

May 7, 2014

MEMORANDUM

TO: State Board of Regents

FROM: David L. Buhler

SUBJECT: Utah Educational Savings Plan (UESP) Line of Credit

Issue

In September 2013, UESP issued a new Request for Proposal (RFP) for banking services and ultimately awarded the contract to U.S. Bank. As part of that new contract, UESP needs to have a line of credit authorized with U.S. Bank. The line of credit is used as an efficient and short-term solution to invest account owners' contributions and ensure that UESP has adequate cash flow. UESP also seeks authorization to increase the size of the line of credit due to operational needs of its growing account owner base.

Background

UESP receives contributions by check, Automated Clearing House (ACH), payroll deduction, and bank wire. Prior to investing contributions, UESP deposits the funds into its bank account. Normally, the funds are invested the following business day. However, from time to time, some of the funds are not collected by the next business day and are not available for UESP to invest according to account owners' instructions.

The three primary sources for the delays are the following: (1) the float imposed by the bank on deposited checks, rendering approximately 80% of deposited funds available the next day; (2) moving funds between the various underlying investments in UESP may cause a delay in available funds; and (3) the bank's rejection of some contributions, usually due to insufficient funds in the contributor's bank account.

In March 2009, UESP received Board approval for a \$1 million line of credit with Zions Bank to eliminate the necessity of withholding funds from next-day investment. In April 2010, the Board approved the renewal of UESP's line of credit with Zions Bank and increased the limit to \$1.5 million. In March 2011, the Board approved the renewal of UESP's line of credit with Zions Bank and gave UESP the ability to renew the line of credit, with the approval of the Assistant Attorney General, so long as the terms of line of credit did not materially change.

In September 2013, UESP issued an RFP for banking services and the contract was subsequently awarded to U.S. Bank following the RFP process. UESP requests that the Board authorize the line of credit with U.S. Bank and increase the line of credit to \$2 million to bridge the periodic one-day delay of collected

funds. This line of credit will enable UESP to support the growth of the program and maintain the corresponding level of customer service. The estimated annual cost for the fee and interest is \$11,000 at 2.438% per annum.

The Assistant Attorney General Kevin Olsen has reviewed the terms of the line of credit.

Brief Summary of Line of Credit Terms

Date of Note:	May 17, 2014
Maturity Date:	May 17, 2016
Principal Amount:	Up to \$2 million
Variable Interest Rate:	Initial rate of 2.438% per annum (i.e., 75% of the Prime Rate), capped at a maximum of 10% per annum
Interest Payment Dates:	Monthly, beginning June 1, 2014
Other Terms:	The line of credit will be used by UESP only as needed for its operations and then repaid as funds are collected from UESP account owners

Commissioner's Recommendation

The Commissioner recommends the Regents approve UESP's request to establish a \$2 million line of credit with U.S. Bank to bridge the periodic one-day delay of collected funds. This line of credit has worked efficiently and effectively over the past five years and will enable UESP to support the growth of the program and maintain the corresponding level of customer service.

The Commissioner also recommends the Regents approve UESP's request to have the ability to renew the line of credit in the future, upon approval of the contract language by an Assistant Attorney General, if the terms of the contract do not materially change. Material changes would include the following: (1) any increase in the amount of the credit limit, or (2) an increase of more than 50 basis points in the rate UESP is charged by U.S. Bank.

The Commissioner recommends that these be approved, effective immediately.

David L. Buhler
Commissioner of Higher Education

DLB/LW/GD