

Internal Bank Annual Report

BACKGROUND

The Internal Bank Annual Report is provided pursuant to the university's Internal Bank Policy. This report provides the financial position of the Internal Bank as of June 30, 2022, and the activity of its central loan program for the year then ended. Please note that the performance of investments is reported to the board on a quarterly basis and therefore is not a focus of this report.

PERFORMANCE REPORT

Assets

Assets totaled \$1,206.6M, consisting of \$210.0M in cash equivalents, \$408.3M in investments and \$588.3M in loans to university departments.

Liabilities

Liabilities totaled \$1,212.0M, consisting of \$293.6M in university departmental deposits, \$908.0M in long-term debt to investors, and \$10.4M in accounts payable and accrued liabilities.

Net Position

The ending net position was \$(5.3M). The \$21.3M decrease from the prior year is primarily driven by rising interest rates and overall market volatility, causing unrealized losses of \$5.6M from operating investments, unrealized losses of \$7.2M from nonoperating investments, and realized losses of \$1.5M on the sale of investments. Additionally, in this year of lower returns, Interest and Investment Income was \$6.4M less than total debt service payments, which included the first full year of debt service relating to the 2020 \$302M bond issuance. Because the investments that experienced unrealized losses are intended to be held to maturity, we do not anticipate these losses to be realized. All realized losses are from operational transactions affecting the PUF Core Bond Fund in FY2022. The economic outlook is for interest rates to peak in 2023 and begin to decline in 2024. The expectation is that net losses in FY2023 will be realized primarily from operating activities in the PUF. A mitigation strategy to monitor inflows to better match outflows has been put in place in FY2023 to reduce realized losses from the PUF Core Bond Fund. The current year deficit and the deficit projected for next year are not indicative of long-term projected operating results. The negative net asset balance is expected to return to positive in the next two to three years with normalization of the treasury yield curve and expected investment return performance.

The following table provides a comparison of the major balance sheet categories for 2022 actual vs. 2021 actual.

For the year ended June 30	Actual 2022	Actual 2021	Change
Total Cash Equivalents	\$209,979,535	\$298,977,422	\$(88,997,887)
Total Investments	408,302,543	373,462,931	34,839,612
Total Prepaid Expenses	18,557	0	18,557
Total Loans	588,338,367	526,573,473	61,764,894
Total Due to Other Funds	293,577,793	256,341,815	37,235,978
Total Debt	908,020,559	916,034,840	(8,014,281)
Total Other Liabilities	10,381,137	10,654,943	(273,806)
Net Position	\$(5,340,486)	\$15,982,228	\$(21,322,714)

- The \$89.0M decrease in Total Cash Equivalents is mainly due to an increase in the amount of operating cash transferred to investments during the year combined with increased loans that utilized bank cash.
- The \$34.8M increase in Total Investments is mainly due to an increase in total dollars invested of \$43.3M offset by decreases in market value of \$8.5M.
- The \$61.8M increase in Total Loans is due to \$90.5M in new loans to university borrowers less \$28.3M in principal payments made by university borrowers and a \$0.4M premium/discount amortization of XI-F(1) tax exempt funded loans.
- The \$37.2M increase in Total Due to Other Funds is mainly due to an increase in university funds which have been invested in the P.U.F. Core Bond Fund.
- The \$8.0M decrease in Total Debt is mainly due to \$7.5M of XI-F(1) principal debt payments and \$0.5M unamortized premium.
- The \$0.3M decrease in Total Other Liabilities is due to lower interest accrual on debt.

Operations

Net Interest Margin – Income from loans and investments totaled \$21.6M with associated interest expense totaling \$35.0M. The resulting net interest margin was negative \$13.4M.

Operating Expenses – Operating expenses totaled \$0.8M. The majority of these expenses were costs associated with personnel services, management consulting, and professional services.

Change in Net Position – Net Position decreased \$21.3M from operations.

The following table provides a comparison of the major operating categories for 2022 actual vs. budget.

