

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES**

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** October 18, 2011

**Agenda Item:** Reallocation of Revenue Bond Proceeds, St. Cloud State University

Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring  
 Information

**Cite policy requirement, or explain why item is on the Board agenda:** St. Cloud State University is seeking approval to restructure the way it is proposing to finance a portion of construction for Phase I of the National Hockey and Events Center.

**Scheduled Presenter(s):** Brian Yolitz, Associate Vice Chancellor of Facilities  
Earl Potter, President, St. Cloud State University  
Steve Ludwig, Vice President for Administration

**Outline of Key Points/Policy Issues:** The University proposes to declare the Phase I addition of the National Hockey and Events Center as a revenue fund asset, and to use approximately \$5.2 million of revenue fund monies toward a portion of overall construction costs. The \$5.2 million capital contribution will include the use of \$3 million of existing taxable revenue bonds, and the surplus and loan of approximately \$2.2 million of revenue fund reserves from the university's residential life program. The remaining cost of Phase I will be supplied by the St. Cloud State University Foundation.

**Background Information:** In March 2010, the Board approved the development plan for the Phase 1 and 2 construction contracts for the addition and renovation of the National Hockey Center valued at approximately \$23 million. It was expected that inspections, testing, furnishings, fixtures, equipment, contingency and other costs would total approximately \$3.7 million for the two phases. After approximately \$1.7 to \$1.8 million in general obligation bonds proceeds had been spent, the state's bond counsel advised that the amount of private, taxable use occurring in the arena from the sale of commercial rights in the building would likely jeopardize the tax exempt status of the state's general obligation bonds being committed to the project. The bond counsel's analysis effectively nullified the university's ability to use the remaining \$4.8 million of general obligation bond proceeds. The university has since worked extensively with the Attorney General's office to fashion a new agreement between the university and the foundation to structure the financing of the foundation's contribution to the project.

**BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

<b>ACTION ITEM</b>
<b>Reallocation of Revenue Bond Proceeds, St. Cloud State University</b>

**REQUEST**

St. Cloud State University is seeking approval to restructure the way it is proposing to finance a portion of construction for Phase I of the National Hockey and Events Center. The university proposes to declare the Phase I addition of the National Hockey and Events Center as a revenue fund asset, and to use approximately \$5.2 million of revenue fund monies toward a portion of overall construction costs. The \$5.2 million capital contribution will include the use of \$3 million of existing taxable revenue bonds, and the surplus and loan of approximately \$2.2 million of revenue fund reserves from the university's residential life program. The remaining cost of Phase I will be supplied by the St. Cloud State University Foundation.

**BACKGROUND**

The Board approved the construction of an addition and renovation of the National Hockey and Events Center on the St. Cloud State University campus during its meeting in March 2010. At that time, the Board approved the development plan for the Phase I and Phase II construction contracts valued at approximately \$11 million and \$12 million respectively, and the funding agreement between the university and the St. Cloud State University Foundation, valued at approximately \$23 million. At the time, it was expected that inspections, testing, furnishings, fixtures, equipment, contingency and other costs would total approximately \$3.7 million for the two phases. The chancellor was authorized to negotiate the agreement with the foundation contingent upon approval of the documents by the Office of the Attorney General.

The Phase I improvements to the building would add an approximately 50,000 sq. ft. addition and renovate approximately 20,000 sq. ft. of the existing facility. A sketch delineating the Phase I and Phase II work on the center is attached and incorporated by reference as **Attachment A**. As part of the original financing structure, \$6.5 million of general obligation bond funds were authorized in the 2008 bonding bill to improve the facility, which comprised approximately one-half the cost of the Phase I improvements. The general obligation appropriation appeared in the Employment and Economic Development section of the bonding bill, where regional public events centers are typically authorized and funded. The university's foundation would supply the remaining balance of funds necessary to construct Phase I by donations and by selling sponsorships and naming rights to the arena.

During the course of design work and after approximately \$1.7 to \$1.8 million in general obligation bonds proceeds had been spent, the state's bond counsel advised the Attorney General's office and the university that the amount of private, taxable use occurring in the arena from the sale of commercial rights in the building would likely jeopardize the tax exempt status of the state's general obligation bonds being committed to the project. The bond counsel's analysis effectively nullified the university's ability to use the remaining \$4.8 million of general obligation bond proceeds.

