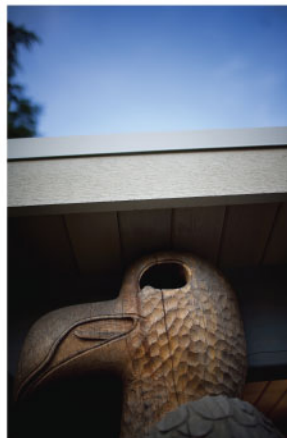




Financing Capital Investment: 'Bonds 101'

OSU Board of Trustees

July 18, 2014



Overview

- Goal: Develop an understanding of bonding programs available to OSU for capital project financing
 - State Bond Financing Options
 - University Bond Financing Options

State Bond Financing Options

The state bond financing options that are available to Oregon State University are:

- State General Obligation Bonds
 - Article XI-F(1) General Obligation Bonds
 - Article XI-G General Obligation Bonds
 - Article XI-M General Obligation Bonds
 - Article XI-Q General Obligation Bonds
- Lottery Bonds
- State Energy Loan Program (SELP) Loans

State General Obligation Bonds

- State General Obligation (GO) Bonds are backed by the full faith and credit of the State of Oregon
- Authorized by Articles in the Oregon Constitution specific to each GO bonding program
- Bond issuance must be authorized by legislative action
- Lower borrowing cost relative to non-GO bonds
- Repayment may come from the legislature or the university

Article XI-F(1) GO Bonds

- Used to acquire, construct, improve, equip and furnish buildings and other projects benefiting higher education
- Typically issued for auxiliary enterprise projects such as housing & dining and athletics facilities
- Have been used for academic facilities
- OSU must demonstrate sufficient operating revenues to pay debt service and operate the project
- General Fund appropriations may not be used to repay XI-F(1) bonds
- Current examples are \$42.7 million for the Student Experience Center and \$27.0 million for the New Student Residence

Article XI-G GO Bonds

- Used to acquire, construct, improve, equip and furnish buildings and other projects that benefit higher education *and are authorized to receive aid from the State General Fund*
- Limited to financing academic facilities
- Legislature or OSU must provide a dollar-for-dollar match to the XI-G bonds, which cannot be from proceeds of another type of GO bond
- Future General Fund appropriations are 'guaranteed' to repay XI-G bonds
- Current examples are \$32.5 million of the \$65.0 million for the Classroom Building, and \$7.85 million of the \$31.7 million for OSU-Cascades development

Article XI-M GO Bonds

- Used to plan and implement seismic rehabilitation of public education buildings
- Future General Fund appropriations are 'guaranteed' to repay XI-M bonds
- No State University has financed any projects via XI-M bonds

Article XI-Q GO Bonds

- Used to acquire, construct, remodel, repair, equip or furnish *real or personal property, including infrastructure* related to real or personal property
- Have been used to finance both personal property acquisition and capital construction
- Repayment source is determined by legislative action
- A current example is \$12.0 million in state-paid XI-Q bonds for the \$31.7 million OSU-Cascades development

Lottery Bonds

- Backed by Lottery revenues (not a GO bond)
- Used to acquire, construct, remodel, repair, equip or furnish educational projects
- Repayment is made from future Lottery revenues
- Must be authorized by legislative action
- A current example is \$24.1 million of the \$56.0 million for Austin Hall construction

SELP Loans

- Loans offered and approved by the Oregon Department of Energy (ODE)
- Financed by ODE revenue bond program
- Used for projects that save energy, produce energy from renewable resources, use recycled materials to create products or use alternative fuels
- Repayment is generally made from university revenues
- Repayment may be made from State General Fund appropriations as determined by legislative action
- May require legislative authorization, depending on repayment source
- Current examples are \$6.8 million of the \$15.6 million Nash Hall renovation, and \$6.9 million of the \$24.1 million Strand Agricultural Hall renovation

Choice of State Bond Program

The availability of State bonding programs is subject to:

- The State's debt capacity
 - General Fund supported – Debt service cannot exceed 5% of General Fund revenues
 - Lottery Revenue Bond covenants – Debt service coverage ratio of four times unobligated net lottery proceeds
- The Legislative climate for:
 - Issuing debt in general
 - Higher education debt

