ADVANCED CAPITAL FINANCING

PATRICK M. GIBBS
AND
EILEEN KENNEDY BYRNE
COURSE OBJECTIVES

- Mechanics of Capital Markets
- Taxable vs. Tax-Exempt Financing
- Variable vs. Fixed Rate Debt
- Credit Enhancement
- Bond Ratings
- IRS Arbitrage Regulations
- Understanding of Bond Covenants
- “Off Balance Sheet” Financing
- Not in this course...
  - Accounting for debt or facilities
  - Mathematics of bond markets
Sources of Capital

- Cash
- Bank Loans
- General Obligation Bonds
- (Dedicated) Revenue Bonds
- Certificates of Participation
- Capital Leases
General Obligation

- Total pledge of borrower’s assets and revenues
- Obligation not project or revenue specific
- Full faith and credit

Revenue Bond

- Pledge of dedicated revenue stream
- Can be facility-specific or category of revenues, e.g. housing revenues; technology fees

Moral Obligation

- No legal obligation to pay
- Likely to pay anyway; best interest of institution
<table>
<thead>
<tr>
<th>Project</th>
<th>2019-20</th>
<th>2020-21</th>
<th>2021-22</th>
<th>2022-23</th>
</tr>
</thead>
<tbody>
<tr>
<td>G. O. Bonds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engineering Building</td>
<td>$4,000,000</td>
<td>$40,000,000</td>
<td>$4,000,000</td>
<td></td>
</tr>
<tr>
<td>Arts and Sciences Renovation</td>
<td></td>
<td></td>
<td>$750,000</td>
<td>$7,500,000</td>
</tr>
<tr>
<td>HTHW Replacement</td>
<td></td>
<td></td>
<td></td>
<td>$300,000</td>
</tr>
<tr>
<td>Revenue Bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student Union</td>
<td>$2,000,000</td>
<td>$20,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parking Garage</td>
<td></td>
<td></td>
<td></td>
<td>$750,000</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laboratory Equipment</td>
<td>$800,000</td>
<td></td>
<td></td>
<td>$800,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$6,800,000</td>
<td>$60,750,000</td>
<td>$13,350,000</td>
<td>$10,500,000</td>
</tr>
</tbody>
</table>
LOAN MATURITIES

• May involve series of loans over varying stages of project

• Construction loan
  • Short term to pay construction bills

• “Permanent” Financing
  • Longer term financing to “take out” the construction loan
    • Pay off the short term lender
    • “Permanently” finance the project
**Duration of Loan and Interest Rates**

Usually longer term = higher rate

When inverted, longer term = lower rate
He's like the 10-Year Treasury... ...he's very sensitive.
### National Municipal Bond Yields
**June 22, 2012**

**Triple-A Rated, Tax-Exempt Insured Revenue Bonds**

<table>
<thead>
<tr>
<th></th>
<th>1 Day Prior Yield</th>
<th>2 Day Prior Yield</th>
<th>Change in Yield</th>
<th>28% Equiv Prior Yield</th>
<th>1 Wk Prior Yield</th>
<th>1 Mo. Prior Yield</th>
<th>6 Mos. Prior Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Yr</td>
<td>0.366%</td>
<td>0.369%</td>
<td>-0.003%</td>
<td>0.509%</td>
<td>0.371%</td>
<td>0.359%</td>
<td>284%</td>
</tr>
<tr>
<td>5 Yr</td>
<td>0.829%</td>
<td>0.864%</td>
<td>-0.035%</td>
<td>1.151%</td>
<td>0.878%</td>
<td>0.814%</td>
<td>0.882%</td>
</tr>
<tr>
<td>7 Yr</td>
<td>1.323%</td>
<td>1.336%</td>
<td>-0.013%</td>
<td>1.837%</td>
<td>1.373%</td>
<td>1.218%</td>
<td>1.160%</td>
</tr>
<tr>
<td>10 Yr</td>
<td>1.900%</td>
<td>1.910%</td>
<td>-0.009%</td>
<td>2.639%</td>
<td>1.923%</td>
<td>1.855%</td>
<td>1.887%</td>
</tr>
<tr>
<td>15 Yr</td>
<td>2.465%</td>
<td>2.506%</td>
<td>-0.041%</td>
<td>3.424%</td>
<td>2.498%</td>
<td>2.508%</td>
<td>1.827%</td>
</tr>
<tr>
<td>20 Yr</td>
<td>2.812%</td>
<td>2.876%</td>
<td>-0.064%</td>
<td>3.906%</td>
<td>2.872%</td>
<td>2.840%</td>
<td>3.371%</td>
</tr>
<tr>
<td>30 Yr</td>
<td>3.109%</td>
<td>3.121%</td>
<td>-0.012%</td>
<td>4.318%</td>
<td>3.134%</td>
<td>3.147%</td>
<td>3.676%</td>
</tr>
</tbody>
</table>
Taxable Vs. Tax-Exempt
Taxable Equivalent Yield = \[
\frac{\text{Tax-exempt yield}}{[100\%- \text{tax bracket} (\%)]}
\]

**Example**

7% Interest and 28% Income tax bracket

\[
\text{Taxable Equivalent Yield} = \frac{.07}{(1.00-.28)} = 9.72\%
\]
## Example

<table>
<thead>
<tr>
<th></th>
<th>Taxable</th>
<th>Tax-Exempt</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest Rate</strong></td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Par Amount</strong></td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td><strong>Income before tax</strong></td>
<td>$7,000</td>
<td>$5,000</td>
</tr>
<tr>
<td><strong>Tax bracket</strong></td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td><strong>Income taxes</strong></td>
<td>($2,450)</td>
<td>$0</td>
</tr>
<tr>
<td><strong>After tax income</strong></td>
<td>$4,550</td>
<td>$5,000</td>
</tr>
</tbody>
</table>
The greater the investor’s tax liability, the more attractive tax-exempt obligations become.

<table>
<thead>
<tr>
<th>Tax-Exempt Bond Yield</th>
<th>Taxable Equivalent 24% bracket</th>
<th>Taxable Equivalent 35% bracket</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.0 %</td>
<td>2.63%</td>
<td>3.08%</td>
</tr>
<tr>
<td>3.0 %</td>
<td>3.95%</td>
<td>4.62%</td>
</tr>
<tr>
<td>4.0 %</td>
<td>5.26%</td>
<td>6.15%</td>
</tr>
<tr>
<td>5.0%</td>
<td>6.58%</td>
<td>7.69%</td>
</tr>
<tr>
<td>6.0%</td>
<td>7.89%</td>
<td>9.23%</td>
</tr>
</tbody>
</table>
Requirements for Tax Exemption

- Income Tax-Exempt organization
- Governmental purpose
  - Project will benefit the public, student body, etc.
  - No equity returns can accrue to any project participant
“Private Activity Bonds” = Taxable

- Project/proceeds benefit a private corporation or an individual

- “Bad use” rules
  - Private Use –
    - more than 5% of facility used by profit making companies, not for tax-exempt purposes

  - Private Payment -
    - more than 5% of debt repayment stream
Fixed vs. Variable Rate Structure

• Cost of Capital
• Debt Service Schedule Flexibility
• Prepayment Provisions
• Hedging Strategies
• Liquidity Facility
• Ability to weather spikes in interest rates
• Variable 2.4% of 2016 and 2.7% of 2017 municipal bond issues
“First, I want to give you an overview of what I will tell you over and over again during the entire presentation.”
MAJOR PLAYERS

- Issuer
- Borrower
- Lender/Bondholder
- Trustee
- Investment Banker/Underwriter
- Financial Advisor
- Credit Enhancer (AKA “Credit Provider”)
TERM INOLOGY

- Serial Bonds and Term Bonds
- Primary Market
- Secondary Market
- Competitive Sale
- Negotiated Sale
- Private Placement
- Limited Offering
- Official Statement
**Term Bonds and Serial Bonds**

- **Serial Bonds**
  - A portion of issue’s par value paid off each year
  - Take advantage of shorter term interest rates

- **Term Bonds**
  - Total principal payable at maturity
  - Also referred to as bullet maturity/bullet bonds
  - Larger maturity may be more attractive to investors
BOND MARKETS

• Primary market
  • Market for new issues - sales at original pricing
  • Bidding syndicates of underwriters
  • Institutional investors

• Secondary market
  • Sale or trading at market prices
    • Banks/trust departments
    • Individual investors
    • Insurance companies
    • Mutual funds
TYPES OF BOND SALES

Competitive Sale

• Competitively bid

• Notice of Sale in the “Bond Buyer”

• Underwriters bid to buy bonds by quoting interest rates and discounts or premiums

• May not always result in lowest price

  • Depends on underwriters assessment of market and its ability to resell the bonds
Types of Bond Sales

Negotiated Sale

- Issuer/Borrower selects underwriter
- Investment banker seeks out likely clients and negotiates terms
- Useful in certain condition
  - Complicated issues – unusual financing terms, innovative structure or security, new entity
  - Unusually large issue (> $300 million)
  - Volatile market
  - Poor credit or security features
- Underwriting team has more time to prepare because they know who will sell the bonds
MORE TERMINOLOGY

Private Placement

- Securities marketed directly to a “Sophisticated Investor”
- No underwriter, but may have a placement agent
- Usually place with banks or institutional investor
- Often higher interest rate because bond not as liquid
- But lower costs of issuance
Who wants to buy it?

Pick me!

Pick me!

Pick me!

Pick me!