Meanwhile, a sizable portion of the foundation's contribution to the project rested on the foundation's ability to manage the sale and marketing of commercial rights to the arena to support its capital contribution. On a parallel legal analysis, the university faced difficulties in structuring an agreement with the foundation that would allow the foundation to market and sell the commercial rights to the arena comprised mostly of naming rights to generate the portion of the foundation's capital contribution to the project. The university has since worked extensively with the Attorney General's office to fashion a new agreement between the university and the foundation to structure the financing of the foundation's contribution to the project. The revised agreement includes management of commercial sponsorships, including advertising signage on the rink, score boards, banners, seats and suites advertisement, sponsor recognition in printed materials, pouring rights and public recognition over the public address system.

## **PROPOSED SOLUTION**

The university proposes solving the Phase I shortfall by placing the Phase I addition to the National Hockey and Events Center in the revenue fund. The revenue fund statute and bond indenture allows for the Board to declare physically severable portions of facilities as a revenue fund facility. Funding the approximately \$5.2 million will come from two sources: 1) using \$3 million worth of existing taxable revenue bond proceeds already set aside to advance design work for future projects and to fund off-cycle projects that may arise, and 2) an approximately \$2.2 million loan from the university's existing revenue fund reserves in their residential life program, which includes \$400,000 to pay at least one debt service payment on the bonds prior to the opening of the building. The university intends to replenish the residential life reserves during the course of this arrangement. The university expects to generate sufficient revenues to both pay the debt service and replenish the residential life reserves from the operation of the hockey store, suite, and concessions revenue. No new student fees will be charged to support this facility in the revenue fund, and there are no expected additional costs to the system-wide revenue fund for this financing structure.

Provided the marketing agreement can be finalized between the university and the foundation, the foundation will be providing the remaining funds necessary to construct Phase I and all of Phase II. The total revised development cost for Phase I (including the renovation of the existing arena) is approximately \$15.3 million, which includes approximately \$8.2 million from the foundation and \$6.5 million from university resources, including the revenue fund taxable bonds and the loan from residential life reserves.

*Reallocation of Revenue Bond Proceeds,  
St. Cloud State University*

The taxable bonds recommended to be used for this project were sold without designated projects at the time of the original sale. It is management's practice to sell sufficient excess taxable bonds to allow for design or to otherwise advance project work between sales, and carry the debt service until the debt is used by a particular project. When a campus seeks to use taxable bond proceeds, the proceeds and related debt service payment obligation is transferred from the system to the campus. After accounting for the \$3 million in taxable bond proceeds going to St. Cloud State University, the system will have \$500,000 in taxable bonds available for other work prior to the planned 2013 revenue fund sale. There are no immediate demands for these proceeds, although discussions are ongoing with prospective campuses.

The university currently pays \$1.73 million in annual debt service for its residential hall program, and carries a projected balance of \$4.6 million in reserves for FY2012 after taking into account the loan to the National Hockey Center. The remaining reserves for FY2012 will be equivalent to 4.7 months of operating reserve. The minimum acceptable level of operating reserves is 3 months. The use of their proposed residential life reserves for the Hockey Center will temporarily result in a reduction of reserves to approximately \$3.2 million in FY2013, which still maintains approximately 3.2 months of operating reserves before trending back upward in FY2014. The reserve projections assume the university seeks a \$13.5 million residential hall renovation project financed by a 2013 revenue bond sale.

As part of this overall effort, the system will be seeking legislative accommodation in 2012 by asking for the conversion to HEAPR of the \$4.8M left over in the general obligation bond appropriation originally directed to the hockey project. This particular HEAPR appropriation would then be made available to St. Cloud State to help offset some of their ongoing repair & replacement (R&R) obligations.