For the year ended June 30	Actual 2022	Budget 2022	Variance
Total Interest Income	\$21,666,669	\$31,566,758	\$(9,900,089)
Total Interest Expense	34,969,022	37,054,251	2,085,229
Net Interest Margin	(13,302,354)	(5,487,493)	(7,814,861)
Total Operating Expenses	776,799	1,159,000	382,201
Net from Operations	\$(14,079,152)	\$(6,646,493)	\$(7,432,659)

- The \$9.9M negative variance to budget in Total Interest Income is mainly due to greater-than-anticipated unrealized losses on investments of \$6.0M and realized losses on investment of \$2.0M, \$1.2M of lower-than-anticipated interest earnings on deposits, and \$0.7M lower interest income on internal loans.
- The \$2.1M positive variance to budget in Total Interest Expense is mainly due to \$1.4M lower interest paid for debt and less interest distribution paid on deposits of \$0.7M.
- The \$0.4M positive variance to budget in Total Operating Expenses is mainly due lower consulting services.

The FY2022 Internal Bank financial statements and portfolio reports are provided in Attachment 1.

RECOMMENDATION

Staff recommend that the Finance & Administration Committee accept the FY2022 Internal Bank Annual Report.

Oregon State University Internal Bank

Statement of Net Position - Unaudited

As of June 30,	2022	2021
ASSETS		
Cash Equivalents		
Customer Cash	\$ 150,090,907	\$ 152,488,838
Bank Cash	59,888,628	146,488,584
Total Cash Equivalents	<u>209,979,535</u>	<u>298,977,422</u>
Investments		
Other Investment Funds	264,815,657	269,609,953
P.U.F. Core Bond Fund	141,572,822	102,481,249
Net Unrealized Gain/(Loss)	1,914,064	1,371,729
Total Investments	<u>408,302,543</u>	<u>373,462,931</u>
Prepaid Expenses	18,557	-
Loans		
Loans	585,015,228	522,854,419
Premium/(Discounts) on Loans	3,323,139	3,719,054
Total Loans	<u>588,338,367</u>	<u>526,573,473</u>
Total Assets	<u>\$ 1,206,639,002</u>	<u>\$ 1,199,013,826</u>
LIABILITIES		
Due to Other Funds		
Deposits	\$ 293,577,793	256,341,815
Total Due to Other Funds	<u>293,577,793</u>	<u>256,341,815</u>
Debt		
XI-F(1) Long Term Debt	245,232,057	252,792,840
XI-F(1) Long-Term Accreted Interest	-	87,093
JPM Notes Payable	40,000,000	40,000,000
2015 A&B Revenue Bonds Long-Term Debt	51,115,000	51,115,000
2015 A Revenue Bonds Unamortized Premium	4,634,076	4,835,414
2016 A&B Revenue Bonds Long-Term Debt	47,260,000	47,260,000
2016 A Revenue Bonds Unamortized Premium	4,129,425	4,294,494
2017 Taxable Revenue Bonds	72,705,000	72,705,000
2019 Taxable Revenue Bonds	140,000,000	140,000,000
2020 Taxable Revenue Bonds	302,945,000	302,945,000
Total Debt	<u>908,020,559</u>	<u>916,034,840</u>
Other Liabilities		
Accounts Payable and Accrued Liabilities	10,381,137	10,654,943
Total Liabilities	<u>\$ 1,211,979,488</u>	<u>\$ 1,183,031,598</u>
NET POSITION	<u>\$ (5,340,486)</u>	<u>\$ 15,982,228</u>

January 19-20, 2023 Board of Trustees Meetings

Oregon State University Internal Bank
Statement of Revenues, Expenses & Changes in Net Position - Unaudited

