

# FUTURE ACTION ITEM #3

## Finance and Human Resource Modernization Initiative Financing Plan (Stacy Pearson/Matt Skinner)

TO ALL MEMBERS OF THE BOARD OF REGENTS

**SUBJECT:** Financing plan and proposed authorizing Resolution for financing of Finance and Human Resources Modernization (Pearson/Skinner)

**PROPOSED:** That the Board of Regents approve a General Revenue Bond Resolution to authorize the issuance and sale of bonds or other obligations, in one or more series, to be used for the Finance and Human Resources Modernization Project; with proceeds for the project not to exceed \$30,000,000, a maximum term not to exceed 22 years, and a maximum interest rate not to exceed 5.5%; and delegate authority to the President or his designee to sell bonds, or other obligations including determining the final bond size, capitalizing interest, maturity schedule, redemption provisions and timing of sale.

**SUPPORTING INFORMATION:** The Board of Regents has legal authority to incur debt for various purposes through issuance of revenue bonds or notes ("obligations") secured by general revenues of the University. Given the magnitude of one-time costs for implementation of the Finance and Human Resources Modernization (ERP), the University has developed a plan to fund the costs without impacting current operations or budgets.

The funding proposal is to incur General Revenue obligations to be paid from existing revenue currently used to pay debt service on bonds that will be retired over the next several years. Those retiring bonds are paid from University central funds, which have been committed for the purposes of key infrastructure investments in the past. The Regents will be asked at its June meeting to approve a Bond Resolution for this purpose, subject to certain parameters as described Appendix A herein.

### *Proposed Repayment Sources*

The University currently makes payments on several series of bonds which are scheduled for final payment in 2022 and 2026.

- Debt service payments related to the veterinary teaching hospital to be paid off from 2019 to 2022, freeing up approximately \$1.8 million per year for annual payments thereafter.

- Debt service payments related to the student information system to be paid off from 2019 to 2026, freeing up approximately \$1.3 million per year for annual payments thereafter.

The following chart illustrates the annual revenues freed up by retirement of the veterinary teaching hospital and student information system obligations and the expected annual debt service for ERP. As shown in the chart, available revenues will fully cover future debt payment obligations.



*Proposed Financing Structure*

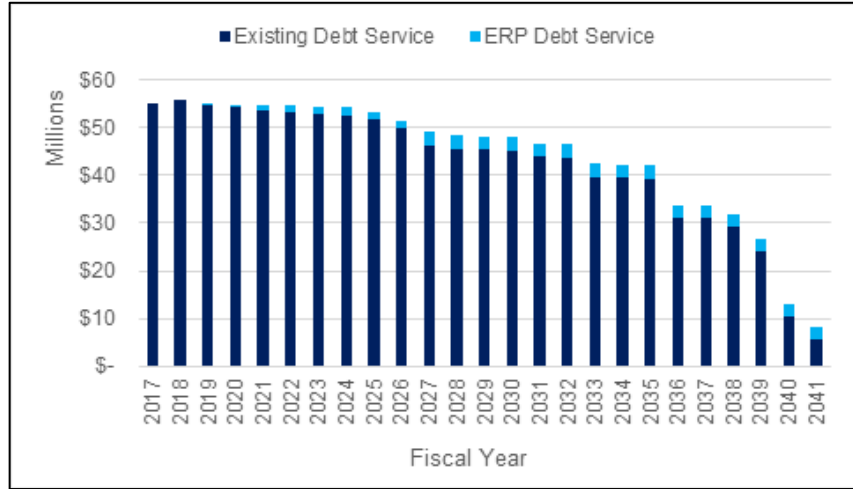
The proposed term of financing is estimated at up to 22 years, in order to ensure that the repayment is structured within the available revenues, as shown above.

The University, as advised by its financial advisor, will use taxable obligations rather than tax-exempt financing due to the nature of the “software” and other costs being financed, not all of which may be capitalized. In the current market, the difference between taxable and tax-exempt interest rates is approximately 0.25%.

Research and analysis by WSU and PFM found this structure offers a creative solution that balances the University’s fiscal recovery plan (i.e., reduction of operating losses) with the important need for this system modernization. It accomplishes the goal of

financing the ERP without increasing beyond current debt service commitments.