**RECOMMENDED COMMITTEE ACTION:**

The Finance and Facilities Committee recommends the Board of Trustees adopt the following motion:

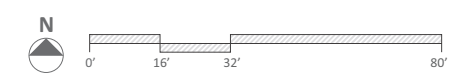
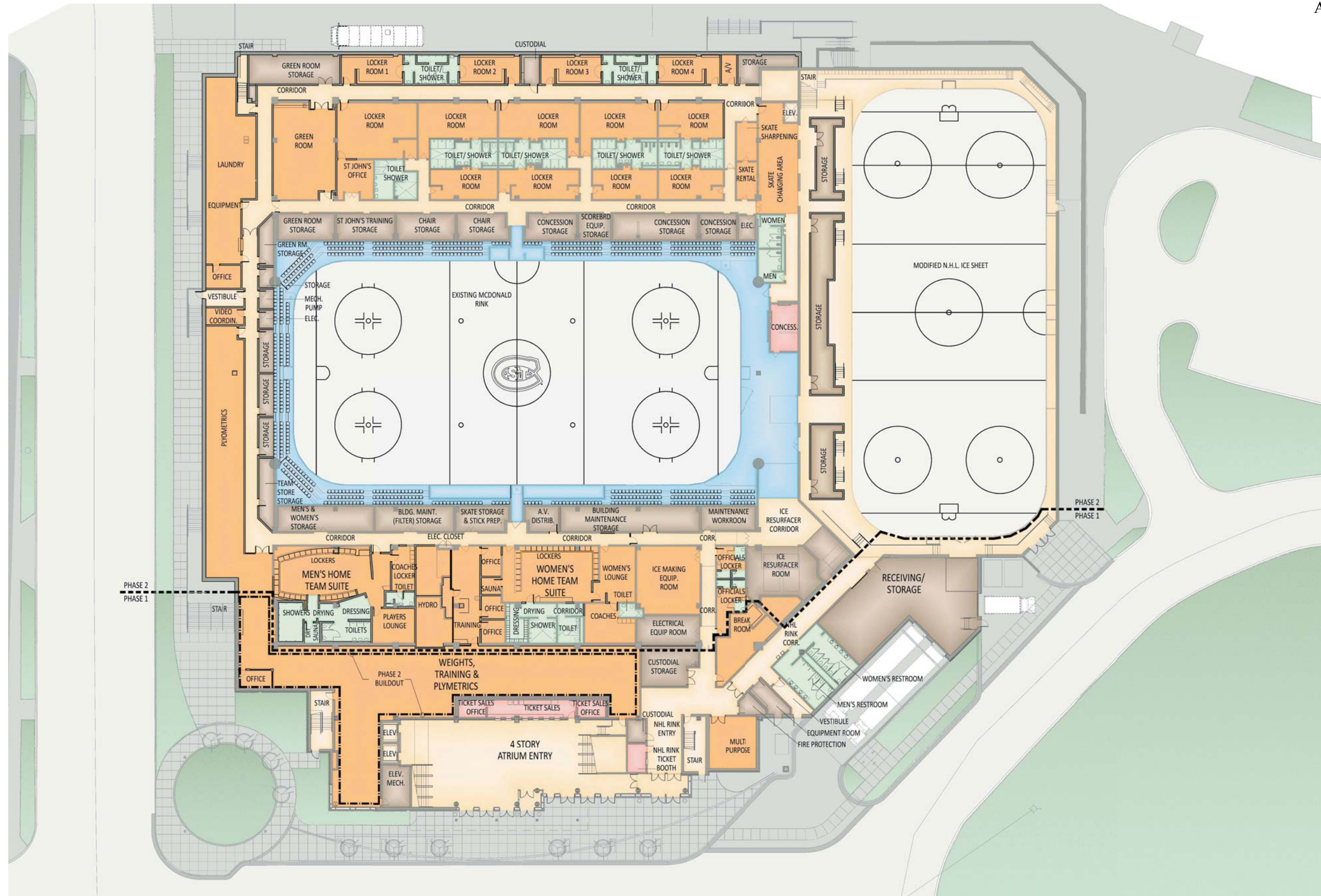
The Board hereby adds the Phase I National Hockey and Events Center as identified on **Attachment A** to the revenue fund, and