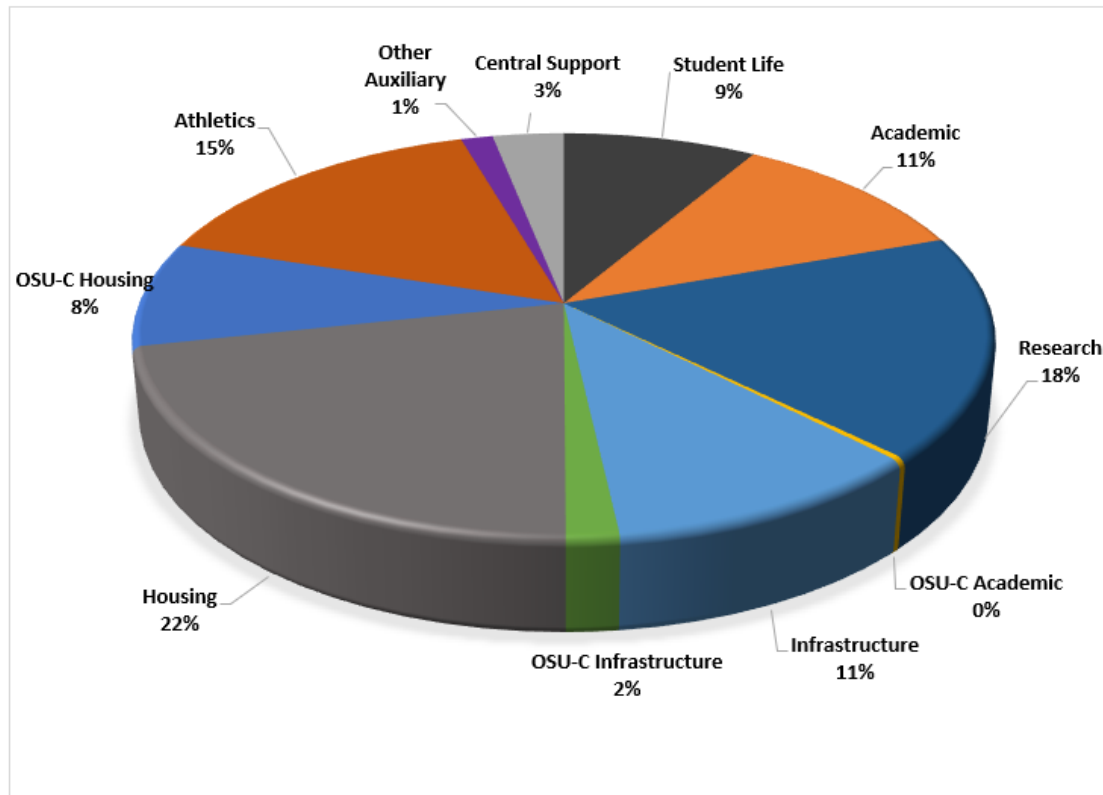
For the year ended June 30,	Budget 2023	Actual 2022	Restated * Actual 2021
INTEREST INCOME			
Interest and Investment Income	\$27,670,000	\$24,876,311	\$22,882,437
Earnings on Cash	3,120,000	3,442,005	4,812,814
Gain (Loss) on Sale of Investments	(3,000,000)	(1,462,744)	387,227
Net Appreciation (Depreciation) of Investments	-	(5,555,309)	478,297 *
Revenue Bond Premium	366,758	366,406	366,858
Total Interest Income	<u>28,156,758</u>	<u>\$21,666,669</u>	<u>\$28,927,635 *</u>
INTEREST EXPENSE			
Debt Service Interest Expense	31,700,000	30,910,923	26,870,323
Net Premium/Discount Expense	377,844	395,916	441,836
Interest Paid on Deposits	2,960,000	3,662,184	4,588,929
Total Interest Expense	<u>35,037,844</u>	<u>34,969,022</u>	<u>31,901,087</u>
Net Interest Margin	<u>(6,881,086)</u>	<u>(13,302,354)</u>	<u>(2,973,453) *</u>
OPERATING EXPENSES			
Personnel Services	550,864	474,256	335,503
Legal Services	100,000	1,661	123,551
Management Consulting Services	75,000	132,584	290,220
Professional Services	70,087	104,620	2,821,128
Pooled University Fund Assessment	57,364	62,437	29,038
Software License	39,000	-	-
Miscellaneous Supplies	5,850	1,241	1,982
Total Operating Expenses	<u>898,165</u>	<u>776,799</u>	<u>3,601,422</u>
Net from Operations	<u>(7,779,251)</u>	<u>(14,079,152)</u>	<u>(6,574,875) *</u>
NONOPERATING REVENUES AND EXPENSES			
Net Unrealized Gain/(Loss)	-	(7,243,562)	481,656 *
Gain/(Loss) on Bond Refunding	-	-	(16,304,336)
Total Net Nonoperating	<u>-</u>	<u>(7,243,562)</u>	<u>(15,822,680) *</u>
(Decrease) in Net Position	<u>(7,779,251)</u>	<u>(21,322,714)</u>	<u>(22,397,554)</u>
NET POSITION			
Beginning Balance	(\$5,340,486)	\$15,982,228	\$38,379,782
Ending Balance	<u>(\$13,119,737)</u>	<u>(\$5,340,486)</u>	<u>\$15,982,228</u>