The following chart demonstrates the current annual debt service by year, and the change attributable to the ERP debt service.



**REQUESTED  
FUTURE ACTION**

The Board of Regents will be asked, at its June meeting, to approve a Resolution to authorize the issuance of general revenue obligations for the project, in one or more series, and to delegate to the President or his designee the activities required for issuance of general revenue obligations to finance such system

The delegated authority to incur the obligations will be conditioned on (1) a maximum issue size, to fund the project, capitalized interest and costs of issuance; (2) a maximum true interest cost (TIC); and (3) a maximum financing term, all of which will be specified in the Bond Resolution. Furthermore, the Resolution delegates authority to the President or his designee to approve the number of series, the method of sale, the final principal amounts, dates of the obligation, interest rates, payment dates, redemption provisions, and maturity dates, and other terms and conditions of the obligations.

**APPENDIX A: PROVISIONS TO BE INCLUDED IN BOND RESOLUTION**

*Security Pledge:*

The financing will be secured by General Revenue of the University, generally defined in the Resolution to mean all non-appropriated income, revenues, and receipts of the University if and to the extent such funds are not restricted in their use by law, regulation, or contract.

As noted above, debt service on the proposed financing will be paid from existing revenues currently used to pay debt service on retiring obligations. As the outstanding debt is retired, the revenues currently used for those payments will be allocated to debt service payments for proposed financing.

*Issue Size:*

The Resolution will provide for a maximum issue size, which will be determined as the amount required to finance the project costs, not to exceed \$30,000,000 net proceeds, plus required financing costs and capitalized interest. Items that will affect the issue size to be contained in the Resolution are: (1) the project cost estimate; (2) potential for use of capitalized interest to reduce near term debt service burden; and (3) actual costs of issuance.

*Term/Maturity:*

The financing is expected to have a term of up to 22 years. The financing plan may be executed in more than one series, to align with outflows for the project for a total project cost not to exceed \$30,000,000.

*Conditions Of Delegation:*

The delegated authority to incur the obligations will be conditioned on (1) a specified maximum issue size; (2) a maximum true interest cost (TIC); and (3) a maximum financing term, all of which will be specified in the Bond Resolution. Furthermore, the Resolution delegates authority to the President or his designee to approve the number of series, the method of sale, the final principal amounts, dates of the obligation, interest rates, payment dates, redemption provisions, and maturity dates, and other terms and conditions of the obligations. The authority to enter into the financing obligations will terminate on a date to be specified in the Bond Resolution.

*Timing of Issuance:*

Assuming authorization is received in June 2018, the University will be positioned to enter the marketplace by October 2018. The actual timing will be determined based on timing for project contracting, need for funds for the project, and market conditions.

*Method of Sale:*

The Resolution will delegate the method of sale, allowing for a negotiated sale, a competitive sale, or a direct bank placement.

*Bond Rating:*

At the time of public offering of bonds the University will apply for bond ratings from Moody's Investors Service ("Moody's") and S&P Global Ratings ("S&P"). Ratings are anticipated to be consistent with the University's ratings for parity bonds, as this potential financing has been taken into account in recent bond rating updates.

The University's general revenue bonds carry ratings of Aa3 (stable outlook) and A+ (stable outlook) from Moody's and S&P, respectively, as affirmed in April 2018.

*Estimated Interest Rates:*

The Bond Resolution will include a maximum average interest rate ("true interest cost" or "TIC"). Current rates are estimated at 3.9% and the planning rate for the debt service shown in this document has been based on interest rates 0.75% above current market as a cushion for interest rate changes. As mentioned above, the University seeks the authority to sell the bonds in one or more series and requests flexibility for this and future series to have a maximum interest rate of 5.5%.

*Estimated Debt Service:*

Debt service will be structured to fit within the available revenues, and will increase annually through 2026, then level out at approximately \$3 million per year, 2027 through 2041.

*Other Covenants:*

Parity obligations will be secured by the General Revenues of the University, and the Bond Resolution does not include additional covenants, coverage tests, or reserves.

*University's Advisors:*

Bond Counsel: K&L Gates (Cynthia Weed)

Financial Advisor: PFM Financial Advisors (Susan Musselman and Thomas Toepfer)