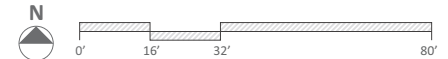
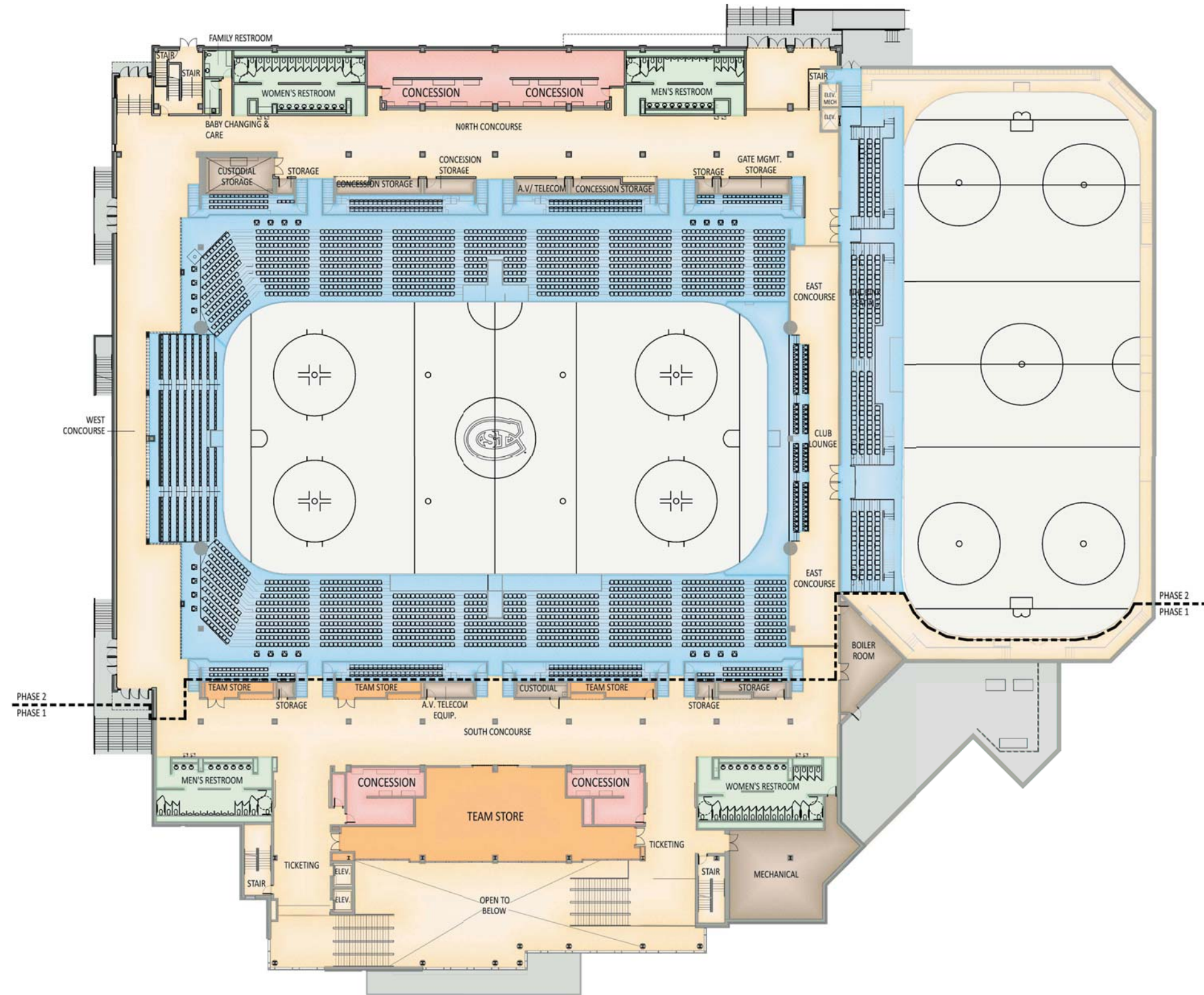
- a) Authorizes the use of up to \$3 million of taxable bond proceeds available from the 2009 and/or 2011 revenue bond sales and related university contributions as described herein to complete Phase I work, and
- b) All other terms and conditions of the Board's original action in March 2010 are continuing including the St. Cloud State University Foundation financial commitment to providing the remainder of funding necessary for the completion of the Phase I project in the National Hockey and Events Center.

