

Financing for Wellness Center Construction

A. Overview

Heavy snowfalls in March 2019 caused significant damage to recreational space in the Marga Hosaeus Fitness Center. Through a synergistic partnership of the Montana State University (MSU) Fitness Center, University Health Partners, and College of Education, Health, and Human Development, a health facility is now being designed which will better serve the needs of MSU students, faculty, and staff for many years.

Altogether, the \$60 million of funding needed for this project will come from a variety of sources. A sizeable portion will come from realized insurance reimbursements, revenue bond debt funded through both existing and expanded student Building and Facilities fees, and existing cash reserves. A detailed breakdown of these funding sources can be found in Section C.

MSU is requesting Board of Regent's authority to issue up to \$22,000,000 (net construction proceeds) of facilities revenue bonds and anticipates going to market with this transaction in the next 12 months. Debt service will primarily be funded through the \$58.00 increase in the Building and Facilities fee approved in Board Item 188-2006-R0520, but also from existing Building and Facilities fees from which the associated debt service obligations are expiring in November 2021.

B. Project Cost

The cost to replace the fitness center space lost or damaged by the heavy snow event, add / improve the air conditioning / HVAC system to the fitness center, integrate student focused programming and add the new student health space (including mental health services) is \$60,000,000. This includes design costs, other soft costs and construction costs.

Ongoing operations and maintenance (O&M) costs are expected to increase by approximately \$225,000 per year.

C. Funding Sources

Funding for this project will come from multiple sources:

1. Insurance reimbursement	\$36,000,000
2. New Debt	22,000,000
3. Cash Reserves	
a. Fitness Center R&R	1,250,000
b. PE Complex Building Fee reserves	<u>750,000</u>
Total Funding Sources	\$60,000,000

D. Financing Plan

To accomplish this project, MSU is requesting authority to issue facilities revenue bonds up to \$22,000,000 (net construction proceeds). Annual debt service (assumed 4.0% interest, 20 years) will be approximately \$1,600,000.

The \$58.00 fee increase approved in Board Item 188-2006-R0520 will generate approximately \$1,800,000 annually. In addition, current debt obligations for Series' 2017D and 2012O will expire in November 2021.

Upon expiration of current obligations, the revenues from the PE Building Fee and the PE Complex Student Fee currently dedicated to series 2017D and 2012O bond debt will be reassigned to debt for this project to maintain satisfactory debt-service coverage ratios.

To bridge the gap between the time that debt is issued and when the current debt obligations expire, reserves in the PE Building Fee and PE Complex Building Fee will be used to cover the obligation, if needed.

Summary of Sources to Pay Annual Debt Service

Increased SFEP Building Fee (\$58.00)	\$1,800,000
Existing PE Building Fee (FY22)	\$200,000
Complex Student Fee (FY22)	<u>\$400,000</u>
Available Revenues (a)	\$2,400,000

Annual O&M Costs (b) \$225,000

Annual Debt Service (c) \$1,600,000

Projected Debt Service Coverage Ratio ((a-b)/c) 1.36

Revenue Projections

Revenues from student fees are projected to be stable into the foreseeable future. While COVID-19 has left many questions about impacts to enrollments, Fall 2020 registrations are strong leading up to the first day of classes. Currently, it is not anticipated that MSU will see a significant drop in enrollment due to the pandemic. The following table provides a snapshot of previous collections for Building and Facility fees, and a projection of revenues to 2022. The projections estimate a 2% drop in collections during fiscal year 2021, and a rebound of a conservative 2% in 2022.

	FY 21 Fee	Actuals			Projected	
		2018	2019	2020	2021	2022
Fieldhouse Fee	\$ 8.40	\$ 248,135	\$ 249,888	\$ 247,966	\$ 253,000	\$ 255,000
Building Fee	45.00	1,329,294	1,338,892	1,328,387	1,351,000	1,364,000
Physical Education Complex Fee	19.20	567,165	571,260	566,778	577,000	582,000
Academic Building R&R	16.40	495,155	499,641	514,027	531,000	542,000
Weight Room O&M Fee	0.40	13,566	13,689	13,580	13,000	14,000
Sub-total Building Fees	\$ 89.40	\$ 2,653,315.03	\$ 2,673,370.91	\$ 2,670,738.23	\$ 2,725,000.00	\$ 2,757,000.00
Student Facilities Enhancement Project Fee	\$ 55.80	\$ 1,650,416	\$ 1,661,250	\$ 1,648,100	\$ 1,676,000	\$ 1,691,000
Health & Physical Education O&M Fee	37.42	1,062,756	1,070,098	1,082,007	1,124,000	1,134,000
Approved Increase of SFEP	58.00				800,000	1,800,000
Sub-total Facilities Fees	\$ 151.22	\$ 2,713,172	\$ 2,731,348	\$ 2,730,107	\$ 3,600,000	\$ 4,625,000
Total Building and Facility Fees	\$ 240.62	\$ 5,366,487	\$ 5,404,719	\$ 5,400,845	\$ 6,325,000	\$ 7,382,000

D. Debt Profile

Montana State University holds a diverse bond portfolio and works to maintain strong reserves, high debt service coverage ratios, and a modern campus funded through conservative debt management practices. MSU continues to receive high credit ratings, most recently Aa3 by Moody’s and A+/Stable by Standard & Poor’s. All bonds issued by MSU are subject to the requirements in the Indenture of Trust. Bonds are secured by a variety of revenue sources, including revenue from campus housing and dining systems, student fees, land grant income, and select indirect cost recoveries. Total debt outstanding as of Spring 2020 is \$203 million. A summary of MSU’s percentage of total debt by funding source is as follows:

Percentage of Total Debt by Funding Source	(%)
Residence Life and Family Graduate Housing	74
Building Fees	2
Athletics	1
Parking	3
Other (Student Union, Research, Student Turf Field)	<u>20</u>
Total	100

All borrowings must be viewed in relation to the University’s overall outstanding bond debt service. The University’s anticipated debt service schedule, assuming the additional proposed debt (Series 2020), is shown in the following table. This includes debt service from all projects for all four MSU campuses. Note that in fiscal year 2023, a large share of Series 2012O is paid off leaving capacity should additional borrowing be desired for future projects.

