

Swift, Cathy

From: Swift, Cathy
Sent: Monday, March 21, 2011 12:57 PM
To: lobbyist@montana.edu; 'janelle.booth@msu.montana.edu'; 'Blake Robertson'
Subject: FW: SB 409

From: Humberger, Laura
Sent: Monday, March 21, 2011 12:47 PM
To: Swift, Cathy; Houser, Frieda
Cc: President Cruzado
Subject: RE: SB 409

Hello Cathy,

Thank you for the opportunity to explain how land grant funds and building fees may be impacted by the passage of Senate Bill 409.

Montana State University relies on its land grant income to pay debt on various bonds outstanding. From the bond indenture's perspective, any and all pledged revenues may be used to satisfy any and all of the University's outstanding debt. However, debt service payments are internally allocated so that the entity benefitting from the debt is charged with the related debt service. For example, the housing system is responsible for debt related to construction of residence halls, and debt that has been issued to improve the University's overall infrastructure—such as construction of utility tunnels, campus lighting, etc. — is allocated to the University's land grant funds.

Approximately \$33.5 million in debt service (principal and interest combined) is scheduled to be paid using building fees and land grant income through the year 2022.

- If land grant income remained at its 2010 level (see chart below), and building fee revenues were not increased at all beginning in FY13, then projections of revenue and expense indicate sufficient revenues to pay scheduled debt service, with a margin of approximately \$3.5 million, or 10%.
- Because land grant income had decreased significantly from 2008 through 2010, to ensure adequate funds for debt service, MSU has projected a slight increase in pledged building fees each year—an increase of 1%— and a decrease of land grant income to a level of \$1.2 million per year, given the recent downward trend. This results in a projected reserve of approximately \$1.8 million, or 5.4%.
- In a period of 5-6 years, this projected reserve would decrease to zero, and the student building fee increase would need to be increased, if the pledged land grant income were decreased by \$325,000 per year. Because debt service involves long-term projections, a reserve of 5% is the lowest level MSU is comfortable with, given our responsibilities to bondholders.
- As an alternative to increasing pledged building fees, it is possible that other pledged revenue sources would need to be used to pay this debt, such as auxiliary services (which would increase student room and board rates in the residence halls and family housing).

Land Grant (Morrill and 2nd) and Timber Sales Income Trend

* 2002 Land Grant and timber Sales	1,192,000
* 2003 Land Grant and timber Sales:	1,175,000
* 2004 Land Grant and timber Sales:	1,450,000
* 2005 Land Grant and timber Sales	2,263,156
* 2006 Land Grant and timber Sales:	1,922,993
* 2007 Land Grant and timber Sales:	1,875,784
* 2008 Land Grant and timber Sales:	2,015,345

* 2008 Repayment of admin fees withheld	837,274
* 2009 Land Grant and timber Sales:	1,714,261
* 2010 Land Grant and timber Sales	1,450,975

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