Method of Sale

Negotiated Sale 69%
Competitive Sale 22%
Private Placement 9%
Limited Offering

• Similar to private placement
• Very few bondholders
• More than 2, but less then 35 lenders
Disclosure documents giving detailed information about the bond offering differ according to who buys the bonds.

**Official Statement (OS)**

- Public Offering

**Limited Offering Memorandum (LOM)**

- Replaces OS

**Private Placement Memorandum**

- Significantly less data
• Disclosure to prospective buyers
• Terms of financing
• Financial info & operating data
• Relevant parties
• Project description
• Must state if issuer has been non-compliant within last 5 years
OFFICIAL STATEMENT – “APPENDIX A”

- History of institution
- Project description and cost data
- 10 years of institutional data
- Demographics (10 yrs of data)
  - Enrollment Data (HC & FTE)
  - Applications, admissions, matriculation
  - Retention and graduation rates
  - Housing occupancy rates
  - Faculty & Staff statistics
  - Number of degrees awarded
OFFICIAL STATEMENT – “APPENDIX A”

- Funding Sources
  - Description
  - Historical and comparative data

- Financials
  - Tuition & Fees Schedules
    - Resident & Non-Resident, Restricted, Auxiliary
  - Financial Statements
  - Revenues & Expenses
  - Financial aid and private support (gifts/endowments)
  - Pro-forma budget
SEC Rule 15c2-12

- Primary offerings of $1 million or more
- Send POS/OS to potential buyers
- Continuing Disclosure to NRMSIR
  - Annual financials
  - Notice of material events:
    - Delinquent P & I payments
    - Other non-payment defaults
    - Unscheduled DSRF draws
    - Credit enhancement draws
    - New or substitute enhancer
    - Loss of tax-exempt status
    - Modifying bondholder rights
    - Bond calls
    - Defeasance
    - Release, substitution sale of securing property
    - Rating changes
MORE TERMINOLOGY

- Ratings/Rating Agencies
- Credit Enhancement
- Indenture
- Covenant
- Arbitrage
- Call/Redemption
Credit Rating Process

Rating Agencies

- “Big Three” - Moody’s, Standard & Poor’s, Fitch
- Analyze the transaction or institution and issue rating indicating creditworthiness
- An “investment grade” rating will provide access to the lowest cost of borrowing (interest rate)
- Revenues bonds (e.g. privatized housing transaction) usually rated several notches lower than institution’s general obligation credit (G.O. bond rating)
Late 19th century – several firms begin classifying bonds, mostly railroad bonds.

1890 – Poor’s Publishing Co. analyzed bonds in *Poor’s Manual*.

1909 – John Moody publishes *Analysis of Railroad Investments*.

1929 – Rating agencies did not anticipate plunge.

1970s – Federal policy changed to increase reliance on rating agencies; NRSO designation established (Nationally recognized statistical rating organization).
## Municipal Bond Ratings

### Creditworthiness

<table>
<thead>
<tr>
<th></th>
<th>S&amp;P</th>
<th>Moody’s</th>
<th>Fitch</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Grade:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongest</td>
<td>AAA</td>
<td>Aaa</td>
<td>AAA</td>
</tr>
<tr>
<td>Very Strong</td>
<td>AA</td>
<td>Aa</td>
<td>AA</td>
</tr>
<tr>
<td>Strong</td>
<td>A</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Average</td>
<td>BBB</td>
<td>Baa</td>
<td>BBB</td>
</tr>
<tr>
<td><strong>Speculative:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Speculative</td>
<td>BB</td>
<td>Ba</td>
<td>BB</td>
</tr>
<tr>
<td>Highly Speculative</td>
<td>B</td>
<td>B</td>
<td>B</td>
</tr>
<tr>
<td>Substantial Risk</td>
<td>CCC</td>
<td>Caa</td>
<td>CCC</td>
</tr>
<tr>
<td>Default Probable</td>
<td>CC</td>
<td>Ca</td>
<td>CC</td>
</tr>
<tr>
<td>Default Imminent</td>
<td>C</td>
<td>C</td>
<td>C</td>
</tr>
<tr>
<td>Interest Pmt Default</td>
<td>CI</td>
<td>C</td>
<td>RD</td>
</tr>
<tr>
<td>Defaulted/Bankrupt</td>
<td>D</td>
<td></td>
<td>D</td>
</tr>
</tbody>
</table>
Rating Distribution Of Moody’s-Rated Private And Public Colleges And Universities
(excludes Insured-only, LOC-backed & Privately rated)

Moody's Investors Service
<table>
<thead>
<tr>
<th>University Name</th>
<th>Rating</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Univ. of Michigan</td>
<td>AAA</td>
<td>Stable</td>
</tr>
<tr>
<td>University of Texas</td>
<td>AAA</td>
<td>Stable</td>
</tr>
<tr>
<td>University of Virginia</td>
<td>AAA</td>
<td>Stable</td>
</tr>
<tr>
<td>Indiana University</td>
<td>AA+</td>
<td>Stable</td>
</tr>
<tr>
<td>Purdue University</td>
<td>AA+</td>
<td>Stable</td>
</tr>
<tr>
<td>Texas A&amp;M University</td>
<td>AA+</td>
<td>Stable</td>
</tr>
<tr>
<td>University of Missouri</td>
<td>AA+</td>
<td>Stable</td>
</tr>
<tr>
<td>Univ. of No. Carolina-Chapel Hill</td>
<td>AA+</td>
<td>Positive</td>
</tr>
<tr>
<td>University of Washington</td>
<td>AA+</td>
<td>Stable</td>
</tr>
<tr>
<td>University System of Maryland</td>
<td>AA+</td>
<td>Stable</td>
</tr>
<tr>
<td>47 Universities</td>
<td>A+</td>
<td></td>
</tr>
<tr>
<td>32 Universities</td>
<td>A</td>
<td></td>
</tr>
<tr>
<td>14 Universities</td>
<td>A-</td>
<td></td>
</tr>
<tr>
<td>Lake Superior St. Univ. Board of Trustees</td>
<td>BBB+</td>
<td>Stable</td>
</tr>
<tr>
<td>Western State Colorado University</td>
<td>BBB+</td>
<td>Stable</td>
</tr>
<tr>
<td>University of Puerto Rico</td>
<td>BBB-</td>
<td>Stable</td>
</tr>
</tbody>
</table>
MOODY'S BROAD RATING FACTORS

- Market Position
- Operating Performance
- Balance Sheet and Capital Investment
- Governance and Management
- Legal Security and Debt Structure

Moody’s Rating Methodology
August 26, 2011
Market Position as a Rating Factor

- **Market Reputation**
  - Brand identity, number of distinct and high quality programs, identification, assessment and prioritization of risks

- **Scope of Operations**
  - Alignment of programs with mission, diversity of programs, willingness to add, expand or reduce programs

- **Student Demand and Pricing Power**
  - Applicant pool, geographic diversity of students, price differentiation strategy, flexibility to raise tuition and fees

- **Philanthropic Support**
  - Meeting or exceeding campaign goals, growth of donor support, management, broad and diverse pool of donors, continued cultivation of donors
Operating Performance as a Rating Factor

- **Cash Flow**
  - Consistently favorable cash flow, sufficient cash flow to provide ample debt service coverage, growth in revenue meets or exceed growth in expenditures

- **Revenue Diversity**
  - Multiple and diverse sources of revenue, negative or limited correlation of revenues, self sufficiency of business lines

- **Budget Flexibility**
  - Legal and political ability to increase revenues or reduce expenditures
  - Contingency plans
  - Decisive action during challenging times
  - Strength of market position
  - Ability to manage human resource expenditures (tenure/union)

Moody's Rating Methodology
August 26, 2011
**BALANCE SHEET & CAPITAL INVESTMENT AS A RATING FACTOR**

- **Wealth**
  - Spendable financial reserves, flexibility and external restrictions on reserves, history of operating surpluses, fund raising, management of post-employment liabilities

- **Liquidity**
  - Ample liquidity vs. operating, debt and investment strategies, access to external sources, investment oversight, modeling of liquidity needs

- **Capital Investment**
  - Integrated financial and capital plans, capital investment to maintain attractiveness of facilities, ability to use combinations of operating, donated and borrowed funds, funded depreciation or equivalent replacement reserves, multi-tier capital plan, and pace of capital investment in line with growth of balance sheet and revenue

Moody’s Rating Methodology
August 26, 2011
Governance & Management as a Rating Factor

- Board and Senior Management
  - Board composition, experience and tenure, president, CFO

- Oversight and Disclosure Practices
  - Board structure, policies, transparency, staffing, internal audit, website disclosure, reporting

- Short and Long Term Planning
  - Integrated, multi year plans, budgeting, modeling, contingency plans

- Self Assessment and Benchmarking
  - Best practices comparisons, monitoring of key indicators, regular performance reviews

- Government Relations
  - Political autonomy in key areas, consistent state support, local community relationship, economic impact

- Legal Security and Debt Structure
  - Bondholder security provisions, broad pledge of revenues, conservative budget assumptions, parity of senior issues, other security, covenants, liquidity
Moody’s
U. S. Higher Education Scorecard