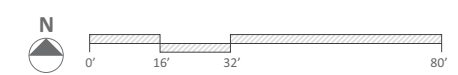
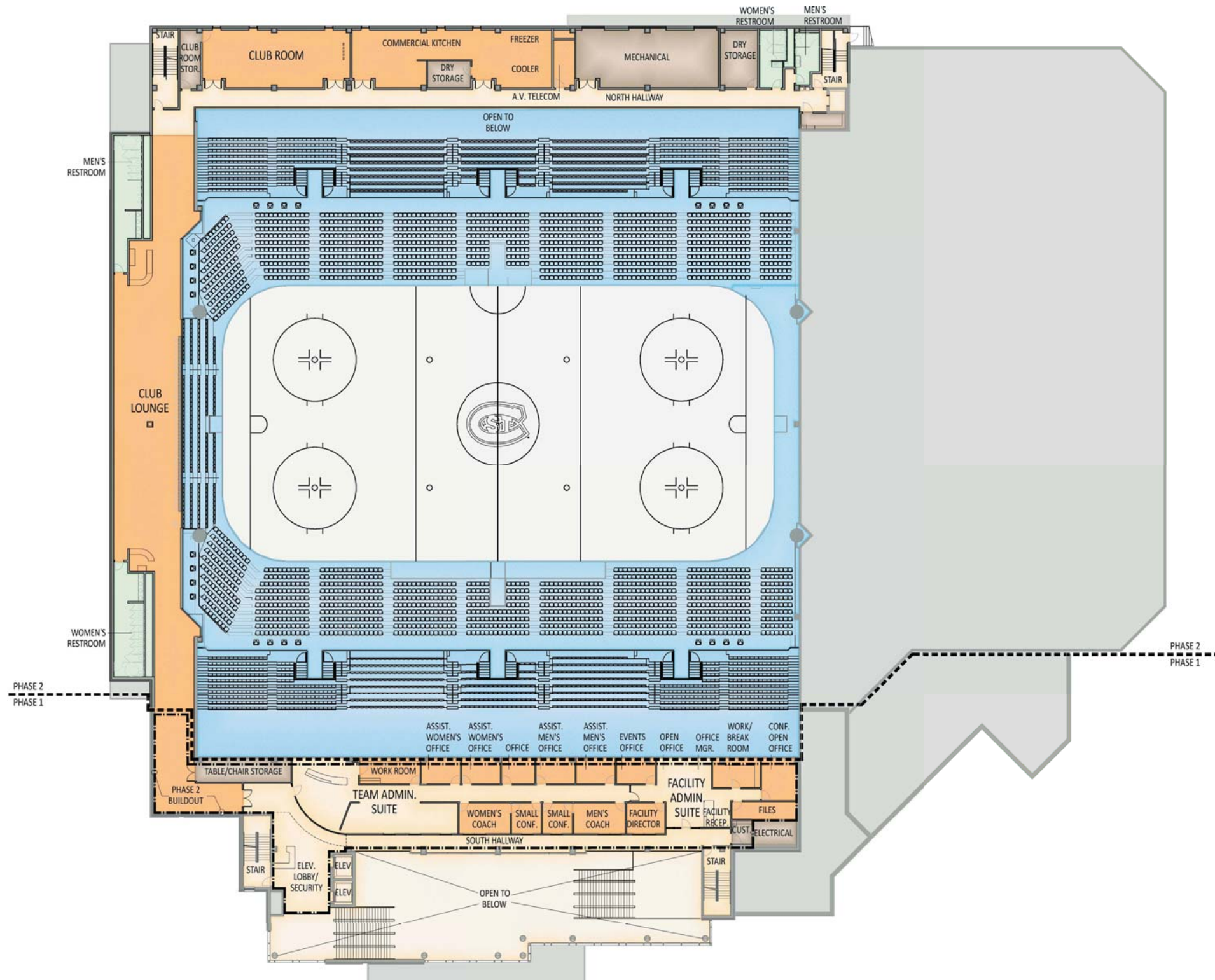
**RECOMMENDED BOARD OF TRUSTEES MOTION:**

The Board hereby adds the Phase I National Hockey and Events Center as identified on **Attachment A** to the revenue fund, and

