FUTURE ACTION ITEM 2

WSU Pullman, Baseball Stadium Renovation and Enhancement Project Financing Plan

(Stacy Pearson/Matt Skinner)

TO ALL MEMBERS OF THE BOARD OF REGENTS

SUBJECT: Financing plan and proposed authorizing resolution for financing of a Baseball Clubhouse.

PROPOSED: That the Board of Regents approve a General Revenue Obligation Resolution to authorize the issuance and sale of bonds or other obligations, in one or more series, to be used for the Baseball Clubhouse; with proceeds for the project not to exceed \$3,500,000, a maximum term not to exceed 5 years, and a maximum interest rate not to exceed 5.0%; and delegate authority to the President or his designee to sell bonds, or other obligations including determining the final bond size, maturity schedule, redemption provisions and timing of sale.

SUBMITTED BY: Stacy Pearson, Vice President for Finance and Administration

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.

The University estimates total project cost of \$10 million for the Baseball Clubhouse (the "Project"). The Project will be funded from available donated cash on hand for WSU Athletics, and pledges from various donors. The remaining pledged gifts are anticipated to be collected over a 5 year horizon, requiring some bridge financing to cover construction costs until the pledges are received. Given the projected timing and amounts of gifts, the University estimates that approximately \$3.5 million (conservative case) of the Project cost will need to be funded with debt. The pro-forma funding plan is shown below:

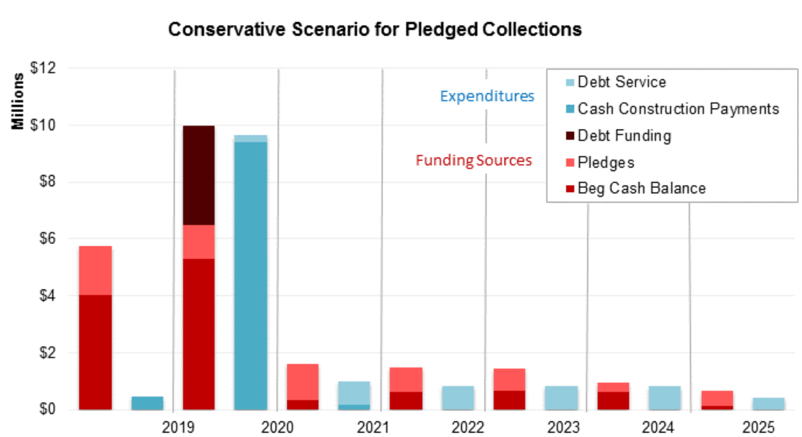
	(millions)
Donated Cash on Hand (as of 9/2018)	\$4.0
Pledges Receivable (10/2018-9/2019)	\$2.5
Debt Financing	\$3.5
Total	\$10.0

The bridge financing will be secured with General Revenues of the University but the debt service is obligated to be paid from the collected gift revenues. While the University has pledge agreements in place specifying the timing of the gifts, the timing of the actual cash receipts may differ. Since WSU plans to fund the pledges with a bridge financing, there is risk that gifts are not collected in time to make the debt payments. To mitigate this risk, WSU Office of Finance and Administration has established a project checkpoint for August 1, 2019 to measure progress in collected pledged donations. WSU will not proceed with construction of the design until 65% ($6.5 million) of the Project cost is collected in cash.

Proposed Repayment Sources

The $3.5 million in net proceeds, plus associated financing and closing costs (currently estimated at $100,000), will be repaid using pledged donation commitments for athletic facilities. The pledged donations of $4 million (to repay principal, financing costs and interest expenses) are expected to be collected during the five year repayment period of the loan from January 2020 through January 2025.

As depicted in the graph below, the available donated cash and the gift revenue balance are projected to be sufficient to fund the Project construction and the debt service related to the bridge financing.



Proposed Financing Structure

The University is considering different financing options including a 5 year fixed or variable rate note, a line of credit or similar short to medium term financial product. Determining the actual form of financing will be delegated to the President or his designee, and will be based on prevailing market conditions during fiscal year 2020 when the financing is expected to be needed.

Financial Impacts to the Athletics Budget and Operating Deficits

The WSU Athletics FY2020 operating budget will be revised to account for the increased cost of maintaining and operating the new facility, which is estimated at $50,000 per year. The use of donated funds in the Athletics budget will further increase the cumulative operating deficit by $4.0 million once these funds are expended on the project. This does not account for additional funds raised or other financial impacts that occur during each operating cycle.

The Board of Regents will be asked, at its January 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 the Baseball Clubhouse

The delegated authority to incur the obligations will be conditioned on (1) not to exceed Project proceeds (issue an amount sufficient to fund the Project 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 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 THE 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 gift revenues.

Issue Size:

The Resolution will allow the financing to be sized to an amount required to finance the Project costs, not to exceed $3,500,000 net proceeds, plus required financing costs.

Term/Maturity:

The financing is expected to have a term of up to 5 years.

Conditions of Delegation:

The delegated authority to incur the obligations will be conditioned on (1) maximum net proceeds for the Project; (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 January 2019, the University expects to enter the marketplace during Fiscal Year 2020. The actual timing will be determined based on the need (timing) 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:

If bond financing is used, the University will apply for bond ratings from Moody's Investors Service ("Moody's") and S&P Global Ratings ("S&P") at the time of public bond sale. 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, assuming no changes in fiscal recovery efforts or other financial measures.

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 October 2018.

Estimated Interest Rates:

The Bond Resolution will include a maximum average interest rate ("true interest cost" or "TIC"). Current rates are estimated at 3.5% and the planning rate for the debt service shown in this document has been based on interest rates 1.5% 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 5.0%.

Estimated Debt Service:

Debt service is expect to be structured as level annual payments of approximately $740,000 to $840,000 per year.

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 (Thomas Toepfer and Jeremy Bass)