<table>
<thead>
<tr>
<th>Factor 1: Market Position (35%)</th>
<th>Sub-Factor Weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenue ($000)</td>
<td>10%</td>
</tr>
<tr>
<td>Primary Selectivity (%)</td>
<td>5%</td>
</tr>
<tr>
<td>Primary Matriculation (%)</td>
<td>5%</td>
</tr>
<tr>
<td>Net Tuition per Student ($)</td>
<td>10%</td>
</tr>
<tr>
<td>Average Gifts per Student ($)</td>
<td>5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factor 2: Operating Performance (30%)</th>
<th>Sub-Factor Weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Cash Flow Margin (%)</td>
<td>10%</td>
</tr>
<tr>
<td>Average Debt Service Coverage (x)</td>
<td>10%</td>
</tr>
<tr>
<td>Revenue Diversity (Max Single Contribution) (%)</td>
<td>10%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factor 3: Balance Sheet and Capital Investment (35%)</th>
<th>Sub-Factor Weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cash and Investments ($000)</td>
<td>10%</td>
</tr>
<tr>
<td>Expendable Financial Resources to Direct Debt (x)</td>
<td>5%</td>
</tr>
<tr>
<td>Expendable Financial Resources to Operations (x)</td>
<td>5%</td>
</tr>
<tr>
<td>Debt to Operating Revenues (x)</td>
<td>5%</td>
</tr>
<tr>
<td>Monthly Days Cash on Hand (x)</td>
<td>5%</td>
</tr>
<tr>
<td>Monthly Liquidity to Demand Debt (%)</td>
<td>5%</td>
</tr>
</tbody>
</table>
## Moody’s
### U. S. Higher Education Scorecard

<table>
<thead>
<tr>
<th>Factors 4 &amp; 5: Governance and Management, Legal Security and Debt Structure, &amp; Other Credit Specific Considerations</th>
<th>Positive, Neutral, or Negative</th>
<th>Analytical Notching (+/-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4) Governance and Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Board and Senior Management Composition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Oversight and Disclosure Practices</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Short and Long-Term Planning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Self-Assessment and Benchmarking</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. Government Relations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5) Legal Security and Debt Structure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. External Financing Terms and Conditions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Other Credit Specific Considerations

<table>
<thead>
<tr>
<th>Positive, Neutral, or Negative</th>
<th>Analytical Notching (+/-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Multi-Year Trends</td>
<td></td>
</tr>
<tr>
<td>b. Healthcare Exposure (ownership of a hospital or practice plan)</td>
<td></td>
</tr>
<tr>
<td>c. Marketable Real Estate</td>
<td></td>
</tr>
<tr>
<td>d. Event Risk (i.e. natural disasters, legal judgments, or security incidents)</td>
<td></td>
</tr>
<tr>
<td>e. Other Factors</td>
<td></td>
</tr>
</tbody>
</table>

Net Notching →
Moody’s incorporates alternative financings into assessment of institution’s credit profile

- Operating leases and public-private partnerships
- Why?
  - Institutions have strong economic or strategic incentives to use their resources to aid a failing project
- Moody’s operating ratio calculations use a standard endowment spending rate of 5%
Warning Signs of Credit Stress

1. Declining Enrollment
2. Declining Net Tuition per Student or Declining Total Net Tuition Revenue
3. Two consecutive years of operating deficits > 5%
4. One year of “serious” operating deficit with debt service coverage < 1.0x
5. Declining liquidity

Moody’s Investor Services Industry Outlook, Feb 2003
### Key Financial Statistics
- Total Direct Debt
- Total Financial Resources
- Total Cash & Investments
- Total Revenues
- Total Gift Revenues

### Market Data and Ratios
- Total Enrollment FTE
- % Total Enrollment
- Undergraduate Selectivity (Admit rate)
- Matriculation (Yield rate)
- Net Tuition/student
- Educational exp/student
- Total tuition discount
- Total gifts/student

---

**Moody's Investors Services**
Capital Ratios

- Unrestricted financial resources/direct debt
- Expendable financial resources/direct debt
- Total financial resources/direct debt
- Cash & Investments/direct debt
- Direct debt per student
- Direct debt/cash flow
- Direct debt/capitalization
- Actual Debt Service/operations
- Peak debt service/operations
- Capital expense/operations
- Age of Plant (years)
Balance Sheet Ratios
• Unrestricted financial resources/operations
• Expendable financial resources/operations
• Free expendable financial resources/operations
• Expendable financial resources/net assets
• Total financial resources per student

Operating Ratios
• Annual operating margin
• Average operating margin
• Operating margin excluding gifts
• Actual debt service coverage
• Average peak debt service coverage
• Return on net assets
• Return on financial resources
Contribution Ratios

- Net tuition and fees
- Auxiliary enterprises
- Investment income
- Net assets released from restrictions
- Gifts and pledges
- Grants and contracts
- State appropriation
- Patient care
- Other
Moody’s issued 480 municipal upgrades in 2018 and 392 downgrades (all sectors)

4th consecutive year upgrades > downgrades

New rating methodology for lease, appropriation, and moral obligation-backed bonds caused some of the ratings changes

Only sectors with more downgrades than upgrades were higher ed and healthcare

2019 outlook for higher ed is negative

Source: Cumberland Advisors
Credit Analysis

How do investors learn about your credit?

• Information disclosed in preliminary official statement
• Audited financial statements
• Credit Rating issued by rating agency
  • Institutional General Obligation Rating
  • Project Rating
Credit Enhancement

- Guarantee of debt service payment by a financially stronger party

Bond insurance

- Insurer guarantees lender will receive timely payment of principal and interest
- Premium paid from bond proceeds at issuance
- Weigh premium cost against interest cost savings
- Contract requires reimbursement to insurer
Letter of Credit (LOC)

- Bank
- Annual fees
  - LOC, remarketing, liquidity
- Direct Pay vs. Standby
- Limited Period
- More flexible with less restrictions especially if local bank friendly to institution
HISTORY OF BOND INSURANCE

1971 - 1st bond insurer forms
- AMBAC (American Municipal Bond Assurance Corp.)
- subsidiary of MGIC Investment Corp of Milwaukee
- 1st project – hospital facilities in Juneau, AK
- Initial credit rating – “AA” from S&P

1974 - Insurer MBIA forms with AAA rating

1979 - AMBAC achieves AAA rating

1980 - 3% of issues are insured

1988 - 25% of new issues insured

1994 - Bankrupt Orange County, CA; bonds survive

2000 - Nearly 50% of issues are insured

2007 - Seven insurers were AAA rated

2017 - Only four insurers remain – none AAA
**BOND INSURANCE**

**Initial Risk Strategies**
- “Monoline” coverage (one type of coverage only)
- Zero loss standard
- Highly successful
  - Insured nearly 50% of bond market
  - 1987 -1994 default rates < .63%

**Diversification**
- **Structured Financial Products**
  - Residential Mortgage Backed Securities (RMBS)
    - Prime + subprime mortgages
  - Collateralized Debt Obligations (CDOs)
    - Sliced and diced many RMBS cash flows
AMBAC Assurance Corporation
Financial Guaranty Insurance Company (FGIC)
Financial Security Assurance Inc. (FSA)
MBIA Insurance Corporation
XL Capital Insurance (newest AAA)
ACE Guaranty Corp (newest AA)
Radian Asset Assurance Inc. (formerly Asset Guaranty Ins)
American Capital Access (ACA)
CURRENT BOND INSURERS

Duking it out

Assured Guaranty (AGM) vs Build America Mutual (BAM)

Source: Refinitiv
Changes in Bond Insurance Market

Insured New Issues

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>57.3%</td>
</tr>
<tr>
<td>2013</td>
<td>3.5%</td>
</tr>
<tr>
<td>2016</td>
<td>6.0%</td>
</tr>
<tr>
<td>2017</td>
<td>7.9%</td>
</tr>
</tbody>
</table>

Low interest rates constrain insurance expansion

Education sector: highest rate of insured issues

Moody’s Rated US Muni Bond Defaults

<table>
<thead>
<tr>
<th>Period</th>
<th>Default Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-2007</td>
<td>1.3 per year</td>
</tr>
<tr>
<td>2013</td>
<td>7</td>
</tr>
<tr>
<td>2015</td>
<td>4</td>
</tr>
</tbody>
</table>

Moody’s rated approximate 15,000 issues
SELLING WITHOUT INSURANCE

- Only 7.9% insured in 2017
- More diligence required
- Direct marketing efforts
  - Investor conferences
  - Investor websites
  - Investor Relations Managers

Information Regarding the City of Los Angeles

- Los Angeles Regional Investors Conference 2012 Credit Presentations 14MB
- Credit Ratings
- City Budget
- Economic and Demographic Information
- Calendar of Bond Offerings
- Financial Reports
- February 2011 City of Los Angeles Investor Presentation with Mayor and CAO in New York City
- June 2011 Investor Net Roadshow Presentation

http://cao.lacity.org/debt_mgmt/index.htm
Maybe this isn't as bad as it looks.
**Subprime Mortgages**

- Loans made to borrowers with less than normally acceptable credit
- Credit score of 660 or below (Scale 300 to 850)
- History of late payments or defaults
- Charged approx. 2.00% (200 basis points) higher than rate for loans to prime customers
- 21% of U.S. adults have subprime scores
- $625 Billion subprime mortgages in 2005
- $4 Billion per year since 2009
Bank credit criteria

- “Front End Ratio” - PITI / income (28%)
  - PITI - principal, interest, taxes, insurance
- “Back End Ratio” - total debt / income (36%)
- Loan to Value (LTV) ratio – 80%
  - Ex.: Loan $160,000 if mortgaged property FMV = $200,000
- Offset low credit score
  - Larger down payment, cash reserves, higher ratios

Rationale? Protected by rising real estate values
Nontraditional Mortgages

- Teaser rates
- Payment Option Adjustable Rate
  
  Rates & payment adjusts in set # of years (e.g. 2 yrs)
- Negative amortization (not cover P&I)
- Interest only loans
- Low documentation loans
  
  - Computer program underwriting
- 2005 – 33% of all loan originations
Lending institutions need capital to continue lending and growth.