* Restated Nonoperating Net Unrealized Gain/Loss included in Net Appreciation (Depreciation) of Investments in FY2021.

Graph 1

Internal Bank Portfolio Summary

As of June 30, 2022



Source of Funds	Loans Outstanding (\$MM)
Debt	\$527.3
Gifts	17.1
Internal Funds	40.6
Total	\$585.0

Borrowing Unit / Obligor	Loans Outstanding (\$MM)
Student Life	\$49.8
Academic	64.2
Research	104.6
OSU-C Academic	1.6
Infrastructure	62.0
OSU-C Infrastructure	10.1
Housing	126.7
OSU-C Housing	49.1
Athletics	90.6
Other Auxiliary	8.2
Central Support	18.3
Total	\$585.0

FAC Agenda Item 4c – Attachment 1

Internal Bank Master List - Customer Outstanding Loans (\$MM)

Table 1

As of June 30, 2022

Permanent Loans	Total Funds Spent	Current Outstanding Balance	Anticipated Totals		Loan Maturity
			Interest	Debt Service	
Debt Funded Loans					
XI-F(1) Bonds					
McAlexander Fieldhouse Renovation	\$2.5	\$1.6	\$0.4	\$2.0	6/30/2030
Intramural Field Renovation	5.8	3.7	0.9	4.6	6/30/2030
MU	9.3	6.6	2.4	9.0	6/30/2034
Parking	7.5	5.4	1.9	7.2	6/30/2035
Vet Med	5.6	3.5	1.2	4.7	6/30/2036
Dorms - Poling, Tebeau, Sackett, Arnold Dining	70.0	47.1	21.9	69.1	6/30/2044
International Hall (INTO)	47.1	40.0	22.3	62.3	6/30/2040
Energy/Steam	13.5	10.9	5.4	16.3	6/30/2040
Life Science Center Tax Exempt	10.5	8.9	5.3	14.2	6/30/2041
Life Science Center Taxable	1.2	1.0	0.6	1.6	6/30/2041
Student Experience Center	43.0	37.0	25.8	62.8	6/30/2044
Food Innovation Center	2.2	0.7	0.1	0.7	6/30/2027
Athletics	81.1	67.5	54.5	122.0	6/30/2047
Cascades Campus Expansion - Bend	4.1	3.6	2.5	6.2	6/30/2044
15A Revenue Bonds Tax-Exempt					
Classroom Bldg (LinC)	32.5	28.4	20.9	49.3	3/1/2045
OSU Marine Geology Repository	5.9	5.1	3.8	8.9	3/1/2045
Cascade Master Plan	2.0	1.5	0.6	2.1	12/31/2035
Cascade Expansion	5.4	4.9	3.6	8.6	3/1/2045
Space Improvement Program	1.0	0.9	0.8	1.7	3/1/2048
15B Revenue Bond Taxable - Space Improvement Program					
	10.0	8.9	6.5	15.4	3/1/2045
16A & 16B Revenue Bonds Tax-Exempt & Taxable					
Cascade Housing and Dining	41.7	49.1	22.2	71.3	6/30/2045
IT Infrastructure	4.2	3.6	1.8	5.5	12/31/2039
16B Revenue Bonds Taxable					
Fiberoptic Cable Infrastructure Statewide	4.5	4.2	2.2	6.4	6/30/2040
Fiberoptic Cable Infrastructure Statewide - Phase 2	1.0	1.0	0.5	1.5	12/31/2040
17A Revenue Bonds Taxable					
Steam Line/Utility Tunnel	7.8	5.4	0.7	6.1	12/31/2028
Snell Low Rise Fine Arts Remodel	1.7	1.2	0.1	1.3	12/31/2028
OSU Marine Geology Repository	3.6	2.4	0.3	2.7	12/31/2028
19 Revenue Bonds Taxable					
Research Way Lab Building Purchase	19.8	18.6	15.8	34.4	6/30/2048
