

**TOPIC:** Towson University: Funding Authorization for Millennium Hall Repairs and Potential Ground Lease Amendment

**COMMITTEE:** Finance

**DATE OF COMMITTEE MEETING:** January 26, 2017

**SUMMARY:** Millennium Hall is a 5-story, 420-bed public-private partnership residence facility located on the campus. Collegiate Housing Foundation (CHF) leased land from Towson University and constructed Millennium Hall in 1999 with proceeds of bonds (Series 1999 Bonds) issued by the Maryland Economic Development Corporation (MEDCO).

In 2012, ownership of Millennium Hall and the project ground lease were effectively transferred from CHF to MEDCO by refinancing the Series 1999 Bonds with a new series of MEDCO bonds (Series 2012 Bonds). The Series 2012 bonds were issued on a parity basis with another outstanding series of MEDCO bonds (the Series 2007 Bonds) which financed the construction of Paca and Tubman Houses, collectively, a 668-bed public-private partnership residential facility also located on Towson's campus and owned by MEDCO. The consolidated ground lease for Millennium Hall, Paca House, and Tubman House will terminate March 27, 2047 or the date on which all MEDCO bonds have been repaid, whichever occurs first. Upon termination of the ground lease, ownership of the project reverts to Towson University.

Millennium Hall has experienced occurrences of air/moisture intrusion throughout the building. In the past year, several apartments have been temporarily vacated due to moisture damage. The exterior insulation finishing system (EIFS), brick masonry veneer and windows were evaluated to determine conditions and possible deficiencies. The evaluation determined the moisture intrusion was due to among other things deteriorated sealant joints, defective or missing flashings, open joints in gypsum sheathing, defective window assemblies and inadequate drainage behind the EIFS. To properly correct the deficiencies it is necessary to remove and replace the EIFS and associated windows and to remove and replace the windows within the brick veneer. The HVAC system is also being evaluated to determine if any enhancements are needed to provide appropriate fresh air to the building.

The cost of the repairs is beyond what project reserves and other available resources can fund, so a new debt offering is being pursued as a funding source. *While any debt issued will be project debt issued by MEDCO—and is not legally debt of the University System—bond rating agencies consider debt associated with public-private partnerships that provide important, core facilities to serve USM institutions, when reviewing the System's bond rating.* Recognizing that the additional borrowing will increase annual project debt service expenditures, the term of the new borrowing may need to be extended several years beyond the terminal maturity of the existing project debt (but not longer than the remaining term of the ground lease), in order to keep total debt service to a level that will allow the project to continue to meet its 1.2 debt service coverage ratio covenant made to bondholders.

**While the exact cost and specific repairs are still being evaluated and will be determined through a competitive bid process, it is expected that a total of no more than \$7.0 million in new money borrowings will be required.** This amount is comprised of a current estimate of up to \$5.0 million for exterior building envelope repairs, with a contingency of up to \$2.0 million for additional exterior work and/or upgrades to the HVAC system.

Repairs are expected to occur during the 2017 and 2018 summer breaks to ensure valuable student housing is available during the fall and spring terms.

Towson University and the USM's Chief Operating Officer will be responsible for approving the final cost of repairs, the amount of new money borrowing, and any extension of term maturity for the new debt beyond the maturity of the currently outstanding debt.

**ALTERNATIVE(S):** Towson could forgo this important project, however the air/moisture intrusion would continue resulting in damage to the apartments, thus reducing available student beds on campus and exposing the University to potential risk.

**FISCAL IMPACT:** There is no direct fiscal impact. The additional borrowing will increase the amount of debt associated with public-private partnerships by a relatively small amount, and the associated debt service may reduce ground rent payments payable to Towson University slightly as a result.

The issuance of new money debt is to be combined with a current refunding opportunity on approximately \$29 million of the Series 2007 Bonds which is expected to yield approximately 7% in net present value savings on refunded principal. The need to begin work in May, and the immediacy of the refinancing opportunity require Board of Regents approval and authority to move forward with the financing transaction at this time. A portion of the debt to be refinanced is 2007 Series B bonds that have a coupon interest rate of 6.99%. The ability to refinance the 2007 Series B bonds may require an amendment to the ground lease to facilitate prepayment of the 2007 Series B bonds from the proceeds of refunding bonds, either directly at closing, or through a decision to utilize net project funds due to the University, upon decision by the University to do so.

**CHANCELLOR'S RECOMMENDATION:** That the Finance Committee recommend that the Board of Regents approve (i) the issuance of up to \$7.0 million of additional MEDCO debt to fund needed repairs at Towson University's Millennium Hall and (ii) an amendment of the ground lease to facilitate refinancing of the 2007 Series B bonds; subject to the agreement of Towson University and the USM COO on the final set of repairs, amount to be borrowed, and any extension of final maturity of the new borrowing beyond the maturity of existing project debt.

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COMMITTEE RECOMMENDATION:

DATE:

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BOARD ACTION:

DATE:

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SUBMITTED BY: Joseph F. Vivona (301) 445-1923

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