Originate mortgage-backed loans then sell to investors:
- Banks
- Govt. Sponsored Enterprises (GSEs)
  - Fannie Mae, Freddie Mac

Securitize loans:
- Pool assets and issue fixed income securities representing % of the pool.
SECURITIZATION

- Banks and GSEs issue collateralized debt obligations of asset-backed securities (ABS CDOs)
  - Residential-mortgage backed securities (RMBS)
    - Primarily backed by subprime and second-lien mortgages
  - ABS CDOs bundled into tiers (tranches)
    - AAA
    - AA to BB
    - Unrated
    - Losses are applied in reverse order
SECURITIZED LOAN POOLS

- Difficult to evaluate credit quality
- When loans become delinquent or default, revenues insufficient to service debt of pool
- Fair market value of securities decline
- Institutions that hold these ABS CDOs have to recognize losses in FMV ("write-down")
  - Investment Banks
    (e.g. Bear Stearns, Lehman Bros.)
  - Commercial Banks
Bond insurers’ guaranteed securitized pools

- Unexpected losses realized when pooled securities default on debt payments to lenders

- Real estate bubble burst – prices decline in 2006
  - FMV of illiquid mortgaged property drastically fell

- Required to increase funding of reserves

- Result: Ceased writing of new business

- Bond insurers ratings downgraded

- Domino effect: *Insured corporate & municipal bonds downgraded*
• Liquidity problem grew exponentially
  
  • Investment policies often require minimum ratings for securities in portfolio
  
  • Investors forced to sell many downgraded bonds
  
  • Must replace from smaller pool of high grade bonds
  
  • Few buyers for downgraded bonds & bondholders must record MV losses from contracted bond market

• SEC rules changes
  
  • Disclose analytical data
  
  • More transparency
What effect does the subprime mortgage crisis have on higher education bonds?

- Outstanding fixed income – none
- Outstanding variable rate debt
  - Higher interest rates
  - Liquidity problems
- New debt issues
  - Harder to get credit enhancement
  - More expensive premiums, higher rates
• Separate corporate and muni scales

• Connecticut 1st to file suit

• Investors demand comparability

• Moody’s & Fitch agreed to recalibrate municipal bond rating scale
  • Estimate > 50% will now be AA or AAA

• S&P: disparity “within a tolerable band”

• Debate
  • Munis = Financial strength; Corp = default risk
  • Need more differentiation for useful munis
Bear market near?
You don't call this a legal document do you?

I can understand every word of it!!

More Bond Financing Terminology
INDENTURE

- Agreement between Issuer and Trustee
- Called “Trust Indenture”
- Terms and conditions of bond issue
- Contains covenants
ARBITRAGE

- Profit from investing bond proceeds at higher rate than cost of borrowing
- Must be rebated to the United States
- Exception:
  - Allowed construction funds spending
    - 6 months 10%
    - 12 months 45%
    - 18 months 75%
    - 24 months 100%
Right of issuer to redeem bonds prior to stated maturity date

• Bondholders receive principal, accrued interest, and call premium (if any)

• Indenture generally prohibits call for a specified period, usually ten years
CALL / REDEMPTION PROVISIONS

- Mandatory
  - Requirement to redeem fixed amount of bonds

- Optional
  - Call at issuer’s option
  - Premium for ten year call often 2%, usually reduces to 0% by Year 12
  - Increases cost of borrowing

- Extraordinary
  - Unusual circumstances, e.g. destruction of facility
REFUNDING BONDS

• Refinance existing debt
  • Outstanding bond issue
  • Bank Loan
  • Capital lease

• Why?
  • Lower interest rate
  • Eliminate covenants from existing debt

• Advance refunding (eliminated)
  • Will explain on next slide

• Defeasance
  • Proceeds are invested, usually in government securities, until higher-rate bonds become callable
Refunding Bonds

• Advance refunding

  • Sale of new bonds before 1st call date of existing bonds

  • Exchanging bonds before their maturity for other bonds with longer maturities and lower interest rates

  • Eliminated buy the new tax law

  • According to Forbes and Jefferies, advance refundings were 17% of municipal bond issuances

  • Forbes predicts that the municipal bond market will shrink, i.e., fewer issues
Documents, Documents and More Documents!
Bond Closing Documents

- Trust Indenture
- Loan Agreement and Assignment of Revenues
- Tax Regulatory Agreement
- Official Statement (‘‘OS’’)
- Bond Purchase Agreement (‘‘BPA’’)
- Mortgage and Security Agreement
- Continuing Disclosure Agreement
- And many more!
Primary Agreements

Issuer

Indenture of Trust

Loan Agreement & Assignment of Revenues

Trustee

Tax Regulatory Agreement

Borrower

Institution

Ground Lease & Facilities Lease
“When examining these new contracts, gentlemen, please note that in Paragraph 48 the word ‘golden’ has been replaced by ‘plywood’ and ‘parachute’ is now ‘toboggan’.”
Possible Covenants in Indenture

• Rate Maintenance
  • Agree to maintain rents and other charges at the level necessary to service the debt

• Debt Service Coverage Ratio
  • Available Revenues / Annual Debt Service

• Debt Service Reserve
  • Maintain MADS in a reserve
POSSIBLE COVENANTS

• Operating Reserve
  • Maintain balance to cover operational losses
  • Typically 1-2 years of operating expenses

• Additional Bonds Test
  • Required revenue (NOI)/debt service coverage before additional parity bonds

• Permitted Investments
POSSIBLE COVENANTS

• Bondholder approval of certain significant transactions

• Bond insurer approvals
  • Mandatory actions if fail to meet covenants
  • Required to engage consultants

• Covenants less restrictive with increased credit quality
Defaults and Potential Defaults

- Still small in number
- But usually media events
  - Stockton, CA
  - Harrisburg, Pennsylvania
  - Detroit
  - Puerto Rico
SOURCES AND USES EXAMPLE

Sources

Par amount (Principal) $27,000,000
Less: Underwriter’s discount (138,000)
Total Sources $26,862,000

Uses

Project (Construction) Fund $22,085,150
Capitalized Interest Fund 1,450,000
Costs of Issuance 726,850
Debt Service Reserve Fund 2,600,000
Total Uses $26,862,000

Note that only 85% of par value goes into project
EXAMPLES OF BOND ISSUE STRUCTURES

Extracts from Official Statements are in your handouts

General Obligation Bonds
Flushing Community Schools

Fixed Rate
LSU Board Revenue Bonds
(University of New Orleans)

Variable Rate
LSU Board Auxiliary Revenue Bonds
Extracts from Official Statements are in your handouts

• **Revenue Bonds**
  Educational Facilities Authority (Charleston Southern University)

• **University Related Support Organization**
  Louisiana Public Facilities Authority (LSU Alumni Association)
Privatized Housing Projects

- Various structures
- Tax-exempt bonds with total or partial institutional leases or guarantees
  - More risk
  - More potential return
- Taxable financing
  - Developer financed and owned
  - Less Risk
  - Less Return
## Privatized Student Housing Structure Comparison

<table>
<thead>
<tr>
<th></th>
<th>Developer Guaranteed Taxable 8.00%</th>
<th>Foundation with No Guarantee Tax-Exempt 7.50%</th>
<th>Foundation with Instit. Guarantee Tax-Exempt 5.75%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Op. Income</strong></td>
<td>$1,075,000</td>
<td>$1,075,000</td>
<td>$1,075,000</td>
</tr>
<tr>
<td><strong>Debt Service</strong></td>
<td>($888,274)</td>
<td>($846,712)</td>
<td>($707,162)</td>
</tr>
<tr>
<td><strong>Gross Cash Flow</strong></td>
<td>$186,726</td>
<td>$228,288</td>
<td>$367,838</td>
</tr>
<tr>
<td><strong>$$s to Developer</strong></td>
<td>($93,363)</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>$$s to Institution</strong></td>
<td>$93,363</td>
<td>$228,288</td>
<td>$367,838</td>
</tr>
<tr>
<td><strong>Debt Service Coverage</strong></td>
<td>1.21</td>
<td>1.27</td>
<td>1.52</td>
</tr>
</tbody>
</table>
MAYBE THIS ISN'T AS BAD AS IT LOOKS

PRIVATIZED STUDENT HOUSING
## Privatized Student Housing Structure Comparison

<table>
<thead>
<tr>
<th></th>
<th>Developer Guaranteed Taxable</th>
<th>Foundation with No Guarantee Tax-Exempt</th>
<th>Foundation with Instit. Guarantee Tax-Exempt</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Oper. Income</strong></td>
<td>$675,000</td>
<td>$675,000</td>
<td>$675,000</td>
</tr>
<tr>
<td><strong>Debt Service</strong></td>
<td>($888,274)</td>
<td>($846,712)</td>
<td>($707,162)</td>
</tr>
<tr>
<td><strong>Gross Cash Flo</strong></td>
<td>($213,274)</td>
<td>($171,712)</td>
<td>($32,162)</td>
</tr>
<tr>
<td><strong>Developer loss</strong></td>
<td>($213,274)</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Foundation loss</strong></td>
<td>$0</td>
<td>($171,712)</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Institution loss</strong></td>
<td>$0</td>
<td>$0</td>
<td>($32,162)</td>
</tr>
<tr>
<td><strong>Debt Service Coverage</strong></td>
<td>.76</td>
<td>.80</td>
<td>.95</td>
</tr>
</tbody>
</table>
CONCLUSION

• Develop a prioritized capital plan and capital budget
• Hire financial advisor unless very experienced
• Have well defined objectives
• Understand the financial covenants and effects on your operations
• Ensure that documents are clear for the benefit of your successors
• Don’t be reluctant to question anything
• Negotiate!!
Education is what you get when you read the fine print.

