CONTINUATION OF A SUPPORT AGREEMENT FOR FINANCING OF THE QUEENS COLLEGE RESIDENCE HALL

RESOLVED, That the Board of Trustees of the City University of New York agrees to continue to provide credit support for the Queens College Residence Hall, known as The Summit (the “Project”), in the form of a Support Agreement covering shortfalls in debt service and certain other guarantees and indemnities (collectively, the “Guarantees”) and authorizes the General Counsel to execute any documents necessary or related or which may be required in connection with the Guarantees, the Project and the Project refinancing, and be it further

RESOLVED, That the Board of Trustees of the City University of New York authorizes the General Counsel to negotiate, approve as to form, and execute agreements with Queens College, the Queens College Special Projects Fund and Q Student Residences LLC and any other necessary parties related to CUNY’s support.

EXPLANATION: On January 28, 2008 (Cal.No.6.C), the Board authorized the execution of documents that provided for the development of a student residence to be constructed on the Queens College Campus. The project was financed pursuant to a variable rate bond issue issued by the NYC Housing Development Corporation (HDC) and secured by a Letter of Credit issued by Citizens Bank. The transaction included a ten year swap agreement which created a synthetic fixed interest rate transaction. The Summit Residence Hall was opened in Fall 2009 with full occupancy. Subsequently, Citizens Bank was downgraded by the rating agencies and was required to accept a tender of the bonds which were then resold in a distressed market. Since that time, the Letter of Credit has been reissued for varying terms, the most recent running until May 2015. As part of a variable rate refinancing in 2009, $2.0 million of the development fee for the project was deferred, accruing interest at 7.5%. In order to secure the renewal of the Letter of Credit, the Board, at its November 28, 2011 meeting, authorized CUNY to enter into a Support Agreement, which was executed on May 10, 2012. The support Agreement requires CUNY to reimburse the bank for any amount drawn under the Letter of Credit. Simultaneously, CUNY entered into a payment agreement with the Queens College Special Projects Fund and Q Student Residences Corp, LLC to provide for the payment of CUNY’s obligations under the Support Agreement.

In November 2013, Citizens Bank was downgraded further by the rating agencies. This downgrade has resulted in higher interest rates on the Bonds. Further, the additional costs incurred in connection with the 2009 refinancing has resulted in deferred principal payments and significant interest accrual due on the developer note.

Lamont Financial Services has been retained to advise the College and CUNY on the most economical way to stabilize the financing of the project debt obligation. After soliciting proposals from four financial institutions as well as the current Letter of Credit provider.
Credit provider, Lamont, the College and the Office of Facilities, Construction and Management have determined that Morgan Stanley & Co. LLC should be retained to be lead underwriter for the issuance and sale of a long term fixed rate bond issue for the project. The principal amount of such bonds would include funding for the legal defeasance and refunding of the outstanding 2009 Series A variable rate demand bonds, payment of a swap termination fee and for the full repayment of the deferred development fee note, including accrued interest.

It is anticipated that lease payments by students and other revenue generated by the Summit will cover the cost of servicing the bonds and operating the facility. Only in the event that all of these sources of funds are insufficient will CUNY be liable for the debt service under the Support Agreement.

Approval of this resolution will provide for continued CUNY credit support and will secure low cost long term financing for the project.

June, 2014