Once a capital request reaches the Legislature, the particular financing instrument might change

University Bond Financing Options

The university bond financing options available to Oregon State University are:

- OSU Revenue Bonds

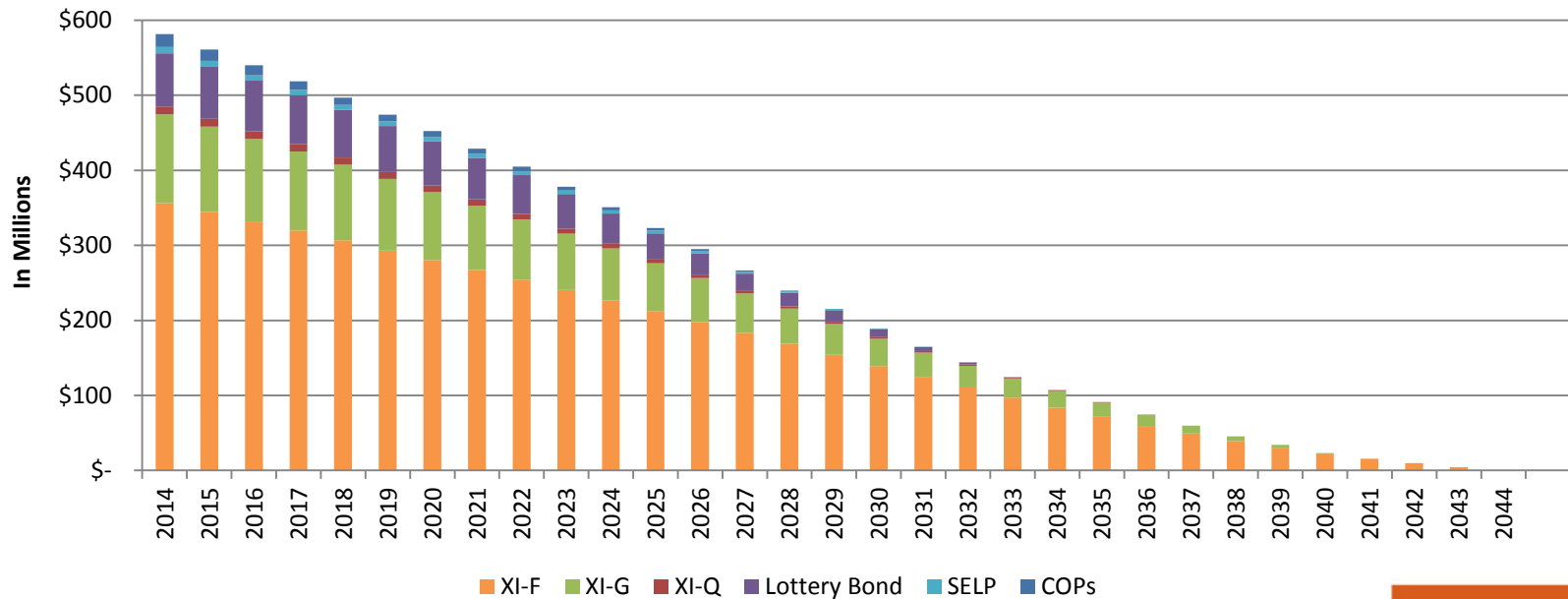
OSU Revenue Bonds

- Backed by a general or specific revenue pledge of the university
- Require OSU to obtain and maintain its own credit rating
- Repayment is made from pledged revenues
- No legislative action required
- First OSU Revenue Bond issuance planned for Spring of 2015
- Examples include the planned Spring 2015 issuance of \$32.5 million for the \$65.0 million Classroom Building and \$3.85 million for the \$31.7 million OSU-Cascades project to match XI-G bonds authorized for those projects

Bond Principal Outstanding

- Approximately \$350 million of principal is to be paid by the University, including all of the Article XI-F(1) Bonds and a portion of the COPs, Article XI-Q Bonds and SELP loans
- Nearly \$600 million of outstanding principal, including State-paid bonds