Experience is what you get when you don’t.

-Pete Seeger
The information contained in this presentation is for general guidance on matters of interest only. The application and impact of laws can vary widely based on the specific facts involved. Given the changing nature of laws, rules and regulations, and the inherent hazards of electronic communication, there may be delays, omissions or inaccuracies in information contained in this presentation. Accordingly, this information is provided with the understanding that the authors and presenters are not herein engaged in rendering legal, accounting, tax, or other professional advice and services. As such, it should not be used as a substitute for consultation with professional accounting, tax, legal or other competent advisers. Before making any decision or taking any action, you should consult a professional.
# CBMI Finance 2240
## APPENDIX A
### Samples of Municipal Bond Issues
#### Extracts from Official Statements

<table>
<thead>
<tr>
<th>Bond Type</th>
<th>Description</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Obligation Bonds</td>
<td>Flushing, Michigan Community Schools</td>
<td>1</td>
</tr>
<tr>
<td>Revenue Bonds - Fixed Rate</td>
<td>LSU Board for University of New Orleans For Multi-Purpose Renovation</td>
<td>2-3</td>
</tr>
<tr>
<td>Revenue Bonds - Variable Rate</td>
<td>LSU Auxiliary Revenue Bonds – Various Purposes</td>
<td>4-7</td>
</tr>
<tr>
<td>Revenue Bonds - Conduit Issuer &amp; University Variable Rate</td>
<td>Educational Facilities Authority (Charleston Southern University)</td>
<td>8-10</td>
</tr>
<tr>
<td>Revenue Bonds – Conduit Issuer and Related Support Org.</td>
<td>Louisiana Public Facilities Authority and LSU Alumni Association</td>
<td>11</td>
</tr>
</tbody>
</table>
PRELIMINARY OFFICIAL STATEMENT DATED JULY 9, 2003

In the opinion of Thrun, Maatsch and Nordberg, P.C., Bond Counsel, under existing law (i) the Bonds and the interest thereon are exempt from all taxation in the State of Michigan, except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof, (ii) the interest on the Bonds is excluded from gross income for federal income tax purposes to the extent subject to the conditions described herein, and (iii) interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. See "TAX MATTERS."

NEW ISSUE - Book-Entry-Only

Par Amount

$25,325,000**

FLUSHING COMMUNITY SCHOOLS
County of Genesee, State of Michigan
2003 SCHOOL BUILDING AND SITE BONDS
(General Obligation - Unlimited Tax)

Dated: Expected date of delivery

May 1, 2003

On June 9, 2003, the qualified election of Flushing Community Schools, County of Genesee, State of Michigan (the "School District") approved a proposal authorizing the School District to issue bonds in the sum of not to exceed $25,325,000 for school building and site purposes as further described in this Official Statement. Proceeds of the 2003 School Building and Site Bonds (the "Bonds") will be used for such building and site purposes and for paying the costs of issuing the Bonds. The Bonds were authorized by the Board of Education of the School District by resolutions adopted on June 17, 2003 and July 1, 2003 (the "Resolutions") The Board will pledge the full faith and credit of the School District for payment of the principal and interest thereon and will be payable from ad valorem taxes, which may be levied on all taxable property in the School District without limitation as to rate or amount.

The Bonds will be fully qualified as of their date of delivery for the Michigan School Bond Loan Fund Program pursuant to Act 108, Public Acts of Michigan, 1961, as amended, enacted pursuant to Article IX, Section 16 of the Michigan Constitution of 1963. Under the terms of these constitutional and statutory provisions if for any reason the School District will be or is unable to pay the principal of and interest on the Bonds when due, then the School District shall bear and the State of Michigan shall lend to it an amount sufficient to enable the School District to make the payment. See "QUALIFICATION OF THE STATE OF MICHIGAN."

The Bonds are issuable as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as Bondholder and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depositary for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry-only form in the denominations of $5,000 or any multiple of $5,000. Purchasers of beneficial interests in the Bonds (the "Beneficial Owners") will not receive certificates representing their beneficial interest in Bonds purchased. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references in this Official Statement to the Bondholders or registered owners shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds. See "THE BONDS - Book-Entry-Only System."

Principal and interest on the Bonds will be paid by Bank One Trust Company, National Association, Detroit, Michigan (the "Payee Agent"). So long as DTC or its nominee, Cede & Co., is the Bondholder, such payments will be made directly to such Bondholder. Disbursement of such payments to the DTC Participants and Indirect Participants, as more fully described in this Official Statement. Interest will be payable semi-annually on May 1 and November 1 commencing May 1, 2004 to the Bondholders of record as of the applicable record dates.

MATURE SCHEDULE

<table>
<thead>
<tr>
<th>Mat 1</th>
<th>Amount</th>
<th>Interest</th>
<th>Yield or Price</th>
<th>Mat 1</th>
<th>Amount</th>
<th>Interest</th>
<th>Yield or Price</th>
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</thead>
<tbody>
<tr>
<td>2003</td>
<td>$335,000</td>
<td>%</td>
<td>$335,000</td>
<td>2007</td>
<td>$335,000</td>
<td>%</td>
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<td>2006</td>
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<td>%</td>
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<td>2007</td>
<td>550,000</td>
<td>%</td>
<td>550,000</td>
<td>2009</td>
<td>550,000</td>
<td>%</td>
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<td>2008</td>
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<td>%</td>
<td>635,000</td>
<td>2010</td>
<td>635,000</td>
<td>%</td>
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<tr>
<td>2009</td>
<td>680,000</td>
<td>%</td>
<td>680,000</td>
<td>2011</td>
<td>680,000</td>
<td>%</td>
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<tr>
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<td>715,000</td>
<td>%</td>
<td>715,000</td>
<td>2012</td>
<td>715,000</td>
<td>%</td>
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<tr>
<td>2011</td>
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<td>%</td>
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<td>2013</td>
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<td>840,000</td>
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<tr>
<td>2014</td>
<td>885,000</td>
<td>%</td>
<td>885,000</td>
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<td>%</td>
<td>1,090,000</td>
<td>2018</td>
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<td>1,994,000</td>
<td>2027</td>
<td>1,994,000</td>
<td>%</td>
<td>1,994,000</td>
</tr>
</tbody>
</table>

THE BONDS MATURING ON OR AFTER MAY 1, 2014 ARE SUBJECT TO OPTIONAL REDEMPTION BEGINNING MAY 1, 2013 IN THE MANNER AND AT THE TIMES DESCRIBED IN THIS OFFICIAL STATEMENT. SEE "THE BONDS - Optional Redemption."

The Bonds will be offered when and if issued by the School District and accepted by the Underwriters subject to receipt of the approving legal opinion of Thrun, Maatsch and Nordberg, P.C., Lansing, Michigan, Bond Counsel, and certain other conditions. Certain legal opinions will be passed upon for the Underwriters by Howard & Howard Attorneys, P.C., Jackson, Michigan. It is expected that the Bonds will be available for delivery through DTC on or about July 1, 2003.

UBS Financial Services Inc.
A.G. Edwards & Sons, Inc.
Edward D. Jones & Co., L.P.

The date of this Official Statement is July 9, 2003

* See "RATINGS" herein.
** Preliminary, subject to change.

Co-Underwriters
NEW ISSUE - BOOK-ENTRY ONLY

Upon delivery of the Series 2004A Bonds, Long Law Firm, L.L.P. Bond Counsel, will render its opinion that, under the Internal Revenue Code of 1986, as amended, the proceeds of the Series 2004A Bonds (the "Code"), and other applicable law existing on the date of delivery of the Series 2004A Bonds, interest on the Series 2004A Bonds (1) will be excludable from gross income of the beneficial owners of the Series 2004A Bonds for federal income tax purposes, and (2) will not be an item of tax preference for purposes of determining the alternative minimum tax imposed on individuals and corporations. Corporations should see the discussion of certain collateral alternative minimum tax consequences under the section captioned "TAX EXEMPTION" herein. Bond Counsel’s opinion will assume continuing compliance with certain covenants designed to satisfy the applicable requirements of the Code, and will be subject to the matters discussed under the section captioned "TAX EXEMPTION" herein. In addition, Bond Counsel will render an opinion that, pursuant to the Act, amounts treated in interest on the Series 2004A Bonds are exempt from taxation in the State of Louisiana. See Proposed Form of Opinion of Bond Counsel attached hereto as Appendix C.

$9,440,000
BOARD OF SUPERVISORS OF LOUISIANA STATE UNIVERSITY AND AGRICULTURAL AND MECHANICAL COLLEGE
Revenue Bonds (University Of New Orleans Project)
Series 2004A

Dated: June 22, 2004

The Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (the "Board") is offering $9,440,000 of its Revenue Bonds (University Of New Orleans Project) Series 2004A (the "Series 2004A Bonds") pursuant to and secured by a Bond Resolution (the "Bond Resolution") adopted by the Board on April 20, 2004.

