

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

Subject: Issuance and Sale of Commercial Paper Notes by the University

Action Requested: Authorization to Replace the Present Commercial Paper Program with a New Program to Sell Up to \$300 million of Commercial Paper Notes

Background and Summary:

This proposed authorization will replace the University's \$300M (combined) tax-exempt and taxable commercial paper programs.

Under the federal tax code, tax-exempt commercial paper programs have a limited term of eighteen months to allow for draws of new funds under the program. The eighteen-month time period for the funding of projects under the existing tax-exempt commercial paper program, Series K, expired on December 22, 2017. The existing tax-exempt commercial paper program needs to be replaced by a new program to begin a new draw period to be able to issue new debt to fund authorized capital projects and to refund the outstanding commercial paper notes under the Series K program. The new commercial paper program, Series L, will refund the outstanding commercial paper notes, Series K (\$133.7 million outstanding as of April 30, 2020) and will provide new financing for projects over the next two years (funds must be drawn within eighteen months and must be completely spent within two years).

We are also requesting to replace the existing taxable commercial paper program with a new taxable program to expand the scope of borrowing. The new taxable commercial paper program, Series M, will refund the outstanding taxable commercial paper notes, Series E (\$1.7 million outstanding as of April 30, 2020) and provide financing for authorized capital projects as well as being available to be used to fund general operating purposes if needed.

Under the current commercial paper program, the aggregate principal amount of commercial paper notes that may be outstanding at any one time is limited to \$300 million in total between the tax-exempt and the taxable programs. Under the new commercial paper program, the aggregate principal amount of commercial paper notes that may be outstanding at any one time will remain \$300 million in total between the tax-exempt and the taxable programs.

Potential projects to be financed include: Stephen M. Ross Athletic Campus Athletics South Competition and Performance, the Ford Motor Company Robotics Building, and other Regent approved projects. Future projects approved by the Regents for bids and awards may also be financed during the course of the program.

The security for the commercial paper program will be a pledge of General Revenues. The liquidity for the program will be provided by investments of the University, the structure of the commercial paper program, or a liquidity facility offered by a bank. The total length of the program for Series L and Series M will be limited to thirty years from the date of first issuance of the commercial paper notes, Series L or Series M. The commercial paper notes Series L and Series M may each consist of two or more sub-series to facilitate the liquidity of the commercial paper. Each commercial paper note shall have a final maturity of not later than 270 days from its date of issuance.

Ultimately, some of the commercial paper program may need to be refinanced with either fixed or variable rate long-term debt. In this event, a permanent refinancing plan of the commercial paper program will be submitted to the Regents for approval.

We recommend at this time that the Regents authorize:

- The attached Resolution for the issuance of up to \$300 million of commercial paper notes secured by a pledge of General Revenues.
- The Executive Vice President and Chief Financial Officer, Associate Vice President for Finance or Treasurer to:
 - Execute all the documentation for the establishment and issuance of the commercial paper notes, Series L and Series M, the rollover of the outstanding commercial paper notes, Series K into the proposed Series L program, and the rollover of the outstanding commercial paper notes, Series E into the proposed Series M program.
 - Negotiate a liquidity facility to support debt obligations, if needed.

Respectfully submitted,



Kevin P. Hegarty
Executive Vice President
and Chief Financial Officer

May 2020
attachment

RESOLUTION OF THE REGENTS OF THE UNIVERSITY OF MICHIGAN
AUTHORIZING THE ISSUANCE AND DELIVERY OF
COMMERCIAL PAPER NOTES, SERIES L AND SERIES M, AND
PROVIDING FOR OTHER MATTERS RELATING THERETO

WHEREAS, the Regents of the University of Michigan (the “Issuer”) is a constitutional body corporate established pursuant to Article VIII, Section 5 of the Michigan Constitution of 1963, as amended, with the 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 Issuer has determined it is necessary and desirable to provide for the temporary or permanent financing of capital projects of the University, currently under way or to be undertaken, through the issuance of Regents of the University of Michigan Commercial Paper Notes, Series L (the “Series L Notes”); and

WHEREAS, the Issuer has determined it is necessary and desirable to provide for the temporary or permanent financing of capital projects of the University, currently under way or to be undertaken, and to provide additional funds for general operating purposes in order to enhance the University’s liquidity position, through the issuance of Regents of the University of Michigan Commercial Paper Notes, Series M (Taxable) (the “Series M Notes,” and collectively with the Series L Notes, the “Notes”); and

