PIEC002

Higher Education Bonds

REFERRED QUESTION NO. 2

(Referred to the People by the Governor and Arkansas General Assembly)

POPULAR NAME: Arkansas Higher Education Technology and Facility Improvement Act of 2005

Why is the issue on the ballot of a Special Election?

Act 1282 of the 2005 Regular Session of the 85th Arkansas General Assembly authorizes the Arkansas Development Finance Authority (ADFA) and the Arkansas Higher Education Coordinating Board to issue higher education improvement bonds, subject to the one-time approval of voters in a statewide election. The election requires a proclamation of the Governor, and the election must be conducted through a regularly held general election or a special election.

By passing Act 1282, the state legislature has suggested there is an immediate need for additional funding to improve technology and facilities at state institutions of higher education. The legislature has identified a bond issue as the best way to generate this revenue. Because these bonds are backed by the full faith and credit of the state and could require the use of general revenue funds, authority to issue bonds must be approved by Arkansas voters in a statewide election. The Governor's proclamation calls for a special election on December 13, 2005.

What is being proposed?

Subject to one-time approval of voters in a statewide election, Act 1282 permits the state of Arkansas to authorize the ADFA to issue up to $250 million in general obligation bonds. Revenue from these bonds will be used to:

(1) restructure bond debt issued under the Arkansas College Savings Bond Act of 1989 and

(2) finance technology and facility improvement projects for state institutions of higher education.

This bond authority requires the Arkansas Higher Education Coordinating Board to submit to the Governor a written plan for technology and facility improvement projects to be funded with revenues generated by the bonds. This plan must address the need for the projects, estimated benefits of the projects and anticipated debt service requirements. The Arkansas Higher Education Coordinating Board, as part of its planning responsibility, made initial recommendations in a report dated July 29, 2005.

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The Governor is required to review the recommendations from the Arkansas Higher Education Coordination Board. After review, he must confer with the state's Director of the Department of Finance and Administration to determine if issuing bonds would place undue hardship upon any agency or program supported from general revenue funds. He must also decide whether issuing bonds is in the public interest. Two additional conditions apply:

- The combined debt service for bonds issued under this Act as well as the Arkansas College Savings Bond Act of 1989 shall not exceed $24 million in any one fiscal year.
- The proceeds from bonds issued under this Act cannot be used to fund projects consisting primarily of athletic facilities.

Revenue from these state bonds can only be used to restructure existing bond debt and finance capital projects for public institutions. Private, independent colleges and universities cannot receive these funds.

What is the current status of bonds issued under the Arkansas College Savings Bond Act of 1989?

Under the Arkansas College Savings Bond Act of 1989, the ADFA was authorized to issue up to $300 million for the purpose of financing capital improvement projects at state institutions of higher learning. Currently, there is about $158 million in these college savings bonds outstanding. The last of these bonds will be repaid in 2017. The state spends approximately $24 million annually from general revenues to service this existing bond debt.

If passed, how will new bonds affect existing college savings bond debt?

This new Act allows some of the new bond revenue to be used to restructure bond debt issued under the Arkansas College Savings Bond Act of 1989. The current proposal by the Arkansas Higher Education Coordination Board allocates $100 million to do this. The actual dollar amount needed to restructure the existing bond debt will depend on interest rates and other costs associated with the new bonds.

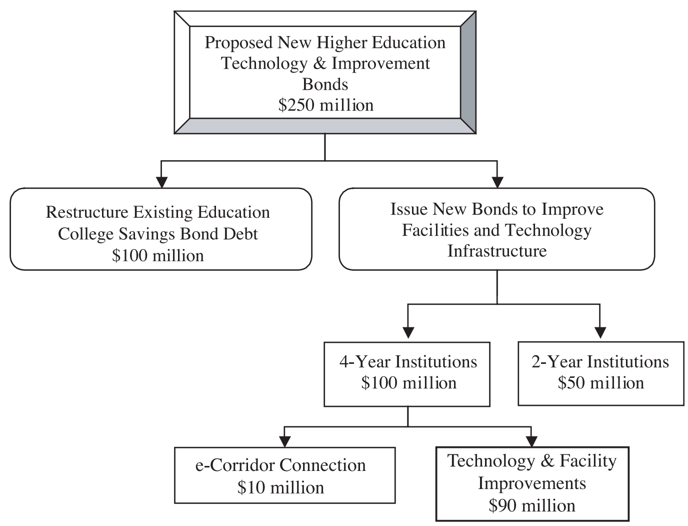
The outstanding bonds issued under the Arkansas College Savings Bond Act of 1989 are zero coupon bonds. This means they cannot be repaid early. Revenue from new bonds would be put into an interest-bearing escrow account. Funds from the escrow account would be used to pay off the old bonds as they mature. This process is called "defeasing" the existing bonds.