Marine Studies Initiative Building	9.7	9.6	8.8	18.4	12/31/2051
Finley Hall Renovation	9.8	9.6	7.0	16.5	6/30/2046
Gymnastics Building Purchase	0.5	0.5	0.4	0.9	6/30/2050
Gymnastics Facility Renovation	5.2	3.8	7.5	11.2	12/31/2032
GEM Leasehold Interest Buyout	16.5	16.5	12.6	29.1	6/20/2047
20 Revenue Note Taxable*					
Athletics COVID-19 Debt Relief	1.5	1.0	0.0	1.1	6/30/2024
E&G COVID-19 Debt Relief	2.1	1.4	0.1	1.5	6/30/2024
E&G CIR IB Pool (12 mo. ending 3/31/2021)	2.3	2.0	0.3	2.3	12/31/2030
E&G CIR IB Pool (12 mo. ending 3/31/2022)	3.5	3.3	0.6	3.9	12/31/2031
Debt Funded Total	\$495.7	\$420.5	\$262.5	\$683.0	
Internally Funded Loans					
Magruder classroom/lab expansion	\$10.0	\$8.9	\$1.6	\$10.5	6/30/2031
ATAMI laboratory remodel	8.8	6.8	1.0	7.8	12/31/2029
ATAMI (2) laboratory remodel	1.0	0.6	0.0	0.6	6/30/2025
Hawley Hall Roof Replacement	1.1	0.9	0.1	0.9	6/30/2026
Wilson Hall Roof Replacement	0.6	0.5	0.0	0.5	6/30/2026
West Hall Roof Replacement	1.2	1.0	0.1	1.0	6/30/2026
Buxton Hall Roof Replacement	1.1	0.9	0.1	1.0	6/30/2026
Finley Hall Roof Replacement	0.9	0.5	0.0	0.5	12/31/2025
Cauthorn-Buxton Curtain Wall	0.9	0.8	0.1	0.8	12/31/2027
Cauthorn Fire Suppression	0.9	0.8	0.1	0.9	12/31/2026
COB IT back-up storage equipment	0.1	0.0	0.0	0.0	12/31/2024
Cauthorn windows	1.5	1.4	0.1	1.5	12/31/2026
Poling windows	1.2	1.1	0.1	1.2	12/31/2026
UIT Equipment Loan - Link Oregon	3.2	2.8	0.3	3.1	6/30/2028
Internally Funded Total	\$32.4	\$26.9	\$3.5	\$30.4	

* short-term borrowing used as bridge funding

January 19-20, 2023 Board of Trustees Meetings

Internal Bank Master List - Customer Outstanding Loans (\$MM)
As of June 30, 2022

Table 2

Permanent Loans (Continued)	Total Funds Spent	Current Outstanding Balance	Anticipated Totals		Loan Maturity
			Interest	Debt Service	
Gift Funded Loans*					
Coleman Field	\$1.5	\$0.2	\$0.0	\$0.2	7/31/2022
Goss Stadium Locker Room	2.8	0.6	0.1	0.7	6/30/2025
Goss Omaha/ Balcony / Scoreboard	1.5	0.8	0.1	0.9	6/30/2026
Valley Football Center	30.0	11.0	1.1	12.1	6/30/2030
Cascade Tykeson Expansion	1.2	0.0	0.0	0.0	6/30/2023
Forest Science Complex	8.0	0.7	0.0	0.7	12/30/2023
Magruder Linear Accelerator	2.7	0.5	0.0	0.5	6/30/2026
WB Locker Room Renovation	2.1	0.0	0.0	0.1	6/30/2024
Soccer Bleachers	1.0	0.5	0.0	0.5	6/30/2024
Gymnastics Facility Renovation	1.0	0.7	0.0	0.7	12/31/2026
OSU-C Ed Ray Hall Building	2.3	1.4	0.1	1.5	8/31/2022
Marine Studies Initiative	1.4	0.7	0.1	0.8	6/30/2025
Gifts Funded Total	\$55.4	\$17.1	\$1.6	\$18.7	
Total Permanent Loans	\$583.5	\$464.5	\$267.6	\$732.1	

