

October 7, 2009

MEMORANDUM

TO: State Board of Regents  
FROM: William A. Sederburg  
SUBJECT: Utah State University – Summary of Bond Sale

Issue

Attached is a summary of the results of the sale of USU's Series 2009 Student Fee & Housing System Revenue Refunding Bonds. The competitive sale of \$8,130,000 in bonds took place on September 23, 2009. The winning bid of 1.42% produced savings of 7.39% or \$603,442 exceeding the University's most optimistic expectations. Regent Atkin was available to approve of the sale.

The Commissioner's Office plans to provide similar follow-up on future bond sales in order that Board members receive feedback regarding bond sales relative to the parameters initially approved.

USU representatives will be available for questions regarding the sale during the October Board meeting.

Commissioner's Recommendation

This is an information item only.

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William A. Sederburg  
Commissioner of Higher Education


WAS/GLS/TC  
Attachments



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## Memorandum

**To:** Dr. Gregory L. Stauffer, Ed. D.  
Associate Commissioner, Finance and Facilities

**From:** David T. Cowley   
Senior Associate Vice President for Business and Finance

**Date:** Wednesday, September 30, 2009

**Re:** Bond Sale Results: Utah State University's Series 2009 Student Fee & Housing System Revenue Refunding Bonds

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On September 23, 2009, Utah State University (the "University") sold via competitive sale \$8,130,000 in Student Fee & Housing System Revenue Refunding Bonds in order to generate economic savings. The purpose of this memorandum is to report back on the success of the sale and provide the results. When we presented this proposed bond sale to the Regents on August 28, we estimated that we would realize approximately 5.5% Net Present Value (NPV) savings, or \$450,000. We also estimated our interest rate would be approximately 1.97%.

On the morning of the bond sale the University received nine aggressive bids (detailed below). The winning bid of 1.42% produced savings of 7.39% or \$603,442. These results exceeded our most optimistic expectations, and can be attributed to 1.) the general improvement in the market between the Regent meeting and the date of our bond sale, 2.) the strong demand for high-grade credits in the municipal bond market, and 3.) the competitive bond sale process that allows any underwriter the chance to step up and provide a winning bid. Interest in this bond sale from potential bidders was very high due to "AA" rating on the bonds based on the State of Utah's moral obligation pledge coupled with bond insurance that allows the bonds to sell as "AAA." The bid results were as follows:

Underwriters	TIC Bid	NPV Savings %	NPV Savings \$	Difference from Winning Bid
George K. Baum & Co.	1.4173%	7.391%	\$603,442	
Robert W. Baird & Co., Inc.	1.4829%	7.169%	\$585,346	\$18,096
Zions First National Bank	1.4968%	7.123%	\$581,629	\$21,813
Wells Fargo Advisors	1.5011%	7.109%	\$580,410	\$23,032
Hutchinson, Shockey, Erley & Co	1.5702%	6.876%	\$561,428	\$42,014
Morgan Stanley & Co Inc.	1.6026%	6.767%	\$552,535	\$50,907
First Trust Portfolios, L.P.	1.6040%	6.762%	\$552,152	\$51,290
Stifel Nicolaus & Company	1.8824%	5.836%	\$476,481	\$126,961
Bernardi Securities, Inc.	2.2326%	4.684%	\$382,451	\$220,991

With a competitive bond sale, any underwriting firm from anywhere in the country is invited to bid. The winning bidder (in this case George K. Baum & Company) is simply the one that provides the University with the lowest combination of rates and fees as measured by the TIC or True Interest Cost. The rates and coupons and underwriter spread the winning bidder proposed are locked in from the time the bids are opened. As a result, the risk of being able to sell the bonds to investors in the market at the stated rates falls squarely on the underwriter's shoulders with no recourse to the University.

From day to day it is difficult to know which underwriter will provide the lowest rates, which is why we feel it makes sense to do a competitive bid where appropriate. For instance, R.W. Baird won the University's sale of research bonds this past spring. During the past two years we have also seen Zions Bank, Wells Fargo, Raymond James, Stifel Nicolas, Merrill Lynch, BMO Capital Markets, Wachovia Securities, UBS, Morgan Stanley, BGI, Piper Jaffrey, and even more obscure players than that win bids in the state of Utah. It is logical that if one underwriter consistently beat everyone else, every bond issuer would use that firm every time. But from day to day each underwriting desk reads the market a little differently or feels more or less aggressive. We've even seen cases where underwriters will bid at rates at which they couldn't possible make money in order to build a case for future business.

But whatever the reasoning behind their bids, the benefit goes to the bond issuer. We feel that was the case for the University and are pleased to report these results.

