

Agendum
Oakland University
Board of Trustees Formal Session
April 12, 2021

**RESOLUTION AUTHORIZING TERMINATION OF CONSTANT MATURITY SWAP
WITH JPMORGAN CHASE BANK, N.A.**
A Recommendation

1. **Division and Department:** Finance and Administration Division, Treasury Management Department

2. **Introduction:** In June 2007, the Board of Trustees (Board) approved a Constant Maturity Swap (CMS) derivative transaction with JPMorgan Chase Bank in order to provide an additional interest rate hedge in connection with its Series 2001 variable rate bond issue (later refunded as Series 2008 Bonds). The initial notional amount of the CMS was \$34,370,000. The CMS hedge created an opportunity for the University to take advantage of an inverted interest rate environment that existed at the time (short-term rates higher than long-term rates). Under the CMS terms, the University receives 90.39% of the 10-year Securities Industry and Financial Markets Association (SIFMA) rate and pays the weekly SIFMA rate. The CMS transaction has not existed without risks and has required close monitoring since inception which the University's Treasury Management Department has done in concert with its debt advisor, PFM Swap Advisors, LLC. The Series 2008 bonds will be paid off as of June 30, 2031 at which time, the CMS would have already terminated naturally (March 1, 2031 maturity date).

Since inception, the CMS has provided the University with over \$5.3 million of swap income consistent with the initial projections based on average spread differences between short-term and long-term interest rates. The interest rate spread differences have tightened recently, resulting in the decline of monthly swap income. Over the last 24-months, the University has actually paid out on the monthly swap calculation ten times. See average monthly swap income chart below.

<u>Period</u>	<u>Average Monthly CMS Swap Income *</u>
Since Inception	\$ 32,734
Last 10 years	\$ 27,351
Last 5 years	\$ 10,616
Last 3 years	\$ 5,151
Last 2 Years	\$ 1,953

* as of March 2021

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The notable decline in average monthly CMS income is the primary rationale for bringing the CMS termination recommendation forward. In addition, more recently the market value of the CMS has increased and a termination of the CMS will provide the University with an upfront payment, currently estimated at \$1.1 million but dependent on the swap market valuation at the time of termination. Combining the proceeds to date, \$5.3 million, with the estimated termination value, \$1.1 million, will result in a total benefit to the University of \$6.4 million, compared to the likely case scenario estimated in 2007 of \$5.7 million.

3. **Previous Board Actions:** On June 6, 2007, the Board approved a CMS in connection with the Series 2001 Bonds. In a subsequent authorization on February 28, 2008, the Board of Trustees approved the refunding of the Series 2001 Bonds with the Series 2008 Bonds. The refunding of the Series 2001 Bonds required no change to the CMS, which remains in place under its original terms.

4. **Budget/Financial Implications:** Termination of the CMS will provide the University with an upfront settlement amount of approximately \$1.1 million, resulting in total proceeds from the CMS since 2007 of an estimated \$6.4 million, and eliminate the future interest rate risk exposure inherent in maintaining the CMS. The proceeds have been invested with other University reserves.

5. **Educational Implications:** None.

6. **Personnel Implications:** None.

7. **University Reviews/Approvals:** This Agendum was prepared by the Treasury Management Department and reviewed by Bond Counsel (Craig Hammond of Dickinson Wright PLC), Debt Advisor (Kari L. Blanchett of PFM Financial Advisors, LLC), Swap Advisor (Jeff Pearsall of PFM Swap Advisors, LLC), Interim General Counsel, Vice President for Finance and Administration, and President.

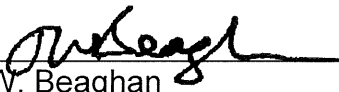
8. **Recommendation:** RESOLVED that the Board approves and adopts the Resolution Authorizing Termination of Constant Maturity Swap with JPMorgan that is attached as Attachment A.

9. **Attachments:**

A. Resolution Authorizing Termination of Constant Maturity Swap with JPMorgan

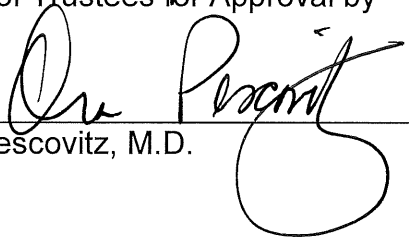
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Submitted to the President
on 4-6, 2021 by



John W. Beaghan
Vice President for Finance and Administration
and Treasurer to the Board of Trustees

Recommended on 4/6, 2021
to the Board of Trustees for Approval by



Ora Hirsch Pescovitz, M.D.
President

Resolution Authorizing Termination of Constant Maturity Swap with JPMorgan

WHEREAS, the Board of Trustees of Oakland University (the "Board") is a constitutional body corporate established pursuant to Article VIII, Section 6 of the Michigan Constitution of 1963, as amended (the "Constitution"), with general supervision of Oakland University (the "University") and the control and direction of all expenditures from the University's funds; and

WHEREAS, the Board previously authorized, and the University entered into, a Constant Maturity Swap in the notional amount of \$34,370,000 pursuant to an ISDA Master Agreement, as supplemented by a Schedule and Confirmation, each dated as of June 25, 2007 between the Board and JPMorgan Chase Bank N.A. ("JPMorgan") as the swap counterparty (the "CMS Transaction"); and

WHEREAS, the CMS Transaction provided a hedge related to the University's outstanding Series 2008 Variable Rate Demand General Revenue Bonds; and

WHEREAS, the Board has determined that, due to favorable market conditions, it may be economically advantageous and appropriate to terminate the CMS Transaction at this time; and

WHEREAS, in the exercise of its constitutional duties, and in order to prudently control and direct expenditures from the University's funds, the Board determines it is necessary and desirable to authorize the termination of the CMS Transaction and to authorize the President of the University and the Vice President for Finance and Administration and Treasurer to the Board of Trustee (each, an "Authorized Officer"), or either of them, to determine the most opportune time to terminate the CMS Transaction and to take such actions as are required to affect such termination;

NOW THEREFORE, BE IT RESOLVED, that the Board hereby authorizes the termination of the CMS Transaction, as described herein; and, now, be it further

RESOLVED, that any Authorized Officer may determine the effective termination date of the CMS Transaction and take such actions as may be required under the terms of the CMS Transaction to affect such termination; and, now, be it further

RESOLVED, that all resolutions or parts of resolutions or other proceedings of the Board in conflict herewith are hereby repealed insofar as such conflict exists.