* short-term borrowing used as bridge funding

Internal Bank Master List - Customer Outstanding Loans (\$MM)
As of June 30, 2022

Temporary Construction Loans	Current Outstanding Balance	Anticipated Totals		
		Funds Use	Interest	Debt Service
Debt Funded Loans				
17A Revenue Bonds Taxable				
Gilkey Hall Renovation	\$0.0	\$3.0	\$2.8	\$5.8
HMSC - Newport Housing	1.8	10.0	9.4	19.4
Upper Division/Graduate Housing	4.0	50.0	46.9	96.9
19 Revenue Bonds Taxable				
Campus Operation Center / Shops Demo	20.9	23.5	22.1	45.6
Washington Way	2.2	24.0	10.4	34.4
Cascade Hall Renovation	2.8	3.0	0.6	3.6
Research Way Lab remodel	9.6	10.0	7.5	17.5
Whyte track & field	0.0	1.2	0.2	1.4
OSU-C Student Success Center Phase 1	0.1	5.0	4.7	9.7
20 Revenue Bonds Taxable				
Cordley Hall Renovation	47.9	55.0	40.3	95.3
HMSC Research Sea Water Distribution System	3.4	5.0	3.0	8.0
Withycombe Hall East and West Renovation	1.1	27.0	25.4	52.4
Ship Operations Dock Replacement	0.1	7.0	4.1	11.1
Carbon Neutrality projects	0.4	5.0	1.0	6.0
OSU-C Land Development - Area 2	0.0	24.0	23.8	47.8
Student Health Services (Reser Stadium Project)	0.9	17.5	16.4	33.9
Welcome Center (Reser Stadium Project)	0.0	10.5	9.9	20.4
Electrical infrastructure repair/renovation	0.0	5.0	0.7	5.7
20 Revenue Note Taxable*				
E&G Capital Improvement & Renewal	11.5	31.3	6.1	37.4
Debt Funded Total	\$106.8	\$317.0	\$235.1	\$552.1
Internally Funded Loans				
Western Parking Lot	0.9	1.4	0.1	1.5
College of Engineering	0.0	5.0	1.0	6.0
Reser video board	0.1	4.8	0.4	5.3
Bridge Loan for State Funding - Cordley Hall	8.9	15.4	0.5	15.9
Bridge Loan for State Funding - OSU-C Land Dev.	0.0	10.0	0.0	10.0
Bridge Loan for XI-F(1) Bond - Reser Stadium	3.8	40.0	0.3	40.3
Internally Funded Total	\$13.7	\$76.6	\$2.4	\$79.0
Total Temporary Construction Loans	\$120.5	\$393.6	\$237.5	\$631.1

