BOARD OF HIGHER EDUCATION

REQUEST FOR COMMITTEE AND BOARD ACTION

COMMITTEE: Fiscal Affairs and Administrative Policy **NO.:** FAAP 12-12

COMMITTEE DATE: November 29, 2011

BOARD DATE: December 6, 2011

APPROVAL OF DELEGATION OF AUTHORITY TO THE COMMISSIONER

MOVED: DELEGATION OF AUTHORITY TO THE COMMISSIONER TO AMEND THE CONTRACT FOR FINANCIAL ASSISTANCE, MANAGEMENT AND SERVICES BETWEEN THE MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY AND THE COMMONWEALTH

The Amended and Restated Contract for Financial Assistance, Management and Services between the Massachusetts State College Building Authority and the Commonwealth, acting by and through the Board of Higher Education, is hereby approved in substantially the form presented to this meeting, and the Commissioner of Higher Education is hereby authorized to execute and deliver the same, with such changes, omissions, insertions and revisions as he may determine to be advisable, his execution thereof being conclusive as to such determination, and all other documents and instruments necessary or convenient in connection therewith and the transactions contemplated thereby

Authority: Massachusetts General Laws Chapter 15A, Section 6; Chapter 703 of the Acts of 1963, as amended by Chapter 68 of the Acts of 2011.

Contact: Stephen Lenhardt, Deputy Commissioner of Administration and Finance

Background

Two years ago, the MSCBA received upgrades in their bond ratings from both Moody's Investors Service (Aa2) and Standard and Poor's Ratings Service (AA-), resulting in a substantial savings in the cost of their financings and, thus, in the resulting student rent and fees associated with their projects. Last summer, as part of the Commonwealth budget process, the statute of the Authority was revised to remove a restriction on the use of the appropriations intercept, an important security feature of the bonds issued by the MSCBA. This revision in their statute provides an improved coverage ratio of debt service to appropriations (an 'aggregate test'), which is necessary to retain the improved bond ratings. The proposed change in the Contract will incorporate this recent statutory change.

The ratings agencies have indicated that each institution must maintain at least a one-times (1.0x) coverage ratio of debt service to appropriations. Under this test, three of the nine state universities presently fall below this measure; using the 'aggregate test', however, the combined coverage exceeds this requirement. This extreme test assumes there are no project revenues (student rent) and that pledges and reserves are exhausted; these revenue sources represent 3.4 x coverage. Therefore, while the statute would provide for the appropriations to be calculated and used, if necessary, in aggregate, it does not appear to be likely – or possible – for an individual institution to ever have less than 1.0x coverage from revenue, reserves, pledges, and its own appropriation.

In addition to conforming the contract to the revised statutory language, the proposed contract amendment would provide for any insufficiency to be funded ratably by the ratio of outstanding MSCBA debt issued on behalf of each university.