
Massachusetts State College Building Authority

Proposed Amendment to Trust Agreement

May 2016



Seeking Consent - Modification to Debt Service Reserve Fund

Proposed Amendment to Trust Agreement



Proposed Amendment: The Authority has proposed an amendment to its Trust Agreement to eliminate the Debt Service Reserve Fund Requirement.

DSRF Requirement: The Trust Agreement established a Debt Service Reserve Fund (DSRF) as security for all bonds, which was an amount equal to the least of (i) 10% of the aggregate original net proceeds from sale of all bonds outstanding, (ii) 125% of average annual debt service on all bonds outstanding and (iii) the maximum amount of debt service due in any future fiscal year. The Authority's DSRF is fully funded.

To have the Proposed Amendment become effective, 51% of the Authority's investors need to consent.

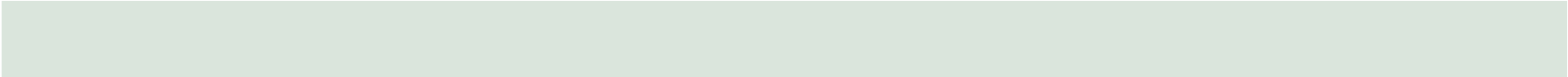
Seeking Consent - Modification to Debt Service Reserve Fund

Purpose for Seeking Consent

Purpose for Seeking the Proposed Amendment: The Authority's bonds are secured by a variety of revenues and funds, and by an intercept of legislative appropriations to the state universities in Massachusetts. The DSRF Requirement was established initially to provide moneys to pay debt service if there were to be a shortfall in the amount of necessary revenues and funds, and if there were to be a delay in the implementation of the appropriation intercept mechanisms. Statutory changes enacted in 2009 and 2011 unequivocally ensure the availability of appropriated moneys in a timely manner if and when necessary. These statutory revisions made the DSRF redundant and unnecessary. Further, the requirement to fully fund a DSRF has created an unnecessary expense for the Authority in the form of increased debt service and negative carry which have been passed through to student rents and fees.

Credit Implications: The Authority has consulted with its financial advisor, underwriters, investors and the rating agencies. All have indicated that the Proposed Amendment matches trends in the municipal market and given the Authority's credit standing, the elimination of a DSRF would have a neutral credit effect. This has been borne out directly by the rating agencies' reaction to the Proposed Amendment. The Authority is rated Aa2 and AA by Moody's and Standard & Poor's, respectively. Since the introduction of the Proposed Amendment in November 2014, the Authority has issued five series of bonds for an aggregate par value of approximately \$328 million and both agencies have affirmed the ratings for all of these issuances.

To date, 25% of the Authority's investors have consented to the Proposed Amendment. This amount will increase as new money and refunding bonds are issued and as bondholder consents are provided.



Seeking Consent - Modification to Debt Service Reserve Fund

Substantial Reserve Funds



The State Universities and the Authority maintain significant reserve balances and benefit from a “State Intercept” which captures aggregate appropriations to cure any potential debt service deficiency.

Capital Improvement Reserve Fund – used to fund project costs and facility renewal and , if necessary, the Authority can transfer amounts in the CIR to the Revenue Fund to pay debt service

Multipurpose Reserve Fund – funded from the Revenue Fund as directed by the Authority and while it can be used for any lawful purpose, it is typically used to fund pre-development costs, including new facility studies and architectural designs

Residence Hall Trust Funds - all monies received as payment of rents or other charges for use and occupancy of an Authority project are held by each State University in Trust for the Authority separate from all other moneys held by the State Universities. Funding goal of 5.0% of prior year’s disbursements

Pledged Funds - 25% of the State Universities’ average annual debt service due to the Authority as additional security

State Intercept - If State Comptroller determines there is an insufficiency, funds must be transferred to Trustee within five days but not later than the debt service deposit date, 20 days prior to the debt service payment date, to cure the deficiency.

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Substantial Reserve Funds



Funds Available - FY16

Total Revenue and Reserves Available for Coverage of Non-Guaranteed Bonds ^{1,2}							
Campus	Gross Revenue	Building Expenses	Reserves	Pledges	Total	Average Annual Net Debt Service ³	Coverage
Bridgewater State	\$28.04	(\$8.90)	\$8.71	\$4.50	\$31.43	\$14.96	2.10x
Fitchburg State	\$14.70	(\$3.74)	\$5.07	\$2.26	\$17.70	\$7.00	2.53x
Framingham State	\$18.86	(\$7.17)	\$6.10	\$3.14	\$19.60	\$8.78	2.23x
MA College of Art and Design	\$13.18	(\$4.29)	\$6.13	\$2.22	\$17.19	\$8.02	2.14x
MA College of Liberal Arts	\$5.14	(\$2.43)	\$3.29	\$0.42	\$6.29	\$1.39	4.51x
MA Maritime Academy	\$11.78	(\$3.28)	\$4.80	\$1.63	\$14.35	\$4.96	2.90x
Salem State	\$24.94	(\$7.28)	\$4.53	\$3.83	\$24.23	\$12.59	1.92x
Westfield State	\$21.29	(\$7.73)	\$11.62	\$2.55	\$27.06	\$8.48	3.19x
Worcester State	\$13.85	(\$4.39)	\$5.19	\$2.14	\$16.35	\$8.06	2.03x
Aggregate	\$151.79	(\$49.22)	\$55.42	\$22.68	\$174.20	\$74.24	2.35x
Commonwealth Appropriation Intercept ⁴					\$240.11		
Total (Including Intercept)					\$414.31	\$74.24	5.58x
DSRF, Non-Guaranteed Bonds					\$88.14		
Total (Including DSRF)					\$502.45	\$74.24	6.77x

¹ \$'s in millions

² Reflects FY2016 preliminary actuals

³ Series 2015A financing not included

⁴ Appropriation intercept based on fiscal year 2016 appropriations

Significant aggregate debt service coverage ratio before taking into account the DSRF.

Seeking Consent - Modification to Debt Service Reserve Fund Questions?



For further information, please contact:

Edward Adelman, Executive Director

eadelman@mscba.org

617/933-8337

Karol Ostberg, Chief Financial Officer

kostberg@mscba.org

617/933-8348

www.mscba.org

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