

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

Subject: Lines of Credit Authorization

Action Requested: Authorization to Establish Lines of Credit

Background and Summary:

To enhance the university's financial safety net in the event of a financial emergency, the University seeks to establish standby lines of credit up to an amount not to exceed \$1.0 billion to be available for use for general operating purposes. This will be accomplished by taking one or more of the following actions: (1) amending one or both of the University's existing lines of credit in the amount of \$290 million, which are currently available only to support unremarketed debt, to increase the available amount and to allow use for general operating purposes; and (2) adding one or more new lines of credit with one or more additional banks or financial institutions. These lines of credit will be used solely for contingent liquidity support and only drawn on to support unremarketed debt or in the event of a university financial emergency. Having standby lines of credit available for general operating purposes will reinforce the overall liquidity position of the University, help support the University's credit ratings, and hedge the impact of potential catastrophic events, such as a pandemic, global financial crisis, or federal government shutdown. Sizing of the line of credit capacity was based on the overall scale of the University, amount of monthly salary and benefits and debt service expenses, and levels of capital spending projected over the next five years.

Should the university ever draw on the lines of credit, the unpaid principal and interest on amounts used for general operating purposes would be due and payable no later than December 31, 2030. After such date, advances under the lines of credit would be permitted only to the extent required to support unremarketed debt. These lines of credit, like the existing bonds and commercial paper notes of the University, will be supported by a pledge of the University's General Revenues.

The particular terms of the lines of credit would be clarified and agreed to by the Executive Vice President and Chief Financial Officer or his designee as negotiations proceed with line of credit providers.

We recommend that the Regents adopt the attached resolution authorizing the Executive Vice President and Chief Financial Officer or the Associate Vice President for Finance, or the Treasurer to develop the terms, and negotiate and execute the legal documentation for the revolving lines of credit with the assistance of outside legal counsel.

Respectfully submitted,



Kevin P. Hegarty
Executive Vice President
and Chief Financial Officer

RESOLUTION OF THE REGENTS OF THE UNIVERSITY OF MICHIGAN
AUTHORIZING THE BORROWING OF FUNDS UNDER REVOLVING LINES OF CREDIT
AND PROVIDING FOR OTHER MATTERS RELATING THERETO

WHEREAS, the Regents of the University of Michigan (the “*Regents*”) is a constitutional body corporate established pursuant to Article VIII, Section 5 of the Constitution of the State of Michigan of 1963, with general supervision of the University of Michigan (the “*University*”) and the control and direction of all expenditures from the University’s funds; and

WHEREAS, the Regents has previously entered into two separate revolving credit agreements with two different commercial banks (collectively, the “*Existing Loan Agreements*”), pursuant to which the Regents has obtained revolving lines of credit in the aggregate maximum available amount of \$290,000,000 to provide liquidity support for certain indebtedness of the Regents from time to time outstanding (collectively, the “*Existing Lines of Credit*”); and

WHEREAS, the Regents, in the exercise of its constitutional duties, has determined that it is appropriate and in the best interests of the University to amend one or both of the Existing Lines of Credit, or to establish one or more new revolving lines of credit, or any combination thereof, whereby the Regents may borrow the aggregate principal sum of up to One Billion Dollars (\$1,000,000,000) from time to time outstanding, on a revolving loan basis, to (a) provide funds for general operating purposes of the University and (b) provide liquidity in support of the obligations of the Regents to pay maturing commercial paper notes from time to time issued by the Regents and to pay the purchase price of unremarketed bonds, notes or other indebtedness of the Regents from time to time outstanding, including General Revenue Bonds, that are subject to tender for purchase prior to the respective maturity dates thereof; and

WHEREAS, in order to provide the Regents with access to one or more lines of credit for the foregoing purposes (each such line of credit being a “*Line of Credit*”), it will be necessary for the Regents to enter into one or more new revolving loan agreements, line of credit agreements or similar agreements with one or more banks or financial institutions and/or to enter into one or more amendments to one or both of the Existing Loan Agreements (each such new agreement, and each Existing Loan Agreement as amended in accordance with the terms of this Resolution, being a “*Loan Agreement*”); and

WHEREAS, it is necessary for the Regents to authorize the Executive Vice President and Chief Financial Officer, the Associate Vice President for Finance, and the Treasurer of the University (each, an “*Authorized Officer*”), or any one of them individually, to negotiate, execute and deliver, for and on behalf of the Regents, one or more new Loan Agreements with one or more banks or financial institutions, one or more amendments to one or both of the Existing Loan Agreements, and other related documents, all within the limitations set forth herein.

NOW, THEREFORE, BE IT RESOLVED BY THE REGENTS OF THE UNIVERSITY OF MICHIGAN, AS FOLLOWS:

1. Authorization of Lines of Credit; Purposes and Terms. The Regents hereby authorizes the borrowing from time to time of funds under one or more Lines of Credit, on a revolving loan basis, to (a) provide funds for general operating purposes of the University (draws

or advances under a Line of Credit for such purposes being referred to herein as “*General Purpose Advances*”) and (b) provide liquidity in support of the obligations of the Regents to pay maturing commercial paper notes from time to time issued by the Regents and to pay the purchase price of unremarketed bonds, notes or other indebtedness of the Regents from time to time outstanding, including General Revenue Bonds, that are subject to tender for purchase prior to the respective maturity dates thereof (draws or advances under a Line of Credit for any of such purposes being referred to herein as “*Liquidity Advances*”). The aggregate maximum principal amount of borrowings permitted to be outstanding at any time under the Lines of Credit authorized by this Resolution shall not exceed One Billion Dollars (\$1,000,000,000).

General Purpose Advances and Liquidity Advances (collectively, the “*Advances*”) under any Line of Credit shall be made at the request of an Authorized Officer, or any other officer or employee of the Regents or the University so designated in writing by an Authorized Officer.

