CASE STUDY

FINANCING FOR HIGHER EDUCATION

AUGUST 29, 2024

$90,020,000 | REVENUE BONDS | 2024

Merrimack College | North Andover, Massachusetts

Client Profile

Over the past decade, the College has experienced remarkable growth, with headcount increasing by 87.6% and full-time equivalent enrollment rising by 84.2%. This surge reflects the Institution's expanding academic reach and success in attracting and retaining students. However, this growth has placed pressure on campus infrastructure, particularly regarding student housing.

To support its expansion, the College has historically utilized and preserved its debt capacity at the BBB- rating level to fund programmatic investments. While this approach has allowed the Merrimack to enhance academic offerings and student services, it has left a gap in residential capacity, underscoring the need for future development to meet the growing demand for student accommodations.

The Project & Structure

Given the scale and cost of the new housing project, along with a recent market study identifying 838 beds of unmet student housing demand, Stifel advised Merrimack College on a financing structure designed to minimize the impact on the College's credit rating and balance sheet. This structure also allows the College to benefit from significant upside revenue potential. By utilizing a tax-exempt financing approach, the Project secures the lowest possible funding cost to enable the College to offer rental rates that are competitive with existing on-campus housing options. Other long-term strategic advantages include a 36-year financing term, where the Project will revert to the College in a relatively short timeframe. This allows Merrimack to avoid the extended obligations often associated with traditional public-private (P3) partnership models. The P3 structure enables the College to preserve its credit profile while still participating in the transaction.

Tax-exempt bonds were structured with a 10-year par call feature, preserving future refunding flexibility, and new money bonds amortize over 36 years with a blended TIC of 5.16%.

Pricing Results

Bonds were rated BB (S&P) and Stifel was able to obtain spreads that were lower than comparable BB+ rated P3 transactions. Several maturities were repriced, resulting in a lower TIC for the Project. The lower TIC created greater coverage to the Project (1.67x min, DSCR), which will allow the College to benefit from the excess Project revenues (as much as $2.3 million in the first year of operations and $3.4 million by year ten).

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