

BOARD OF HIGHER EDUCATION
REQUEST FOR BOARD ACTION

NO.: BHE 07-02

BOARD DATE: October 19, 2006

University of Massachusetts HEFA Borrowing Authorization

MOVED: The Chancellor of the Board of Higher Education is authorized, upon consultation with the Chair of the Fiscal Affairs and Administrative Policy Committee, to make a written request to the Massachusetts Health and Educational Facilities Authority (HEFA) to undertake the following projects on behalf of the University of Massachusetts (Worcester campus), which projects may be undertaken through the Worcester City Campus Corporation: (i) an advanced education and clinical practice center at Worcester (\$90,000,000) and (ii) new research, animal care and administration space in support of the biologics facility in Mattapan (\$50,000,000), provided that, consistent with votes of the Board of Directors of the Worcester City Campus Corporation and the Board of Trustees of the University of Massachusetts, not more than \$140,000,000 in funding shall be secured through HEFA.

Pursuant to Section 6 of Chapter 15A of the General Laws, the Board hereby delegates to the Chancellor of the Board of Higher Education, upon consultation with the Chair of the Fiscal Affairs and Administrative Policy Committee, the authority to do such other things and take such other actions as the Chancellor shall deem necessary or desirable to effectuate the matter authorized.

Authority: Massachusetts General Laws Chapter 15A, Section 6
Contact: Sue Wolfe, Director of Fiscal Policy

BACKGROUND INFORMATION

This motion authorizes the Chancellor to approve the University of Massachusetts' (the "University") and the Worcester City Campus Corporation's request of the Board of Higher Education for a Massachusetts Health and Educational Facilities Authority (HEFA) bond issue. The requested HEFA bond issue will be used to support the work of the University's affiliated Worcester City Campus Corporation (WCCC) functioning as a financing and construction instrumentality of the University's Medical School campus. Consistent with past HEFA issuances for WCCC, HEFA is able to finance projects on behalf of the University's Medical School campus through WCCC without explicit legislative approval of the projects being financed.* WCCC is a not-for-profit Massachusetts corporation that is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code. WCCC operates exclusively to foster, promote and support the University's Medical School campus in all its locations. In particular, WCCC operates to support certain real estate operations of the University, and in conjunction therewith to receive, hold, manage, develop, improve, demolish, renovate, lease, convey, grant easements, or otherwise deal in real and personal property connected with such University operations. WCCC also supports health care institutions in the Worcester area connected to the operation of the University, including UMass Memorial Health Care, Inc.

The HEFA bond issue that the University and WCCC are requesting will finance the planning, design, construction and equipping of the two buildings described below: the Advanced Education and Clinical Practice Center (AECPC), which is currently estimated to cost approximately \$90 million to construct, and the Massachusetts Biologics Laboratories Mattapan Building II, which is currently estimated to cost approximately \$50 million to construct. In August 2006, both of these projects were approved by the University's Board of Trustees as a part of the University's current capital plan for fiscal years 2007 through 2011. WCCC's Board of Directors approved the projects in September 2006. HEFA's Board granted initial and final approval for this proposed bond issue on September 12, 2006. These two new projects will be operated by the University's Medical School and are considered high priorities within the University's capital plan. WCCC is seeking to borrow a total of approximately \$125 million in new funds through HEFA to finance these two projects, with the balance of the projected costs being provided as equity contributions from University (Medical School) resources. It is estimated that the requested borrowing will add an approximately \$7.5 million to the University's existing annual debt service. These projects have a well-defined, secure, and diverse revenue stream and are essential to the strategic plans and development of the Medical School and University. As with prior Worcester City Campus Corporation bonds, and as outlined below, the University will also provide debt service support for these bond obligations, either through a financing agreement with HEFA or through lease payments to WCCC.

The Advanced Education and Clinical Practice Center Project

A portion of the requested HEFA bond proceeds will be used to finance the construction of a seven story, 235,000 gross square foot building, the Advanced Education and Clinical Practice Center (AECPC). This facility will be located on the University's Worcester campus. Construction is scheduled to begin in November 2006. Project construction completion and occupancy of the building will be in 2008. At the current time one floor (lobby) is designated for campus support space. Two floors are designated for academic, educational and dry research space. Two floors are designated for ambulatory clinic space. The program for the remaining two floors is undetermined at this time, and these floors are currently planned to be built as shell space for future expansion needs. The debt service on the requested HEFA bonds associated

with the AECPC project will be a general obligation of WCCC. However, the University will be obligated under certain financing agreements with HEFA to make payments from any funds of the University permitted to be applied thereto of the amounts that will be due on the requested HEFA bonds and otherwise unpaid by WCCC.

The Massachusetts Biologics Laboratories Mattapan Building II

A portion of the requested HEFA bond proceeds will be used to finance the construction of a four-story, 180,000 gross square foot building, the Massachusetts Biologics Laboratories Mattapan Building II (the "Mattapan Building II"). The facility will contain wet research and development laboratories, vivarium and administrative and programmatic office space on land currently owned by WCCC on the former Boston State Hospital property in Mattapan, City of Boston. The Mattapan Building II will be located across West Main Street from the existing Massachusetts Biologics Laboratories production and filling facility in Mattapan. The project will also include a structured parking facility for the Mattapan campus. Selection of Project Design and Construction Management firms are in process. City of Boston article 80 process is scheduled to begin by November 2006 and Project construction is estimated to begin by May 2007. Project completion and occupancy of the building is projected in 2009. WCCC will enter into a lease with the University that requires the University to make semi-annual rental payments sufficient to pay, among other things, debt service on the requested HEFA bonds associated with this project. The University's rental payments to WCCC will be payable from any funds legally available for application thereto other than monies appropriated by the Massachusetts Legislature.

In summary, if current market conditions hold, the University and WCCC will have an opportunity to achieve favorable interest rates on the requested HEFA bonds.

* In April 2005, HEFA issued its \$99,325,000 Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series D (the "WCCC Series D Bonds").

In April 2002, HEFA issued its \$70,000,000 Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series C (the "WCCC Series C Bonds").

In June 2001, HEFA issued its \$52,020,000 Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series B (the "WCCC Series B Bonds").

In March 2000, HEFA issued its \$100,000,000 Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series A (the "WCCC Series A Bonds"). The WCCC Series A Bonds were advance refunded and legally defeased with the issuance of the above-described WCCC Series D Bonds.