The proceeds of the Series 2004A Bonds will be used by the Board for the benefit of the University of New Orleans (the "University"), a member of the LSU System located in or contiguous to the City of New Orleans, Louisiana, to (i) finance or refinance a portion of the costs of the planning and construction of major repairs, including, without limitation, electrical, heating, ventilation and air conditioning, plumbing, renovation, beautification and other improvements to the buildings and facilities at the University, including, without limitation, the Medical Center, the Central Energy Plant, the Regional Emergency Center, the Keverle Lakesfront Area and the Administrative Business Administration, Fine Arts, Liberal Arts and Science and Library Buildings (the "Project"), (ii) fund a reserve fund through the purchase of a debt service reserve insurance policy, and (iii) pay costs of issuance of the Series 2004A Bonds, including the payment of a premium for a municipal bond new issue insurance policy to be issued by Financial Guaranty Insurance Company. See "THE PROJECT AND PLAN OF FINANCE" herein.

The principal of and the interest on the Series 2004A Bonds are payable, subject to certain limitations described herein, from the Dedications Revenues (as defined herein), which Dedications Revenues include the proceeds of certain Facilities Use and Maintenance Fees (as defined herein) charged by the University each semester to students enrolled in credit courses, as well as certain Funds and Accounts as identified in the Bond Resolution. See "SECURITY FOR THE SERIES 2004A BONDS" herein.

Interest on the Series 2004A Bonds, payable May 1 and November 1 of each year, beginning November 1, 2004, shall be paid by Regions Bank, New Orleans, Louisiana, to the registered owners thereof by check or draft mailed by the Trustee, when due, to the persons whose names the Series 2004A Bonds are registered at the close of business on the fifteenth calendar day of the month next preceding the applicable interest payment date.

The Series 2004A Bonds will be issued as fully registered bonds in denominations of $5,000 and integral multiples thereof and, when issued, will be initially 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 Series 2004A Bonds (the "Securities Depository"). Purchasers will receive certificates representing their interest in the Series 2004A Bonds purchased. Purchasers of the Series 2004A Bonds may make only in book-entry form or authorized denominations by credit to participating broker-dealers and other institutions on the books of DTC as described herein. Principal, premium, if any, and interest on the Series 2004A Bonds will be payable to the Securities Depository, which will remit such payments in accordance with its normal procedures, as described herein.

THE SERIES 2004A BONDS ARE NOT SUBJECT TO REDEMPTION PRIOR TO MATURITY.

Payment of the principal and interest on the Series 2004A Bonds when due will be insured by a municipal bond new issue insurance policy to be issued by Financial Guaranty Insurance Company simultaneous with the delivery of the Series 2004A Bonds.


<table>
<thead>
<tr>
<th>Date</th>
<th>Principal</th>
<th>Interest Rate</th>
<th>Price</th>
<th>Price</th>
<th>Date</th>
<th>Principal</th>
<th>Interest Rate</th>
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<tr>
<td>2005</td>
<td>850,000</td>
<td>3.00%</td>
<td>101.165%</td>
<td>1.62%</td>
<td>2010</td>
<td>945,000</td>
<td>4.00%</td>
<td>101.381%</td>
<td>3.65%</td>
</tr>
<tr>
<td>2006</td>
<td>852,000</td>
<td>3.00%</td>
<td>101.165%</td>
<td>1.62%</td>
<td>2011</td>
<td>990,000</td>
<td>4.00%</td>
<td>101.381%</td>
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<tr>
<td>2007</td>
<td>853,000</td>
<td>3.00%</td>
<td>101.165%</td>
<td>1.62%</td>
<td>2012</td>
<td>1,020,000</td>
<td>4.00%</td>
<td>101.381%</td>
<td>3.65%</td>
</tr>
<tr>
<td>2008</td>
<td>855,000</td>
<td>3.00%</td>
<td>101.165%</td>
<td>1.62%</td>
<td>2013</td>
<td>1,050,000</td>
<td>4.00%</td>
<td>101.381%</td>
<td>3.65%</td>
</tr>
<tr>
<td>2009</td>
<td>850,000</td>
<td>3.00%</td>
<td>101.165%</td>
<td>1.62%</td>
<td>2014</td>
<td>1,090,000</td>
<td>4.00%</td>
<td>101.381%</td>
<td>3.65%</td>
</tr>
</tbody>
</table>

This cover page contains certain information for quick reference only and is not intended to be a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed decision.

The Series 2004A Bonds are offered when, and as and if issued by the Board and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, and of the aproval of legality by Long Law Firm, L.L.P. Baton Rouge, Louisiana, Bond Counsel. Certain other legal matters will be passed upon for the Board by its Counsel, Taylor, Porter, Brooks & Phillips, L.L.P. Baton Rouge, Louisiana. Jones, Walker, Wachler, Pottevue, Carrère & Derrière, L.L.P. Baton Rouge, Louisiana, will pass upon certain matters as Counsel to the Underwriter. Gregory A. Pitts & Associates will pass on certain matters as counsel to the Trustee. It is expected that the Series 2004A Bonds in definitive form will be available for delivery in New York, New York, on or about June 22, 2004.

Dated: May 20, 2004
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Board of Supervisors of Louisiana State University and Agricultural and Mechanical College
Auxiliary Revenue Bonds, Series 2000

Dated: Date of Delivery

The Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (the "Board") is offering $27,000,000 of its Auxiliary Revenue Bonds, Series 2000 (the "Series 2000 Bonds") pursuant to and secured by a General Bond Resolution, as amended (the "General Bond Resolution") adopted by the Board on June 17, 1994, as supplemented and amended by the Sixth Supplemental Resolution and the Seventh Supplemental Resolution adopted on April 14, 2000 (the "Supplemental Resolutions").

The Sixth Supplemental Resolution appoints The Bank of New York, as Trustee and Paying Agent for the Series 2000 Bonds. The General Bond Resolution and the Supplemental Resolutions are referred to collectively as the "Bond Resolution." The proceeds of the Series 2000 Bonds will be used by the Board for the purpose of financing or reimbursing the costs of the acquisition of land and the planning, acquisition and construction of student apartments (the "Project"); (ii) refunding the Board's outstanding Auxiliary Revenue Bonds, Series 1997; (iii) refunding a deposit to the Series 2000 Bonds; and (iv) paying certain expenses related to the issuance of the Series 2000 Bonds, including the premium on the Bond Insurance Policy, herein described.

The payment of the principal of, redemption premium, if any, and the interest on the Series 2000 Bonds is secured, subject to certain limitations described herein, including the payment of the Prior Lien Obligations, by a pledge to the Trustee of the Auxiliary Revenues, defined herein, derived from self-generated revenues from all fees, rents, royalties, charges or other receipts or income from students or the public at large in connection with any operation of the LSU System, the Board, the State of Louisiana, or any other Board institution. The Board, the Trustee, and the Holders of the Series 2000 Bonds may be reimbursed for up to 100% of the cost of investing monies in a financial institution until the Series 2000 Bonds are retired.

The Series 2000 Bonds will be issued as fully registered bonds in denominations of $1,000 and any integral multiple thereof, in a Weekly Rate, Daily Rate, Weekly Rate, or Term Rate and as a Fixed Rate in accordance with the terms of the Bond Resolution and as described herein.

The Series 2000 Bonds are subject to extraordinary, optional, and mandatory sinking fund redemption and optional and mandatory tender for purchase as described herein. The Series 2000 Bonds will be insured by the Financial Guaranty Insurance Company, as described herein.

The Series 2000 Bonds are special and limited obligations of the Board payable solely from Auxiliary Revenues. Subject to the prior pledge of certain Auxiliary Revenues to the payment of debt service on prior lien obligations, the Series 2000 Bonds shall not constitute an indebtedness of the Board or of the Board System. The obligations of the Board shall be limited to the receipt of revenue from the Special Fund for the Series 2000 Bonds, as defined herein.

This prospectus contains certain information for quick reference only. Investors must read the entire Official Statement to obtain information essential to the making of an informed decision.

A.G. Edwards & Sons, Inc.

Morgan Keegan & Company, Inc.

The date of this Official Statement is June 21, 2000
NO DEALER, BROKER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED BY THE BOARD OR THE UNDERWRITERS TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY ANY OF THE FOREGOING. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THE SERIES 2000 BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE.


