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PURDUE UNIVERSITY

Office of the Chief Financial Officer and Treasurer

BOARD APPROVED
APRIL 8, 2022

Janice Indrutz
Corporate Secretary

To: Members of the Board of Trustees

Fr: Christopher A. Ruhl, Chief Financial Officer and Treasurer
Nicole V. Michienzi, Senior Director, Capital Markets and Special Projects

Date: March 30, 2022

Re: Student Fee Bonds and Student Facilities System Revenue Bonds – Refinancing and Restructuring

We will seek approval in the Finance Committee to 1) refinance outstanding Student Fee Bonds and 2) refinance and restructure outstanding Student Facilities System Revenue Bonds.

Background

Student Fee Bonds

Under Indiana Code, the University is authorized to borrow money for certain facilities including academic and administrative buildings, utility infrastructure, and major Repair and Rehabilitation (R&R) projects in the form of Student Fee Bonds ("SFB") which are secured by and payable solely from student fees, including tuition. For certain projects approved by the Indiana General Assembly, an annual state appropriation serves to reimburse the University for the student fees that are used to make debt service payments – these are referred to as "fee replacement" SFBs. Non-fee replaced SFBs are, thus, paid for by the University without state reimbursement. Currently, $437 million of SFBs are outstanding, 100% of which are fixed rate and approximately 68% are fee replaced. We are proposing a refunding of $33,585,000 of outstanding SFBs to achieve the following:

> Refund callable SFB, Series AA for debt service savings
  On 7/1/2022, $33,585,000 of the outstanding Student Fee Bonds, Series AA will be currently callable on a tax-exempt basis. Based on current market conditions, a traditional tax-exempt, fixed rate refunding generates approximately $3.5MM of net present value ("NPV") savings or 10% of refunded par. Annual debt service savings average around $325k per year. The SFB, Series AA Bonds consist of 32% fee replaced and 68% non-fee replaced. The savings on this refunding will, therefore, be shared by both the State and the University according to these percentages.

Student Facilities System Revenue Bonds

Under Indiana Code, the University is authorized to borrow money for certain auxiliary projects (student housing, food service, parking, etc.) in the form of Student Facility System Revenue Bonds ("SFSRB") which are secured by and payable from the net income of the auxiliaries and other available university funds, excluding mandatory student fees and state appropriated funds. Currently, $240 million of SFSRBs are outstanding across all three campuses of which $46 million (19%) are variable rate instruments where interest rates reset weekly. The vast majority of SFSRBs relate to housing and dining facilities on the West Lafayette campus. We are proposing to refund and restructure a portion of the SFSRBs to accomplish the following goals:

> Refund callable SFSRB, Series 2012A for debt service savings
  On 7/1/2022, $16,665,000 of the outstanding Student Facilities System Revenue Bonds, Series 2012A will be currently callable on a tax-exempt basis. Based on current market conditions, a traditional tax-exempt, fixed rate refunding generates over $1.6MM of NPV savings or nearly 10% of refunded par. Average annual debt service savings equate to approximately $145k per year.

> Convert variable rate SFSRBs, Series 2007C and Series 2005A to fixed
  The existing variable rate structure has been beneficial given generally low interest rates. However, the structure does have risks, including variable rate volatility, especially in rising interest rate environments. In Spring 2020, for

example, rates exploded from less than 1% to over 6%. Prolonged exposure to higher rates would present substantial financial challenges to Student Life's budget. With strong signals from the Fed of seven interest rate hikes this year to combat inflation, the market expects short-term rates to follow which would directly impact the SFSRB variable rates. Indeed, following the first interest rate hike by the Fed, Purdue's VRDBs reset at higher rates. Longer-term rates, however, are likely be anchored (as they have been in the past by inflation and growth expectations), which will result in a flattening of the yield curve. With intermediate to longer-term fixed rates at near record lows, we have the opportunity to eliminate volatility and lock in predictability on approximately $30 million of variable rate demand bonds. This will also free up significant liquidity in our cash pool, as currently we must hold reserves in an equivalent amount in the event the variable rate bonds cannot be remarketed to other investors and thus are put back to the University. Post refunding, we will have approximately $16 million or slightly under 2% of our total debt portfolio in a variable rate mode, preserving that capacity for future needs. We anticipate locking in fixed interest rates of around 2% for this portion of the transaction.

> Restructure amortization to level-off SFSRB debt service profile and pay down debt more quickly
Given our plan to capture refunding savings and fix out variable rate bonds, we have the opportunity to "level-off" future debt service to avoid large jumps up and down over the next decade as illustrated in the graphic below (current debt service). This will have two positive effects – reducing the strain on the Student Life budget and pulling forward and paying down debt more quickly (see pro-forma debt service graph below). If debt is needed in the future to address new housing/dining capacity needs, additional capacity is created by this plan.

> Modernize security pledge to provide more flexibility and reduce administrative burden
Additionally, we also plan to include a provision in the documents that will allow the University to remove the formal security lien on the net income of the auxiliaries once the prior SFSRBs are no longer outstanding. While the net income will still be the source of payment for these bonds (along with other available funds), removing the formal pledge will provide the University with more flexibility and reduce the administrative burden associated with ongoing reporting and compliance requirements. This amendment will also bring the University's security structure more in line with peer institutions.

Timeline/Plan of Finance
We have engaged Goldman Sachs and Bank of America as our lead underwriters. Our plan is to be in the market as early as late-April and close the transaction in May or June. In addition to your approval, we will be seeking State Budget Director ("SBD") approval. We have described the transaction to the SBD and the Indiana Finance Authority, and both parties are supportive. We anticipate receiving the formal SBD letter approval by early to mid-April.

The Trustees of Purdue University – Student Facilities System Revenue Bonds