*In the opinion of Ballard Spahr LLP, Bond Counsel to the State Board of Regents of the State of Utah (the “State Regents”) and Utah State University (the “University”), interest on the 2009 Bonds is excludable from gross income for purposes of federal income tax under existing laws as enacted and construed on the date of initial delivery of the 2009 Bonds, assuming the accuracy of the certifications of the State Regents and the University and continuing compliance by the State Regents and the University with the requirements of the Internal Revenue Code of 1986. Interest on the 2009 Bonds is not an item of tax preference for purposes of either individual or corporate federal alternative minimum tax; however, interest on the 2009 Bonds held by a corporation (other than an S corporation, regulated investment company, or real estate investment trust) may be indirectly subject to federal alternative minimum tax because of its inclusion in the adjusted current earnings of a corporate holder. Bond Counsel is also of the opinion that Interest on the 2009 Bonds is exempt from State of Utah individual income taxes. See “LEGAL MATTERS” herein. The 2009 Bonds are not “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986.*



## State Board of Regents of the State of Utah

### Utah State University

#### \$8,130,000 Student Fee and Housing System Revenue Refunding Bonds, Series 2009

The \$8,130,000 Student Fee and Housing System Revenue Refunding Bonds, Series 2009 (the “2009 Bonds”), are issued by the State Board of Regents of the State of Utah (the “State Regents”) for and on behalf of Utah State University (the “University”), as fully-registered bonds and, when initially issued, will be in book-entry only form, registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the 2009 Bonds.

Principal of and interest on the 2009 Bonds (interest payable June 1 and December 1 of each year, commencing December 1, 2009) are payable by Wells Fargo Bank, N.A., as Paying Agent, to the registered owners thereof, initially DTC. See “THE 2009 BONDS—Book-Entry System” herein.

The 2009 Bonds are **not** subject optional redemption prior to maturity, but are subject to extraordinary optional redemption prior to maturity (in the event of damage to, or destruction, seizure or condemnation of the Student Housing System, as defined herein). See “THE 2009 BONDS—Redemption Provisions” herein.

The 2009 Bonds are being issued for the purpose of: (i) refunding in advance of their maturity Student Fee Housing System Revenue Refunding Bonds, previously issued by the State Regents, for and on behalf of the University and (ii) paying the costs associated with the issuance of the 2009 Bonds. The 2009 Bonds will be issued pursuant to the Resolution, as described herein. The State Regents has pledged, pursuant to the Resolution, its rights in and to the Revenues (as defined herein) to the payment of the 2009 Bonds. The 2009 Bonds are equally and ratably secured with the Outstanding Parity Bonds (as described herein) and any Additional Bonds hereafter issued under the Resolution. See “THE 2009 BONDS—Sources And Uses Of Funds” and “—Plan Of Refunding” herein.

*The 2009 Bonds are not an indebtedness of the State of Utah, the University or the State Regents but are special limited obligations of the State Regents, payable from and secured solely by the Revenues, and such funds and accounts established by the Resolution, as described herein. See “SECURITY FOR THE 2009 BONDS” herein. The issuance of the 2009 Bonds shall not directly, indirectly, or contingently obligate the State Regents, the University or the State of Utah or any agency, instrumentality or political subdivision thereof to levy any form of taxation therefore or to make any appropriation for the payment of the 2009 Bonds. Neither the State Regents nor the University has any taxing power.*

*In addition, the 2009 Bonds are secured by amounts on deposit in an account in the Debt Service Reserve Fund (the “2009 Debt Service Reserve Account”). The State Regents has covenanted to annually certify to the Governor of the State of Utah (the “Governor”) the amount, if any, required to (i) restore such account to the Debt Service Reserve Requirement (as defined herein) with respect to the 2009 Bonds or (ii) meet any projected shortfalls of payment of principal and/or interest for the 2009 Bonds. The Governor may (but is not required to) request from the Legislature of the State of Utah (the “Legislature”) an appropriation of the amount so certified and any sums appropriated by the Legislature shall, as appropriate, be deposited in the 2009 Debt Service Reserve Account to restore such account to the Debt Service Reserve Requirement or to meet any projected principal or interest payment deficiency. The Legislature is not required to make any appropriation with respect to the 2009 Bonds.*

The scheduled payment of principal of and interest on the 2009 Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the 2009 Bonds by Assured Guaranty Corp. (“Assured Guaranty”). See “BOND INSURANCE” herein.



**Dated:** Date of Delivery<sup>1</sup>

**Due:** December 1, as shown on inside front cover

**See the inside front cover for the maturity schedule of the 2009 Bonds.**

**The 2009 Bonds were awarded pursuant to competitive bidding received by means of the PARITY<sup>®</sup> electronic bid submission system on Wednesday, September 23, 2009 as set forth in the OFFICIAL NOTICE OF BOND SALE, dated September 10, 2009 to George K. Baum & Company, Denver, Colorado; at a “true interest rate” of 1.42%.**

**Zions Bank Public Finance, Salt Lake City, Utah, acted as Financial Advisor.**

*This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire OFFICIAL STATEMENT to obtain information essential to the making of an informed investment decision.*

This OFFICIAL STATEMENT is dated September 23, 2009, and the information contained herein speaks only as of that date.

<sup>1</sup> The anticipated date of delivery is Tuesday, October 6, 2009.