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<td>Powers</td>
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<td>Membership</td>
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<td>29</td>
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<td>30</td>
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<td>33</td>
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<td>36</td>
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<tr>
<td>Of Prior Lien Obligations and Parity Lien Obligations</td>
<td>36</td>
</tr>
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</table>
without the Bond Insurer's consent, in each case so long as the Bond Insurer has not failed to comply with its payment obligations under its insurance policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to the Bond Insurer's consent. The specific rights, if any, granted to the Bond Insurer in connection with its insurance of the Series 2000 Bonds are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the Board is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Series 2000 Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Series 2000 Bonds. Reference should be made to the description of the Board for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

The Bond Insurer is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against the Bond Insurer. The Bond Insurer is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of March 31, 2000, the total capital and surplus of the Bond Insurer was approximately $1.281 billion. The Bond Insurer prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10009, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

**SOURCES AND USES OF FUNDS**

The following table sets forth the sources and uses of funds in connection with the issuance of the Series 2000 Bonds:

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal amount of Series 2000 Bonds</td>
<td>$27,000,000</td>
</tr>
<tr>
<td>Less: Underwriters' Discount</td>
<td>(125,550)</td>
</tr>
<tr>
<td>Plus: University Contribution</td>
<td>13,125</td>
</tr>
<tr>
<td>Total Sources of Funds</td>
<td>$26,887,575</td>
</tr>
</tbody>
</table>

<table>
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<th>Uses of Funds</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Deposit to Series 2000 Project Account</td>
<td>$18,832,297</td>
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<tr>
<td>Payment of Prior Bonds</td>
<td>3,513,125</td>
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<td>Deposit to Series 2000 Capitalized Interest Fund</td>
<td>3,815,297</td>
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<tr>
<td>Costs of Issuance (1)</td>
<td>726,861</td>
</tr>
<tr>
<td>Total Uses of Funds</td>
<td>$26,887,575</td>
</tr>
</tbody>
</table>

(1) Includes, without limitation, Bond Insurance Premium, Liquidity Provider Fee, initial Remarketing Fee and all legal and other fees.
charges imposed by the Auxiliary Enterprises. Enforceability of the Bond Resolution, and availability of remedies for a party seeking to enforce the pledge of the Auxiliary Revenues where such enforcement or availability may adversely affect public health and welfare may be subject to these police powers.

**Article VII, § 2.1 of the Constitution**

Article VII, § 2.1 of the Louisiana Constitution may limit the ability of the Board and the University to impose or increase charges and assessments securing the Series 2000 Bonds absent legislative approval by a two-thirds majority, or favorable judicial interpretation or subsequent amendment precluding application of this constitutional provision from the imposition and/or increase in such charges or assessments. See "SECURITY FOR THE SERIES 2000 BONDS - Approval for Fees and Civil Fines."

**Summary Financial Information**

Certain financial information of the University is set forth herein and in "APPENDIX A" and "APPENDIX B" hereto. There can be no assurance that the financial results achieved by the University in the future will be similar to historical results. Such future results will vary from historical results, and actual variations may be material. Therefore, the historical operating results of the University cannot be taken as a representation that the University will be able to generate sufficient revenues in the future to make payments of principal or redemption premium, if any, and interest on the Series 2000 Bonds.

**RATINGS**

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc. ("S&P") are expected to assign ratings of "Aaa" and "AAA", respectively, to the Series 2000 Bonds, with the understanding that, upon delivery of the Series 2000 Bonds, the Policy will be issued by First Guaranty Insurance Company. The obligation to purchase the Series 2000 Bonds will be rated VMIG-1 by Moody and A-1+ by S&P based on the understanding that, upon the delivery of the Series 2000 Bonds, the Standby Agreement will be delivered by the Liquidity Provider.

Such ratings reflect only the view of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; and Standard & Poor's Ratings Service, 25 Broadway, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2000 Bonds.

The Board has not requested any other organization to consider the assignment of a rating for the Series 2000 Bonds.

**TAX EXEMPTION**

In the opinion of Long Law Firm, L.L.P., Bond Counsel, to be delivered contemporaneously with the delivery of the Series 2000 Bonds, interest on the Series 2000 Bonds (1) is excludable from gross income for federal income tax purposes under existing law and (2) is not an item of tax preference for purposes of federal alternative minimum tax on individuals and corporations. However, Bond Counsel is also of the opinion that, for certain corporations, interest on the Series 2000 Bonds is included in the "adjusted current earnings" (i.e., alternative minimum taxable income as adjusted for certain items that would be included in the calculation of a corporation's earnings and profits under Subchapter C of the Code) and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporation's adjusted current earnings over its alternative minimum taxal income (determined without regard to this adjustment and prior to reduction for certain net operating losses).
Official Statement

New Issue
Book-Entry Only

In the opinion of McElroy Law Firm, P.A., Charleston, South Carolina, Bond Counsel, assuming continuing compliance by the Issuer and the Borrower with certain covenants designed to meet the requirements of the Internal Revenue Code of 1986, as amended (the "Code") as described herein, the interest on the Bonds is excluded from gross income for federal income tax purposes under existing statutes, regulations and court decisions. Interest on the Bonds will not be treated as a preference item in calculating alternative minimum taxable income for individuals or corporations; however, interest on the Bonds may be included for the calculation of certain taxes, including the alternative minimum tax corporations are described under "TAX EXEMPTION" herein. Bond Counsel is also of the opinion that interest on the Bonds is exempt from present State of South Carolina income taxes except as described herein. See "TAX EXEMPTION".

$230,000,000

Educational Facilities Authority for Private Nonprofit Institutions of Higher Learning
Educational Facilities Revenue Bonds (Charleston Southern University Project) Series 2003

Dated: Date of Issuance
Due: April 1, 2028

The Bonds, the interest thereon and premium, if any, are special limited obligations of the Educational Facilities Authority for Private Nonprofit Institutions of Higher Learning (the "Issuer") payable solely out of the Loan Payments and other amounts derived by the Issuer under the Loan Agreement described herein and from amounts drawn under the Letter of Credit described herein, will not be deemed to constitute a debt or liability of the State of South Carolina or any political subdivision thereof or as a pledge of the faith and credit of the State of South Carolina or any political subdivision thereof, and shall not be deemed to constitute a debt or liability of the State of South Carolina or any political subdivision thereof or as a pledge of the faith and credit of the State of South Carolina or any political subdivision thereof. Neither the Bondholders nor the Issuer will be obligated to pay the Bonds or the interest thereon except from amounts to be paid pursuant to the Loan Agreement and neither the State of South Carolina or any political subdivision thereof is pledged or to be pledged to the payment of the principal of and interest on the Bonds, the Issuer will not directly or indirectly or contingently obligate the State of South Carolina or any political subdivision thereof to levy or to pledge any tax or any revenue or other income derived by the Issuer under a Loan Agreement.

CHARLESTON SOUTHERN UNIVERSITY

Borrower

L.O.C. Provider

BANK OF AMERICA, N.A.

(issued by the Bank). The initial Letter of Credit assists the Trustee to draw thereunder an amount sufficient to pay the principal of the Bonds (or the principal portion of the purchase price of tendered Bonds) and up to 35 days interest accrued on the Bonds (or the interest portion of the purchase price of tendered Bonds) at a maximum interest rate per annum of 12%.

The Bonds as initially issued will be registered as fully registered bonds and initially will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as a securities depository for the Bonds and purchasers of beneficial interests in the Bonds initially will be made in book-entry-only form (without certificates) in dematerialized form, when the Bonds bear interest at Weekly Rates as provided herein, of $200,000 and any integral multiple of $5,000 in excess thereof. Under certain circumstances the Bonds are exchangeable as fully registered herein. Principal and any premium on the Bonds will be paid upon surrender thereof at the principal corporate trust office of U.S. Bank Trust National Association, New York, New York, acting as paying agent for the Bonds. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal and premium, if any, and interest on the Bonds will be made directly to Cede & Co. See the caption "The Bonds—Book-Entry System" herein.

Price: 100%

The Bonds are offered subject to prior sale, where, as and if issued by the Issuer and accepted by the Underwriter, subject to the approval of the Underwriter, subject to an agreement of McElroy Law Firm, P.A., Charleston, South Carolina, as Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for Charleston Southern University by Young, Clement, Rivers & Tisdale LLP, Charleston, South Carolina, counsel to the Borrower and to the Bank by Nelson, D. L. James & Pollard, LLC, Columbia, South Carolina, counsel to the Issuer; by Febry Fee Adams & Bernstein, L.L.C., for Charleston Southern University by Young, Clement, Rivers & Tisdale LLP, Charleston, South Carolina, counsel to the Borrower and to the Bank by Nelson, D. L. James & Pollard, LLC, Columbia, South Carolina, counsel to the Issuer; and for the Underwriter by Haynsworth Sinkless Boyd, P.A., Greenville, South Carolina, counsel to the Underwriter. It is expected that delivery of the Bonds in book-entry form will be made through DTC on or about July 9, 2003, in New York, New York against payment therefor.

Banc of America Securities LLC

Underwriter

Dated: July 3, 2003
$23,000,000

Educational Facilities Authority for Private Nonprofit Institutions of Higher Learning
Educational Facilities Revenue Bonds
(Charleston Southern University Project)
Series 2003

INTRODUCTORY STATEMENT

This Official Statement, including the cover page and the Appendices, is provided to furnish certain information in connection with the issuance and sale by the Educational Facilities Authority for Private Nonprofit Institutions of Higher Learning (the "Issuer"), of its $23,000,000 aggregate principal amount of Educational Facilities Revenue Bonds (Charleston Southern University Project) Series 2003 (the "Bonds"). The Bonds will be issued under a Trust Indenture, dated as of July 1, 2003 (the "Indenture") between the Issuer and U.S. Bank Trust National Association, acting as trustee, tender agent, registrar and paying agent (the "Trustee").

The proceeds of the Bonds will be loaned to Charleston Southern University (the "Borrower") to provide funds to assist the Borrower in (1) financing the (a) building of a new science building and renovating the existing science spaces, (b) renovating the cafeteria, (c) improving the library, (d) building locker rooms, (e) landscaping, and (f) improving existing exteriors (collectively, the "Project"); (2) refinancing certain outstanding long-term indebtedness (the "Prior Debt"); and (3) paying certain costs of issuance related to the Bonds. See "THE PROJECT AND APPLICATION OF PROCEEDS" herein.