The state pays approximately $24 million per year in debt servicing costs for bonds issued under the Arkansas College Savings Bond Act of 1989. If new bonds are not issued, these payments are expected to continue through 2017. If new bonds are issued (for restructuring education bonds and financing technology and facility improvements), the state would continue to pay $24 million annually, but the repayment period would be extended to approximately 2031.

If passed, what technology and facility improvement projects will be funded using these bonds?

According to the Arkansas Higher Education Coordinating Board's current proposal, $150 million in bond revenue would be distributed to institutions of higher education. Of this amount, $100 million is proposed for four-year universities and $50 million for two-year colleges. Each institution is required to submit a plan showing how it plans to use its allocation of funds. About $10 million of the $100 million dedicated to four-year institutions is to be spent upgrading technology infrastructure and connecting to the national high-speed internet network for research.

What costs will be associated with these bonds?



*Actual dollar amounts subject to market conditions.

If passed by voters, revenue from new bonds would be used to do two things – pay off existing debt and provide revenue for new projects. This use of bonds is similar to refinancing an existing mortgage while taking on new debt to build an addition to the house. The total debt service costs to retire the bonds issued under the 1989 Act and to issue and retire the new bonds cannot exceed $24 million in any one fiscal year. The debt service costs include payment of principal, interest and administrative fees.

- Principal payments are used to pay off the dollar amount borrowed.
- Interest is the amount paid to the bond purchaser for the use of their money. The interest rate will vary depending on market conditions.

- Administrative fees include expenses related to issuing the bonds. Just as a person taking out a mortgage incurs costs such as attorney's fees, real estate commission and other closing costs, there are costs associated with issuing bonds. Because many of these fees are negotiated, the actual administrative cost of issuing new bonds is unknown at this time. State officials estimate administrative costs of issuing $250 million in new bonds to be between $2.0 million and $2.5 million.

The current cost of debt service for the bonds issued under the Arkansas College Savings Bond Act of 1989 is approximately $24 million annually. It is estimated that these bonds would be repaid in 2017. Issuing $250 million in new higher education bonds would keep the total annual debt service costs about the same, but would increase the repayment period by 12 to 14 years – to approximately 2031.

How will the state pay the costs of new bonds?

Like the existing bonds, the costs associated with new bonds will be paid from the state's general revenue fund. Debt servicing costs for general obligation bonds have first priority on general revenue funds. State agencies cannot receive any appropriated money until debt service costs on outstanding general revenue bonds are paid. Because the annual payments of the new bonds will be the same as payments for the existing college savings bonds, the new debt service payments do not represent any additional current annual commitment of the state's general revenues. The repayment period of the bonds would be extended an additional 12 to 14 years to approximately 2031.

Why is this measure being proposed?

Act 1282, as passed by the state legislature, states the following reasons:

(1) Expanded higher education opportunities for Arkansas students are necessary to protect health, welfare and prosperity;
(2) Competition and technical sophistication in today's economy requires a highly educated, well trained work force to develop and protect future employment opportunities;
(3) A strong system of higher education is important to the state's cultural and economic well-being and will help in developing new growth in products and services;
(4) There is a growing need for technology upgrades and infrastructure enhancements to meet the state's higher education demands;
(5) The needs and responsibilities described in items 1-4 above cannot be met without the use of public financing enabled by the state's general revenue bond authority.

In addition to restructuring the existing bond debt issued under the Arkansas College Savings Bond Act of 1989, the current proposal will provide funds for institutions of higher education to improve their facilities and technology.

The following statements by supporters and opponents of this ballot issue have been reported in the media and elsewhere. By presenting these statements, the University of Arkansas does not endorse or in any way validate these statements.

What do supporters say?