WHEREAS, the Issuer has determined it is necessary and appropriate to refund (i) through the issuance of the Series L Notes, the outstanding balance of the Issuer’s Commercial Paper Notes, Series K-1 (Tax-Exempt) and Extendable Commercial Paper Notes, Series K-2 (Tax-Exempt) (collectively, the “Prior Series K Notes”), and (ii) through the issuance of the Series M Notes, the outstanding balance of the Issuer’s Commercial Paper Notes, Series E (Taxable) (the “Prior Series E Notes,” and collectively with the Prior Series K Notes, the “Prior Notes”); and

WHEREAS, the Issuer has further determined that it may be economic and appropriate to refund certain other outstanding debt obligations of the Issuer from the proceeds of the Notes (such outstanding debt obligations, if any, to be refunded to be selected by an Authorized Officer (as hereinafter defined) and being herein called the “Bonds to be Refunded”); and

WHEREAS, the Issuer has approved certain capital projects to be financed and refinanced in whole or in part through the issuance of the Notes, and may approve additional projects to be so financed (all such projects, together with the projects financed or refinanced with the proceeds of the Prior Series K Notes and the Prior Series E Notes, being herein called the “Projects”); and

WHEREAS, in order to provide for the issuance of the Notes, it will be necessary for 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 execute and deliver one or more Commercial Paper Issuance Certificates (collectively, the “Issuance Certificate”), one or more Commercial Paper Issuing and Paying Agent Agreements (collectively, the “Paying Agent Agreement”) with a bank or banks to be selected by an Authorized Officer, one or more Dealer Agreements (each a “Dealer Agreement”) with a dealer

or dealers (each a “Dealer”) to be designated by an Authorized Officer, and, if deemed appropriate by an Authorized Officer, an agreement or agreements relating to a liquidity facility; and

WHEREAS, the Notes are to be limited and not general obligations of the Issuer, payable from and secured by a pledge of General Revenues (as shall be defined in the Issuance Certificates in a manner generally consistent with the definition thereof set forth in the Commercial Paper Issuance Certificates pursuant to which the Prior Notes were issued) and moneys from time to time on deposit in the Note Payment Fund to be created pursuant to the Issuance Certificate, and shall be additionally payable from Available Investments (as shall be defined in the Issuance Certificate in a manner generally consistent with the definition thereof set forth in the Commercial Paper Issuance Certificates pursuant to which the Prior Notes were issued); and

WHEREAS, it is necessary for the Issuer to delegate to each of the Authorized Officers the power to designate certain Authorized Representatives and Authorized Persons (each as shall be defined in the Issuance Certificate or Paying Agent Agreement) to undertake certain actions with respect to the issuance of the Notes; and

WHEREAS, the Notes are to finally mature on or before the date thirty years after the date of issuance of the first Notes hereunder, and in general are intended (to the extent not previously retired) to be replaced by permanent General Revenue financing on or prior to such final maturity date; and

WHEREAS, in the exercise of its constitutional duties, and in order to prudently control and direct expenditures from the University’s funds, the Issuer determines it is necessary and desirable to authorize the issuance of the Notes to provide funds to finance and refinance all or part of the costs of the Projects, to refund the Prior Notes and the Bonds to be Refunded, if any, to provide additional liquidity for general operating purposes of the University (but only from the proceeds of the Series M Notes), and to pay certain costs incurred in connection with the issuance and sale of the Notes and the refunding; and

WHEREAS, in order to be able to market and remarket the Notes, it is necessary for the Issuer to authorize an Authorized Officer to prepare, execute and deliver, on behalf of the Issuer, one or more Offering Memoranda (collectively, and as supplemented from time to time, the “Offering Memorandum”) to be circulated and used in connection with the marketing, sale and delivery of the Notes, and to take, together with other appropriate officers, agents and representatives of the Issuer or the University, additional actions necessary to accomplish the sale and delivery of the Notes, the administration of the commercial paper program of which the Notes are a part, and the purposes hereof, all within the limitations set forth herein; and

WHEREAS, the issuance of the Notes for the purposes described herein will serve proper and appropriate public purposes; and

WHEREAS, the Issuer has full power under its constitutional authority for supervision of the University, and control and direction of expenditures from the University’s funds, to authorize and issue the Notes for the purposes described herein, to pledge the General Revenues of the University for payment of the Notes, and to covenant to pay the Notes from Available Investments.

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

1. The Issuer hereby authorizes the issuance, execution and delivery of the Notes of the Issuer, in multiple issuances on various dates, to be designated REGENTS OF THE UNIVERSITY OF MICHIGAN COMMERCIAL PAPER NOTES, SERIES L and REGENTS OF THE UNIVERSITY OF MICHIGAN COMMERCIAL PAPER NOTES, SERIES M (TAXABLE), in the aggregate principal amount outstanding from time to time as shall be designated by any one of the Authorized Officers, but not in excess of THREE HUNDRED MILLION (\$300,000,000) at any time outstanding. The Series L Notes and the Series M Notes, respectively, may be issued in two or more sub-series, with appropriate additional or alternative series designations, as may be determined appropriate by an Authorized Officer.