Prior to the issuance and delivery of the Bonds, the Issuer and the Borrower will enter into a Loan Agreement, dated as of July 1, 2003 (the "Loan Agreement" or the "Agreement"), pursuant to the terms of which the Issuer will loan the proceeds of the Bonds to the Borrower to finance the Project and for the other purposes described above. The payments required to be made by the Borrower pursuant to the Agreement are designed to be sufficient to enable the Issuer to pay, when due and payable, the principal of and premium, if any, and interest on and purchase price of the Bonds.

Concurrently with, and as a condition to, the issuance of the Bonds, the Borrower will cause to be delivered an irrevocable, direct-pay letter of credit (the "Initial Letter of Credit") issued by Bank of America, N.A. (the "Bank"), to provide for the timely payment of principal of and interest (calculated for 35 days at a maximum interest rate of 12% per annum) on, and purchase price of, the Bonds. The Borrower will be required to reimburse the Bank for all amounts drawn by the Trustee under the Initial Letter of Credit pursuant to the terms of a Letter of Credit and Reimbursement Agreement, dated as of July 1, 2003 (the "Reimbursement Agreement"), between the Borrower and the Bank. The Initial Letter of Credit will expire on June 30, 2008, unless terminated or extended. Upon the expiration of the Initial Letter of Credit or any alternate letter of credit issued to replace any existing letter of credit which satisfies the requirements of the Indenture (an "Alternate Letter of Credit"), the Bonds will be subject to mandatory tender for purchase. See the caption "THE BONDS — Mandatory Tender of Bonds — Mandatory Tender Upon Expiration or Termination of the Letter of Credit." As used in this Official Statement, "Bank" refers to the issuer of the Initial Letter of Credit and, as applicable, the issuer of any Alternate Letter of Credit. The Initial Letter of Credit and any Alternate Letter of Credit are hereinafter collectively referred to as the "Letter of Credit."

The Bonds will bear interest at the rates and for the periods as described herein under the caption "THE BONDS." The Bonds are subject to tender for purchase at the option of the Bondholders and, under certain circumstances, are subject to mandatory tender for purchase, in the manner and at the times
described herein. The Bonds are subject to optional and mandatory redemption prior to maturity in the manner and at the times described herein.

Brief descriptions and summaries of the Issuer, the Borrower, the Project, the Bonds, the Initial Letter of Credit, the Reimbursement Agreement, the Agreement and the Indenture are included in this Official Statement. Certain information with respect to the Bank is included as Appendix A. Such descriptions and summaries do not purport to be comprehensive. The information relating to The Depository Trust Company ("DTC") and the Book-Entry System has been furnished by DTC. Appendix B to this Official Statement contains the proposed form of opinion of Bond Counsel to be delivered in connection with the issuance and delivery of the Bonds. All references herein to the Initial Letter of Credit, the Reimbursement Agreement, the Agreement and the Indenture are qualified in their entirety by reference to such documents, and references herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of these documents may be obtained during the period of the offering from the principal office of Banc of America Securities LLC, Interstate Tower, 121 West Trade Street, 12th Floor, NC1-005-12-01, Charlotte, North Carolina 28255-0001; Attention: Municipal Trading and Underwriting, and thereafter from the Trustee at U.S. Bank Trust National Association, 100 Wall Street, 16th Floor, New York, New York 10005, Attention: Corporate Trust Services. Unless otherwise defined in this Official Statement, all terms used herein have the same meanings as those terms have in the Indenture.

THE ISSUER

The Issuer is a body politic and corporate and a public instrumentality of the State of South Carolina, organized and existing under the laws of the State of South Carolina, including particularly Title 59, Chapter 109, Code of Laws of South Carolina 1976, as amended, (the "Act"). Under the Act and by proper resolutions of the Issuer, the Issuer is authorized and empowered to issue the Bonds, to loan the proceeds thereof to the Borrower and to secure the Bonds by a pledge of the amounts payable by the Borrower under the Agreement.

NEW ISSUE BOOK ENTRY ONLY

Preliminary Official Statement Dated March __, 2001

Rating: Moody's "__" Expected

In the opinion of Bond Counsel, under existing law, interest on the Bonds is included from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds is to be taken into account in the computation of certain taxes that may be imposed with respect to corporations, including, without limitation, the federal alternative minimum tax. Bond Counsel is further of the opinion that, pursuant to the Act, the Bonds and the income thereon are exempt from all taxation in the State of Louisiana.

$10,000,000*

LOUISIANA PUBLIC FACILITIES AUTHORITY
REVENUE BONDS
(LSU ALUMNI ASSOCIATION PROJECT)
Series 2001

Dated: Date of Delivery

Due: March 1, 2016

The Bonds are special and limited obligations of the Louisiana Public Facilities Authority (the "Authority") and the principal and Purchase Price (as defined herein) of, premium, if any, and interest on the Bonds will be payable, except to the extent paid from bond proceeds and certain other moneys pledged to secure the Bonds, solely from and secured by a pledge of payments to be made under a Loan Agreement (the "Loan Agreement") between the Authority and LSU Alumni Association, a private non-profit corporation organized and existing under the laws of the State of Louisiana (the "Association") and from amounts under an irrevocable, direct-pay letter of credit (the "Letter of Credit") to be issued by

REGIONS BANK

a bank organized and existing under the laws of the State of Alabama (the "Bank"), as more fully described herein.

The Letter of Credit will permit the Trustee (as defined herein), as more fully described herein, to draw thereunder for the payment when due of (a) the outstanding principal of Bonds (whether due at maturity or upon acceleration or redemption) and (ii) to enable the Trustee to pay a portion of the Purchase Price of Bonds or Beneficial Ownership Interests tendered to it, plus (b) an amount for accrued interest at the rate then in effect, not to exceed 10% per annum for 45 days (i) to enable the Trustee to pay interest on the Bonds when due and (ii) to enable the Trustee to pay the portion, if any, of the Purchase Price of Bonds or Beneficial Ownership Interests tendered to it equal to the accrued interest on such Bonds or Beneficial Ownership Interests. The Letter of Credit has a stated expiration date of March 6, 2006. The Trust Indenture dated as of February 1, 2001 (the "Indenture"), by and among the Authority and Regions Bank (the "Trustee"), as more fully described herein, pursuant to which the Bonds are being issued, provides that: Alternate Credit Facility (as defined herein) may be delivered under certain conditions, as more fully described herein.

The Bonds will be issued only as fully registered Bonds without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as Securities Depository (as defined herein) for the Bonds. Principal and Purchase Price of, premium, if any, and interest on the Bonds will be paid by the Paying Agent (or, in certain instances with respect to Purchase Price, by the Remarking Agent (as defined herein)) directly to DTC, which will then remit payments to DTC's Direct Participants (as defined herein), as described in this Official Statement. See "THE BONDS-Book-Entry Only System." The Bonds as initially issued will bear interest at the Weekly Interest Rate (as defined herein), in minimum denominations of $100,000 or any integral multiples. The rate of interest on the Bonds may be changed from time to time by a different Interest Rate Mode (as defined herein) upon notice as described herein, and, under certain circumstances, the rate of interest on the Bonds may be converted to a Fixed Interest Rate (as defined herein) to maturity.

While the Bonds bear interest at the Weekly Interest Rate, Bondholders have the right to tender their Bonds for purchase at the principal amount thereof, plus accrued interest thereon, at the times and subject to the conditions described herein. Bondholders will be subject to mandatory tender for purchase in certain circumstances as described herein including a change in the Interest Rate Mode of the Bonds.

THE BONDS ARE LIMITED AND SPECIAL OBLIGATIONS OF THE AUTHORITY AND DO NOT CONSTITUTE OR CREATE AN OBLIGATION, GENERAL OR SPECIAL, DEBT, LIABILITY OR MORAL OBLIGATION OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER AND NEITHER THE FAITH OR CREDIT NOR THE TAXING POWER OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR THE INTEREST ON THE BONDS. THE BONDS ARE A LIMITED AND SPECIAL REVENUE OBLIGATION OF THE AUTHORITY PAYABLE SOLELY FROM THE INCOME, REVENUES AND RECEIPTS DERIVED OR TO BE DERIVED FROM PAYMENTS MADE PURSUANT TO THE LOAN AGREEMENT AND FROM ANY MONIES RECEIVED BY THE TRUSTEE UNDER THE LETTER OF CREDIT.

The Bonds are subject to optional, extraordinary optional, mandatory sinking fund, and mandatory redemption, mandatory tender for purchase, and optional tender for purchase, all as described herein.

The Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, the approval of the legality of the Bonds by Foley & Judell, L.L.P., New Orleans, Louisiana, Bond Counsel and to certain other conditions. Certain legal opinions will be passed upon for the Authority by its counsel, Breaux, Sachie & Wilson, L.L.P., Baton Rouge, Louisiana. Certain legal matters will be passed upon for the Authority by its counsel, McCollister & McClarty, A.P.L.C., Baton Rouge, Louisiana. Certain legal matters will be passed upon for the Underwriter and its counsel, Crawford Lewis, P.L.L.C., Baton Rouge, Louisiana. Certain legal matters will be passed upon for the Bank by its counsel, The Boulé Law Firm, Professional Corporation, Monroe, Louisiana. It is expected that delivery of the Bonds will be made through the facilities of DTC on or about March 6, 2001.

REGIONS INVESTMENT COMPANY, INC.

March __, 2001