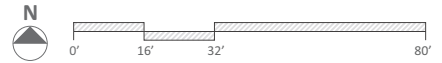
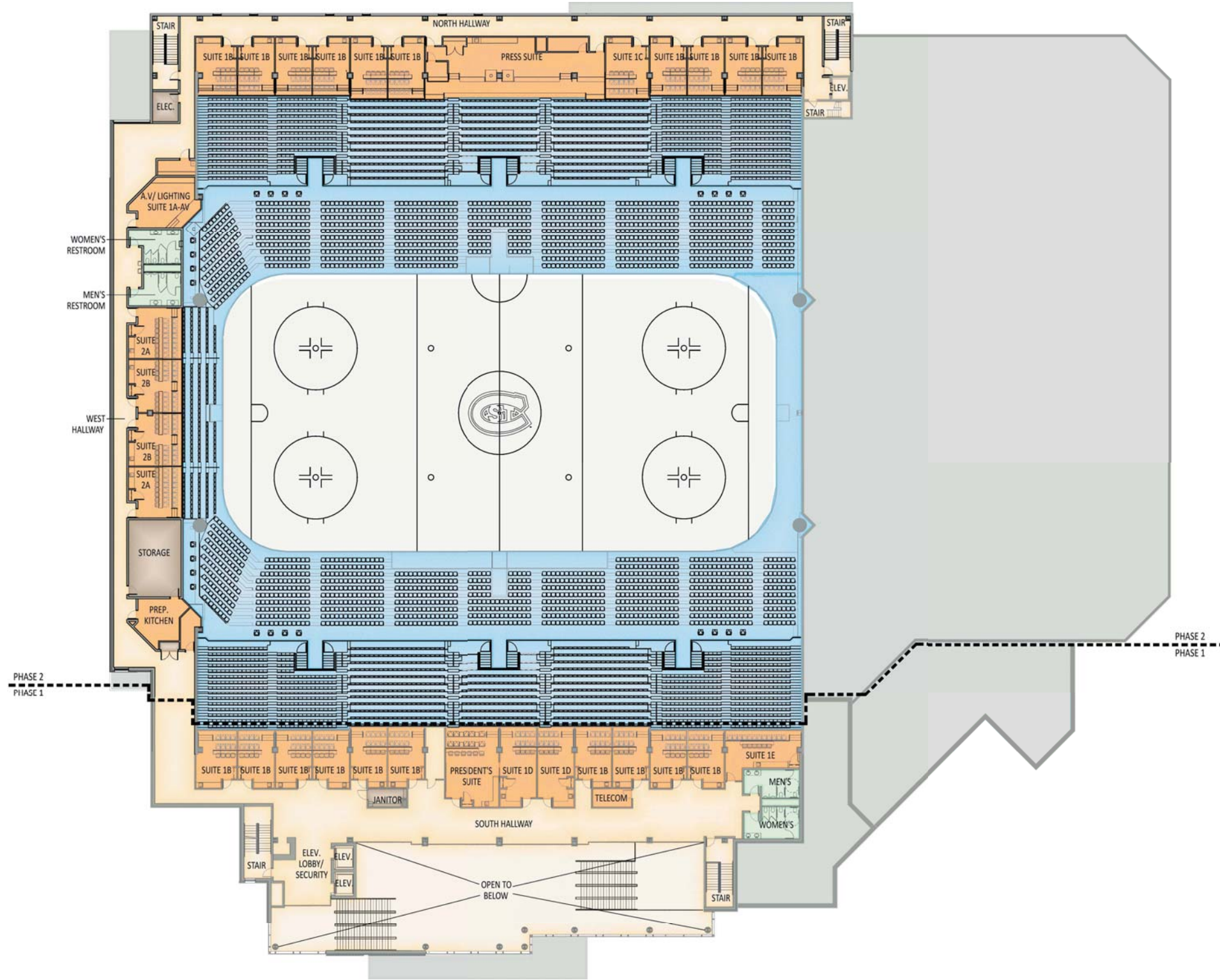
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- b) All other terms and conditions of the Board's original action in March 2010 are continuing including the St. Cloud State University Foundation financial commitment to providing the remainder of funding necessary for the completion of the Phase I project in the National Hockey and Events Center.











SAINT CLOUD STATE UNIVERSITY  
**NATIONAL HOCKEY AND EVENT CENTER**  
 JULY 15, 2010

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FOURTH LEVEL PLAN