- Investments in education have a high rate of return to the state. For every dollar invested in education, the state's economy receives a return substantially higher than that dollar.
- As student population in the state's colleges and universities rises, schools are hard-pressed to find funds for additional classroom and library space that is needed. Using bonds to fund technology and facilities projects, schools are able to make needed improvements without raising tuition for this purpose.
- Technology investments will provide benefits to research and students. Funding will allow the state's four-year universities access to cutting edge information and research. It will also allow for more online courses, providing better access to college for working adults.
- By using revenue from bonds purchased by the public to finance college infrastructure, the state can invest in higher education without increasing taxes.
- Improvements in college and university infrastructure will enhance the economic advancement of the state in many ways. One anticipated benefit is that state schools will be better able to attract federal and private funds for research and development of the state.
- The proposed college bond program is a good one because it will provide for improvements at all public two-year and four-year institutions across the state.

What do opponents say?

- The timing of this election is inappropriate given the unresolved issue of K-12 public education funding. Also, there is still uncertainty about how state revenues, particularly from the federal government, will be affected by the cost of rebuilding the Gulf Coast region after damage caused by recent hurricanes.
- The courts have ruled that funding K-12 public schools is a top priority of the state. Money required to fund higher education bonds is money diverted away from the public school problem.

- Money from the state's general improvement fund that is being spent on local projects and money from the state's budget surplus should be used to fund the proposed projects rather than taking on new debt.
- Although no new taxes are being proposed, this plan still requires that $24 million be drawn from the state's general revenues annually and for a longer period of time than we are already committed. This is money that could be used for higher education or other pressing needs.
- Agencies funded under revenue stabilization could be negatively impacted if funds are set aside from unrestricted general revenues to pay remaining debt service requirements on bonds.
- Borrowing money to pay off debt is bad fiscal policy by the state. It is no different than a consumer using a credit card to pay off debt on another credit card.

What does a "FOR" vote mean?

A FOR vote means that you are in favor of allowing the state to issue new bonds to finance the development of technology and facility improvement projects for state institutions of higher education and restructure bond debt issued under the Arkansas College Savings Bond Act of 1989, provided the total amount issued does not exceed $250 million.

What does an "AGAINST" vote mean?

An AGAINST vote means that you do not approve of issuance of new bonds to restructure existing college savings bond debt or finance technology and facilities projects at state institutions of higher education.

Where can I find more information?

The complete and official text of each ballot measure can be obtained through the Arkansas Secretary of State's office:

- Phone: 501-682-1010
- Web site: http://www.sos.arkansas.gov/elections_calendar_2005special.html

For other information, including major support and opposition groups and general information about bonds, please visit our web site (http://piec.uaex.edu) or contact your county Cooperative Extension Service office.

The following is information on this initiative as it appears on the official ballot.

POPULAR NAME

ARKANSAS HIGHER EDUCATION TECHNOLOGY AND FACILITY IMPROVEMENT ACT OF 2005

BALLOT TITLE

ISSUANCE OF STATE OF ARKANSAS HIGHER EDUCATION GENERAL OBLIGATION BONDS AND PLEDGE OF FULL FAITH AND CREDIT OF THE STATE OF ARKANSAS

Authorizing the Arkansas Development Finance Authority to issue State of Arkansas Higher Education General Obligation Bonds (the "bonds") in a total principal amount not to exceed two hundred fifty million dollars ($250,000,000) in one (1) or more series from time to time for the purpose of financing the cost of developing technology and facility improvement projects for state institutions of higher education and financing the cost of refunding bonds issued under the Arkansas College Savings Bond Act of 1989. However, that the outstanding principal amount of bonds issued under the Arkansas Higher Education Technology and Facility Improvement Act of 2005 and the Arkansas College Savings Bond Act of 1989 shall not have scheduled debt service payments on a combined basis in excess of twenty-four million dollars ($24,000,000) in any one (1) fiscal year.

The bonds shall be general obligations of the State of Arkansas, payable from general revenues of the state and also secured by the full faith and credit of the State of Arkansas, including its general revenues. The bonds shall be issued pursuant to the authority of and the terms set forth in the Arkansas Higher Education Technology and Facility Improvement Act of 2005.

FOR issuance of State of Arkansas Higher Education General Obligation Bonds and Pledge the Full Faith and Credit of the State of Arkansas.

AGAINST issuance of State of Arkansas Higher Education General Obligation Bonds and Pledge the Full Faith and Credit of the State of Arkansas.

Exercise your voting privilege.

We live in a democratic society where voting is a privilege of citizenship. Democracy works best when informed citizens exercise their voting privilege. The special election will be held on December 13, 2005. Please vote!

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