The Series L Notes shall be dated as of a date of issuance of each Series L Note, or otherwise as shall be determined by an Authorized Officer, and shall be issued for the purposes of (a) financing and refinancing all or part of the costs of the Projects, (b) refunding the Prior Series K Notes, (c) refunding the Bonds to be Refunded, if any, as shall be determined by an Authorized Officer, and (d) paying all or part of the costs incidental to the issuance of the Series L Notes and the refunding. The Series M Notes shall be dated as of a date of issuance of each Series M Note, or otherwise as shall be determined by an Authorized Officer, and shall be issued for the purposes of (a) financing and refinancing all or part of the costs of the Projects, (b) refunding the Prior Series E Notes, (c) refunding the Bonds to be Refunded, if any, as shall be determined by an Authorized Officer, (d) providing funds for general operating purposes of the University, as may be determined necessary by an Authorized Officer, and (e) paying all or part of the costs incidental to the issuance of the Series M Notes and the refunding. The Projects as a whole are hereby determined by the Issuer to constitute a single governmental purpose of the Issuer.

The Notes may be issued as traditional commercial paper notes or extendable commercial paper notes, or a combination thereof, as shall be determined by an Authorized Officer in accordance with the terms of the Issuance Certificate and the Paying Agent Agreement. Each Note issued as a traditional commercial paper note shall mature not later than 270 days after its date of issuance, to be determined as shall be provided in the Issuance Certificate and the Paying Agent Agreement. Each Note issued as an extendable commercial paper note shall have an original maturity date to be determined as shall be provided in the Issuance Certificate and the Paying Agent Agreement, but in no event shall the original maturity date exceed the maximum original maturity date for extendable commercial paper notes as shall be established by an Authorized Officer and specified in the Issuance Certificate. In the event that any Note issued as an extendable commercial paper note is not remarketed on its original maturity date, the original maturity date may be extended to a final maturity date not later than 270 days after the date of its original issuance, as shall be provided in the Issuance Certificate. Notes issued as traditional commercial paper notes shall not be subject to redemption prior to maturity. Notes issued as extendable commercial paper notes may be subject to redemption prior to maturity at the times and prices and in the manner as shall be established by an Authorized Officer and specified in the Issuance Certificate. All Notes must mature on or before the date thirty (30) years after the date of issuance of the first Notes hereunder.

The Series L Notes shall be issued on an interest-bearing basis and shall be payable at such times as shall be specified by an Authorized Officer, at the rate or rates of interest, not in excess of 12% per annum, to be determined as shall be provided in the Issuance Certificate and the Paying Agent Agreement. The Series L Notes shall be sold at par through the Dealer or Dealers selected by an Authorized Officer, pursuant to the Dealer Agreement(s). The Series M Notes may be issued on an interest-bearing basis or on a discount basis with payment of the face amount at maturity, or any combination thereof, as determined from time to time by and Authorized Officer, and shall be payable at such times as shall be specified by an Authorized Officer, at the rate or rates of interest (or, in the case of Series M Notes issued on a discount basis, effective interest rate) not in excess of 15% per annum, to be determined as shall be provided in the Issuance Certificate and the Paying Agent Agreement. The Series M Notes shall be sold at par or at a discount, as shall be provided in the Issuance Certificate and the Paying Agent Agreement, through the Dealer or Dealers selected by an Authorized Officer, pursuant to the Dealer Agreement(s). The Notes shall be issued in fully registered form in the denominations, shall be subject to transfer and exchange, and shall be executed and authenticated, all as shall be provided in the Issuance Certificate.

2. The Notes shall be limited and not general obligations of the Issuer payable from and equally and ratably secured by a lien on General Revenues on a parity basis with the lien securing the Issuer's outstanding General Revenue Bonds in several series, and other obligations secured by a first lien on General Revenues, now or hereafter outstanding, and by a lien on moneys from time to time on deposit in the Note Payment Fund created pursuant to the Issuance Certificate, as shall be provided therein. The Notes shall also be payable from Available Investments, as shall be defined and provided in the Issuance Certificate.

