

FUTURE ACTION ITEM #4

Authorization to Establish a Revolving Bank Line of Credit (Leslie Brunelli/Matt Skinner)

TO ALL MEMBERS OF THE BOARD OF REGENTS

SUBJECT: Authorizing resolution to open a University revolving bank line of credit.

PROPOSED: That the WSU Board of Regents approve a General Revenues Obligation Resolution (the "Resolution") to authorize the issuance of a revolving line of credit with the net indebtedness not to exceed \$50 million plus related interest, origination, and maintenance costs; and delegate authority to the President or their designee to select one or more banks and/or dealers and execute agreements and other documents in connection with the issuance and delivery of the credit facility.

SUBMITTED BY: Leslie Brunelli, Executive Vice President, Finance & Administration/CFO

SUPPORTING INFORMATION: Amidst a rapidly evolving environment for federal and state higher education funding, the University is actively evaluating its working capital balances and the impact on operating cash flows. In some unforeseen circumstances or scenarios, funding owed to the University could create a shortfall of cash to meet basic operational needs. In case of such a rare cash flow emergency, the University must have access to a revolving bank line of credit to create a short-term bridging of operating liquidity.

Revolving Bank Line of Credit

The University is proposing that the Board authorize a revolving line of credit of up to \$50 million secured by general University revenues to be used as a source of short-term operating liquidity in emergency situations where cash on hand is insufficient to meet operational needs.

Strict Procedures on the use of the revolving Line of Credit

Using a line of credit requires the creation of clear and strict parameters for authorization, repayment, and accountability reporting to the Board. The proposed revisions to the Board of Regents Policy #5 Debt Management Policy establish parameters surrounding the ongoing procedures for operating a revolving line of credit. These include delegation of authority, regular and annual reporting requirements to the Board of Regents and required notifications prior to authorizing draws on a credit facility.

Cost of a Revolving Bank Line of Credit

Interest costs associated with a revolving line of credit are based on a spread to the Secured Overnight Financing Rate (SOFR). The revolving line of credit generally has two types of ongoing fees or interest costs in addition to costs of issuance.

First, WSU would be assessed a maintenance fee on the undrawn credit balances. Current rates suggest a maintenance fee between 0.20% and 0.30% on the undrawn balance. For example, with \$50 million of undrawn credit line, the maintenance fee would be approximately \$150,000 per year at 0.30%.

Second, the drawn balance is assessed a higher interest rate based on the spread to the SOFR. Current market rates suggest the interest rate on the drawn balance of approximately 5.18%. For example, with \$10 million drawn against the credit line, the interest cost would be approximately \$50,000 per month until repaid in addition to the undrawn fee on the remaining line of credit.

Principal and interest must be re-paid by the stated maturity date of the line of credit absent a renewal of the credit agreement.