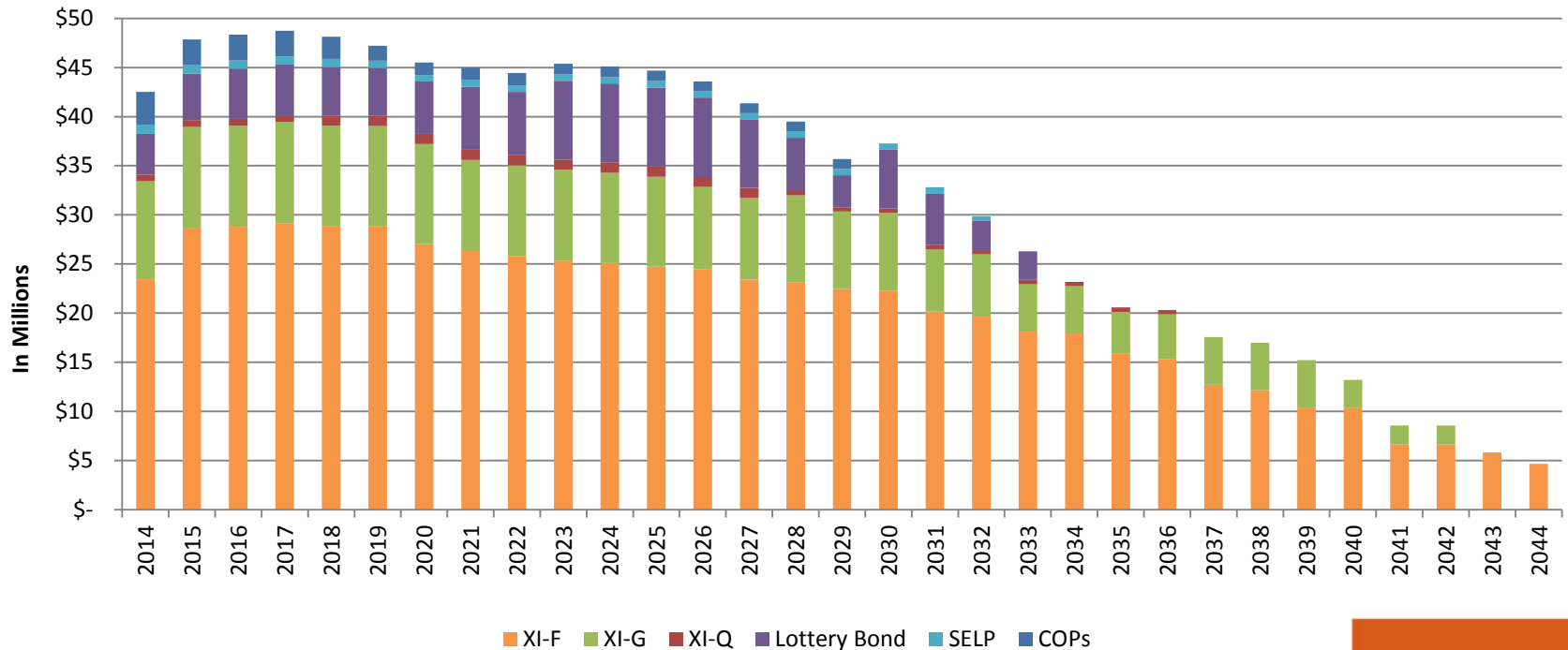
OSU Total Outstanding Principal



Annual Debt Service Payments

- Approximately \$30 million of debt service paid by the University, including all of the Article XI-F(1) Bonds and a portion of the COPs, Article XI-Q Bonds and SELP loans
- Approximately \$45 million of annual debt service, including State-paid bonds

OSU Total Debt Service



Planned Revenue Bond Issuance

- The University plans to seek approval to issue approximately \$60 million of Revenue Bonds during fiscal year 2015
- The University and PFM, OSU's financial advisor, will work together to prepare for issuance, including:
 - Selection of financing team
 - Development of credit and security structure
 - Preparation and planning for initial rating assignment
 - Bond structuring and documentation
 - Authorization by the OSU Board
 - Public bond offering

Summary

The bond financing options available to OSU are:

- State Bond Financing Options
 - XI-F(1) Bonds
 - XI-G Bonds
 - XI-M Bonds
 - XI-Q Bonds
 - Lottery Bonds
 - SELP Loans
- University Bond Financing Options
 - OSU Revenue Bonds

Questions?



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