Interest shall accrue on sums outstanding under each Line of Credit at the variable rate or rates of interest specified in the related Loan Agreement, subject, however, to adjustments in the applicable interest rate for increased costs of the bank or financial institution providing such Line of Credit, changes in applicable laws or regulations, rating changes, defaults and other specified factors, all as may be specified in the Loan Agreement, but in no event shall the applicable interest rate exceed the lesser of 25% per annum, the maximum rate permitted by law or the maximum rate, if any, specified in the Loan Agreement. Interest accrued on unpaid Advances under each Line of Credit shall be payable on the dates and in the amounts as shall be provided in the related Loan Agreement. Advances under each Line of Credit shall be repaid with interest as provided in the related Loan Agreement; *provided, however*, that all unpaid principal of and accrued interest on all outstanding General Purpose Advances under each Line of Credit shall be finally due and payable not later than December 31, 2030, or such earlier date or dates as determined by an Authorized Officer (the “*General Purpose Advance Maturity Date*”). From and after the General Purpose Advance Maturity Date, no further General Purpose Advances under the Lines of Credit authorized by this Resolution shall be permitted, but any one or more Lines of Credit authorized by this Resolution may be maintained, renewed or replaced, if determined necessary or appropriate by an Authorized Officer, for the purpose of making Liquidity Advances available to the Regents to provide liquidity in support of the obligations of the Regents with respect to maturing commercial paper notes and unremarketed bonds, notes or other indebtedness of the Regents from time to time outstanding.

2. Selection of Credit Providers; Approval of Loan Agreements and Notes. The Regents further authorizes the Authorized Officers, or any one of them individually, to select one or more banks or financial institutions to provide one or more Lines of Credit, and to negotiate, execute and deliver, for and on behalf of the Regents and as its corporate act and deed, one or more Loan Agreements, and one or more amendments to one or both of the Existing Loan Agreements, with one or more banks or financial institutions providing the Lines of Credit, and if appropriate, any participant banks or financial institutions, subject to the terms, conditions and limitations contained in this Resolution. Any Loan Agreement may provide for the delivery of a promissory note (each, a “*Note*”) to evidence all or part of the Regents’ obligations under such Loan Agreement, and each Authorized Officer is individually authorized to prescribe the form of such

Note and to execute and deliver such Note for and on behalf of the Regents and as its corporate act and deed.

3. Limited Obligations; Security. The obligations of the Regents under each Loan Agreement and related Note shall be limited and not general obligations of the Regents, payable solely from General Revenues (as shall be defined in each Loan Agreement in a manner generally consistent with the definition thereof contained in that certain Trust Agreement, dated as of February 1, 2019, between the Regents and U.S. Bank National Association, as trustee), and may be unsecured or, if an Authorized Officer so determines, secured as set forth below; provided, that the Regents reserves the right, but shall not be obligated, to pay the Regents' obligations under any Loan Agreement and related Note from any legally available funds. Each Authorized Officer is individually authorized, in the name of the Regents and as its corporate act and deed, to secure the Regents' obligations under any Loan Agreement and related Note by a parity first lien or subordinated lien on General Revenues. A first lien on the General Revenues permitted to be established by this Resolution securing the obligations of the Regents under a Loan Agreement and related Note shall be on a parity basis with the liens on General Revenues established as security for the outstanding bonds, notes and other obligations of the Regents secured by a first lien on General Revenues. Any pledge of General Revenues securing the Regents' obligations under a Loan Agreement and related Note shall be valid and binding from the date of execution and delivery of the Loan Agreement and related Note, and all moneys or properties subject thereto which are thereafter received shall immediately be subject to the lien of the pledge without physical delivery or further act. The lien of said pledge shall be valid and binding against all parties (other than the holders of any other bonds, notes or other obligations secured by a parity first lien on General Revenues) having a claim in tort, contract or otherwise against the Regents, irrespective of whether such parties have notice of the lien.

No recourse shall be had for the payment of the principal amount of or interest or other amounts due under any Loan Agreement or related Note, or any claim based thereon, against the State of Michigan or the Regents or the University, or any officer or agent thereof, as individuals, either directly or indirectly, nor shall the principal amount of or interest or other amounts due under any Loan Agreement or related Note be payable from or become a lien on or be secured by any property, real, personal or mixed, of the State of Michigan or the Regents, other than the General Revenues and the moneys from time to time on deposit in funds or accounts, if any, established by the Loan Agreement.

4. Authorization of Other Actions. The Authorized Officers, or any one of them individually, are further authorized to perform all acts and deeds and to negotiate, execute and deliver, for and on behalf of the Regents, any and all related agreements, amendments, instruments and certificates, and to make any determinations, elections and filings, necessary to obtain, maintain, renew or replace, and provide for the ongoing administration of, the Lines of Credit authorized by this Resolution.

5. Continuing Effectiveness of Existing Loan Agreements. If an Authorized Officer determines that it is in the best interests of the University to maintain any of the Existing Lines of Credit solely for the purpose of providing liquidity support for certain indebtedness of the Regents

from time to time outstanding, and not for general operating purposes of the University, then such Existing Line of Credit may continue to be maintained for such purpose in accordance with the terms of the related Existing Loan Agreement (including any extensions or renewals thereof as may be determined appropriate from time to time by an Authorized Officer), and the maximum available principal amount permitted to be borrowed under such Existing Line of Credit shall be in addition to, and shall not be limited by, the aggregate maximum available amount of permitted borrowings under the Lines of Credit authorized by this Resolution as specified in Section 1 hereof. The Existing Loan Agreements, except as they may be amended in accordance with the authorizations provided by this Resolution, shall remain in full force and effect in accordance with their respective terms.