest cost savings. The Refunding Bonds may be issued only if the projected present value savings resulting from the issuance of the Refunding Bonds is not less than 3% of the principal amount of the outstanding Refunded Bonds. The Refunding Bonds will also be secured by a pledge of generally available unencumbered funds of the University and debt serviced with student fees specifically designated for this purpose.

The debt policy amendments adopted by the Board last spring provide that refunding bonds meeting the 3% criteria noted above may be issued in an aggregate principal amount not to exceed the amount necessary to refund outstanding bonds, plus costs, without further approval of the Board.

Administrative Costs

In conjunction with the issuance of the proposed bonds, since KDFA has and will incur expenses in relation to the issuance of the proposed bonds and subsequent administration of the Resolution and Pledge of Revenues Agreement, it will be necessary for the University to execute an Administrative Agreement to provide for reimbursement of those expenses, as well as other documents and certificates necessary to accomplish the purposes set forth in the Resolutions and the issuance and delivery of the bonds.

Conclusion

The Board is asked to adopt the Resolution (set out in full below), to approve the issuance of bonds for the expanded chilled water plant Project. The Resolution would authorize the University President to execute the Pledge Agreement in such form as is approved by the University's general counsel and to execute any and all other documents and certificates necessary to accomplish the purposes of the Resolution and the issuance of the bonds. The Resolution further would authorize the Chair and President and CEO of the Board to execute the Resolution and any and all other documents and certificates, in such form as is approved by General Counsel to the Board, and necessary to accomplish the purposes of the Resolution and the issuance of the bonds. Staff recommends adoption of the Resolution.

RESOLUTION

A RESOLUTION OF THE KANSAS BOARD OF REGENTS APPROVING THE ISSUANCE BY THE KANSAS DEVELOPMENT FINANCE AUTHORITY OF ITS KANSAS DEVELOPMENT FINANCE AUTHORITY REVENUE BONDS TO PROVIDE ALL OR A PORTION OF THE FUNDS NECESSARY TO EXPAND THE EXISTING

CHILLED WATER PLANT LOCATED ON THE MANHATTAN CAMPUS OF KANSAS STATE UNIVERSITY; AND AUTHORIZING THE EXECUTION OF A PLEDGE OF REVENUES AGREEMENT BETWEEN KANSAS STATE UNIVERSITY AND THE KANSAS DEVELOPMENT FINANCE AUTHORITY THAT CONTAINS CERTAIN COVENANTS AND PROVISIONS WITH RESPECT TO THE PLEDGE OF CERTAIN FUNDS OF KANSAS STATE UNIVERSITY THAT WILL PROVIDE FOR THE PAYMENT OF SUCH BONDS.

WHEREAS, the Kansas Board of Regents (the “Board”) is vested under the Constitution and laws of the State of Kansas with supervision and control over Kansas State University (the “University”), and is authorized under such laws to adopt this Resolution and perform, execute and carry out, or cause to be performed, executed and carried out, the powers, duties and obligations of the Board under this Resolution in connection with the acquisition and improvement of certain facilities located on the campus of the University and the University's operation thereof; and

WHEREAS, the Board and the University have heretofore determined that it is advisable to expand the chilled water plant located on the Manhattan campus of the University (the "Project"); and

WHEREAS, Chapter 93, Section 10(c) of the 2014 Session Laws of Kansas authorizes the Kansas Development Finance Authority (the “Authority”), on behalf of the University, to issue its revenue bonds in an aggregate principal amount sufficient to finance expenditures for costs of the Project in an amount not to exceed \$56,000,000, plus any additional amounts required to finance costs of issuance, costs of interest on such revenue bonds during the construction of the Project, credit enhancement costs and any required reserves for the payment of principal and interest on such revenue bonds; and

WHEREAS, the University has requested that revenue bonds secured by a pledge of generally available unencumbered funds of the University be issued by the Authority pursuant to K.S.A. 74-8901 *et seq.* on behalf of the University to finance a portion of the costs of the Project (the “Bonds”); and

WHEREAS, the University intends to make provisions for the maintenance of the Project and the payment of debt service on the Bonds; and

WHEREAS, the Board, upon recommendation of the University, hereby finds and determines that it is advisable that the Bonds be issued by the Authority on behalf of the University, such bonds to be secured by the pledge of generally available unencumbered funds of the University; and

WHEREAS, in conjunction with the issuance of the Bonds, the University will be required to execute a Pledge of Revenues Agreement between the University and the Authority (the “Pledge Agreement”), which contains certain covenants and provisions with respect to the pledge of generally available unencumbered funds of the University; and

WHEREAS, it is recognized that the Authority has and will incur additional expenses in relation to the issuance of the Bonds and subsequent administration and enforcement of the Pledge Agreement; and the University desires to reimburse the Authority for said additional expenses through the execution of an Administrative Service Fee Agreement (the “Administrative Agreement”).

NOW THEREFORE, BE IT RESOLVED BY THE KANSAS BOARD OF REGENTS, AS FOLLOWS:

SECTION 1. The Board hereby approves the issuance of the Bonds by the Authority on behalf of the University to finance all or a portion of the costs of the Project, in an aggregate principal amount sufficient to finance expenditures for costs of the Project in an amount not to exceed \$56,000,000, plus any additional amounts required to finance costs of issuance, costs of interest on the Bonds during construction of the Project, credit enhancement costs and any required reserves for the payment of principal and interest on the Bonds. The Bonds may be issued jointly with other revenue bonds for the University and shall be issued substantially in the form and with the repayment terms and provisions contained in information to be presented to the Board by the Authority and the University.

SECTION 2. The Board hereby authorizes the President of the University to execute on behalf of the University the Pledge Agreement, the Administrative Agreement and such other documents and certificates necessary to accomplish the purposes set forth in this Resolution and the issuance of the Bonds, including any documents and certificates necessary to accomplish any temporary financing entered into in anticipation of the issuance of such bonds, in such forms as are approved by the General Counsel to the University. The Board hereby further authorizes and instructs the Chair and President and CEO of the Board to execute on behalf of the Board such documents and certificates necessary to accomplish the purposes set forth in this Resolution and the issuance of the Bonds, including any documents and certificates necessary to accomplish any temporary financing entered into in anticipation of the issuance of such bonds, in such forms as are approved by the General Counsel to the Board.

SECTION 3. This Resolution shall be in full force and effect from and after its adoption.

CERTIFICATE

We, the undersigned Chair and President and CEO of the Kansas Board of Regents, hereby certify that the foregoing Resolution was lawfully adopted by the Board at its meeting held on March 11, 2015.

KANSAS BOARD OF REGENTS

(SEAL)

By _____
Kenny A. Wilk, Chair

ATTEST:

By _____
Andy Tompkins, President and CEO