In support of its obligation to repay the Notes and, if deemed appropriate by an Authorized Officer, in support of the Issuer's obligations with respect to other bonds, notes or similar instruments subject to tender at the option of the holder, the Issuer may, if deemed appropriate by an Authorized Officer, enter into one or more letters of credit, lines of credit, note purchase agreements or other liquidity facilities (collectively, the "Liquidity Facility"). Any reimbursement obligation (including interest) for draws under the Liquidity Facility shall be a limited and not general obligation of the Issuer, payable from General Revenues, and may be secured by a pledge of General Revenues on a parity or subordinate basis to the lien on General Revenues securing the Notes. The Authorized Officers are, or any one of them is, authorized to negotiate, execute and deliver, for and on behalf of the Issuer, such agreement or agreements (collectively, the "Liquidity Agreement") as an Authorized Officer may deem appropriate to acquire the Liquidity Facility and to provide for the repayment of draws thereunder, as provided herein.

No recourse shall be had for the payment of the principal amount of or interest on the Notes, or under the Liquidity Agreement, or any claim based thereon against the State of Michigan, or, except as provided in the Issuance Certificate and the Liquidity Agreement, the Issuer, or against any officer or agent of the Issuer or of the University, as individuals, either directly or indirectly, nor shall the Notes and interest with respect thereto or the obligations under the Liquidity Agreement become a lien on or be secured by any property, real, personal or mixed of the State of Michigan, the Issuer, or the University, other than the General Revenues and the moneys from time to time on deposit in the Note Payment Fund created by the Issuance Certificate.

3. The right is reserved to issue additional bonds, notes or other obligations payable from General Revenues and secured by a lien on General Revenues on a parity or subordinated basis with the lien thereon securing the Notes and other General Revenue bonds, notes and obligations.

4. The Authorized Officers are, or any one of them is, hereby authorized and directed to select a bank or banks to be Issuing and Paying Agent, and one or more Dealers, and any one of the Authorized Officers is authorized and directed, in the name of the Issuer and as its corporate act and deed, to negotiate, execute and deliver the Issuance Certificate, the Paying Agent Agreement and one or more Dealer Agreements, consistent with the terms of this Resolution, as the Authorized Officers executing the same shall approve, which approval shall be conclusively evidenced by the execution of the respective documents.

5. The Authorized Officers are, or any one of them is, hereby authorized and directed to designate employees or agents of the University to act as Authorized Representatives with respect to the issuance of the Notes, and to designate Authorized Persons, who may be employees or agents of the University or employees or agents of the Dealer, to take certain actions with respect to the issuance of the Notes, all as shall be provided in the Issuance Certificate, the Paying Agent Agreement, or any Dealer Agreement.

6. The Executive Vice President and Chief Financial Officer, or in the event of his unavailability, the President, is hereby authorized, empowered and directed, in the name and on behalf of the Issuer, and as its corporate act and deed, to execute the Notes by manual or facsimile signature and to deliver the Notes to the purchaser in exchange for the purchase price thereof, as shall be provided in the Issuance Certificate and the Paying Agent Agreement. The Notes may be issued in the form of one or more Master Notes, as shall be provided in the Paying Agent Agreement.

7. The Authorized Officers are, or any one of them is, hereby authorized to cause to be prepared and circulated the Offering Memorandum with respect to the Notes, and to update, or cause to be updated the Offering Memorandum, through supplements or otherwise, as an Authorized Officer shall deem appropriate, or as may be required by law. Any Dealer is authorized to circulate and use, in accordance with applicable law, the Offering Memorandum, as the same may have been updated or supplemented from time to time, in the offering, sale and delivery of the Notes.

8. The Authorized Officers are, or any one of them is, hereby authorized to select the portions, if any, of the Issuer's outstanding debt obligations referred to in the preambles hereto as the "Bonds to be Refunded" and to provide for the call for redemption of such Bonds to be Refunded, to provide for the final payment date or dates of the Prior Notes, and to take any and all actions necessary and appropriate to provide for the payment when due of all amounts with respect to the Prior Notes and the Bonds to be Refunded from the proceeds of the Notes or other available funds of the University. All of the Prior Notes not refunded with the proceeds of the Notes shall be retired from other available funds of the University within 180 days of the first issuance of any Notes.

9. The President, the Authorized Officers, the Secretary or Assistant Secretary, the Vice President and General Counsel and any associate general counsel, and any other appropriate officer of the University are each hereby authorized to perform all acts and deeds and to execute and deliver all instruments and documents for and on behalf of the Issuer or the University required by this Resolution or the documents authorized hereby, or necessary, expedient and proper in connection with the issuance, sale and delivery of the Notes and the administration of the financing program represented by the Notes, all as contemplated hereby or in connection with subsequent elections, approvals or determinations under the Issuance Certificate or other documents. Any reference to any specified officer of the Issuer or the University in this Resolution shall include any interim or acting officer occupying such position or having been assigned all or a portion of the functions of such position.

10. All resolutions or parts of resolutions or other proceedings of the Issuer in conflict herewith be and the same are hereby repealed insofar as such conflict exists.