* short-term borrowing used as bridge funding

Table 3

Internal Bank - Unspent Bond Proceeds (\$MM)¹

As of June 30, 2022

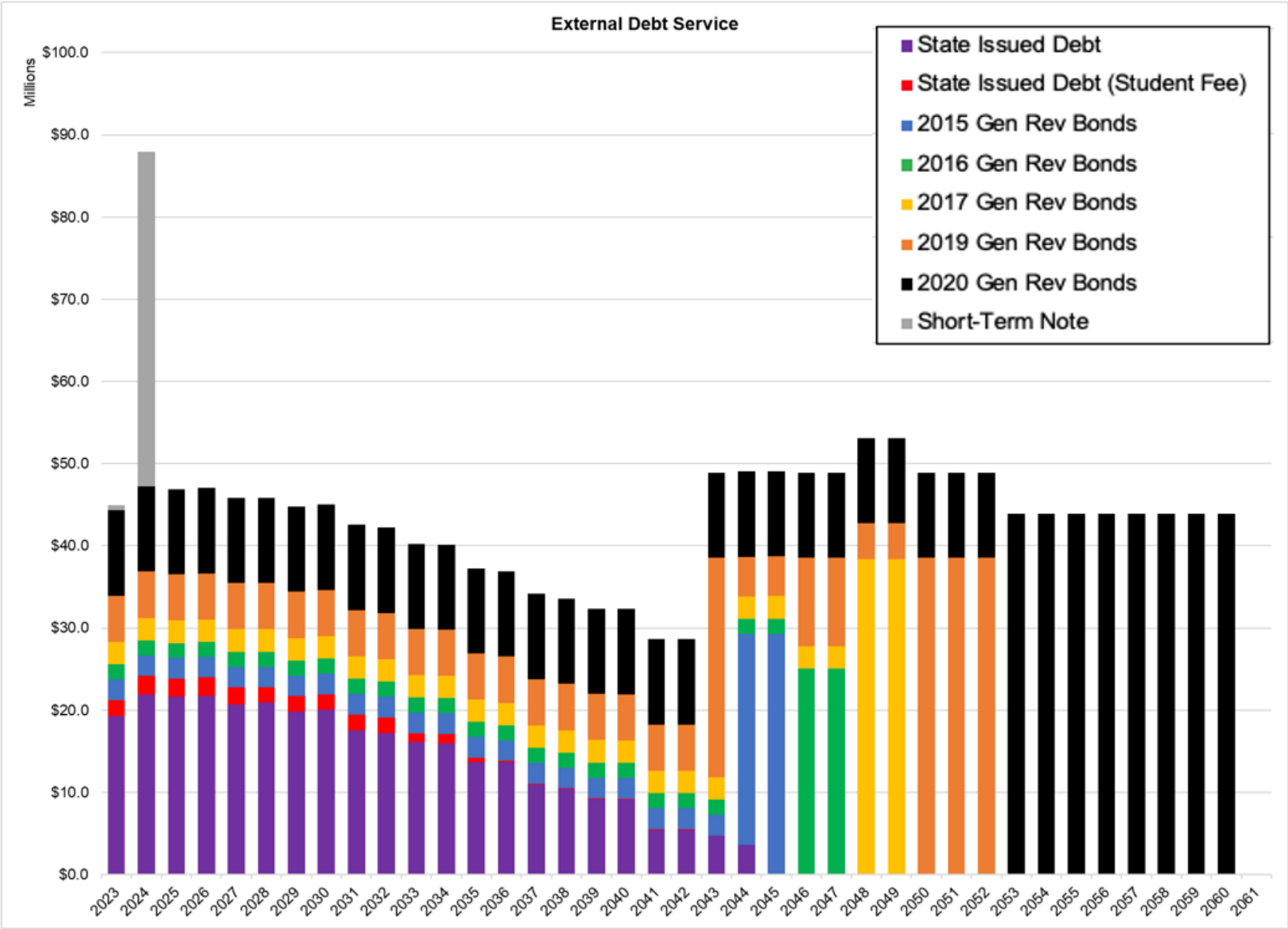
General Revenue Bond Series	Unspent Bond Proceeds	Allocated	Unallocated
2015B Taxable	\$0.0	\$0.0	\$0.0
2016B Taxable	0.8	0.0	0.8
2017 Taxable	53.4	53.4	0.0
2019 Taxable	43.2	35.4	7.7
2020 Taxable	207.6	102.3	105.3
Total	\$304.9	\$191.1	\$113.8

¹ Book value does not reflect unrealized gains or losses

Internal Bank Status Summary	Amount
Current Cashflow	
Internal Bank Cash	62.8
Invested Unspent Bond Proceeds	227.9
Construction Project Funding - unspent	(273.2)
Net Internal Bank Cash	\$ 17.5
Future Cashflow	
External Debt Payable	(1,724.3)
Bond Repayment Investment Reserve Target	532.8
Internal Bank Loans Receivable	1,363.2
Net Cumulative Future Cashflow	\$ 171.8

Internal Bank Debt Portfolio - Plan of Finance
As of June 30, 2022

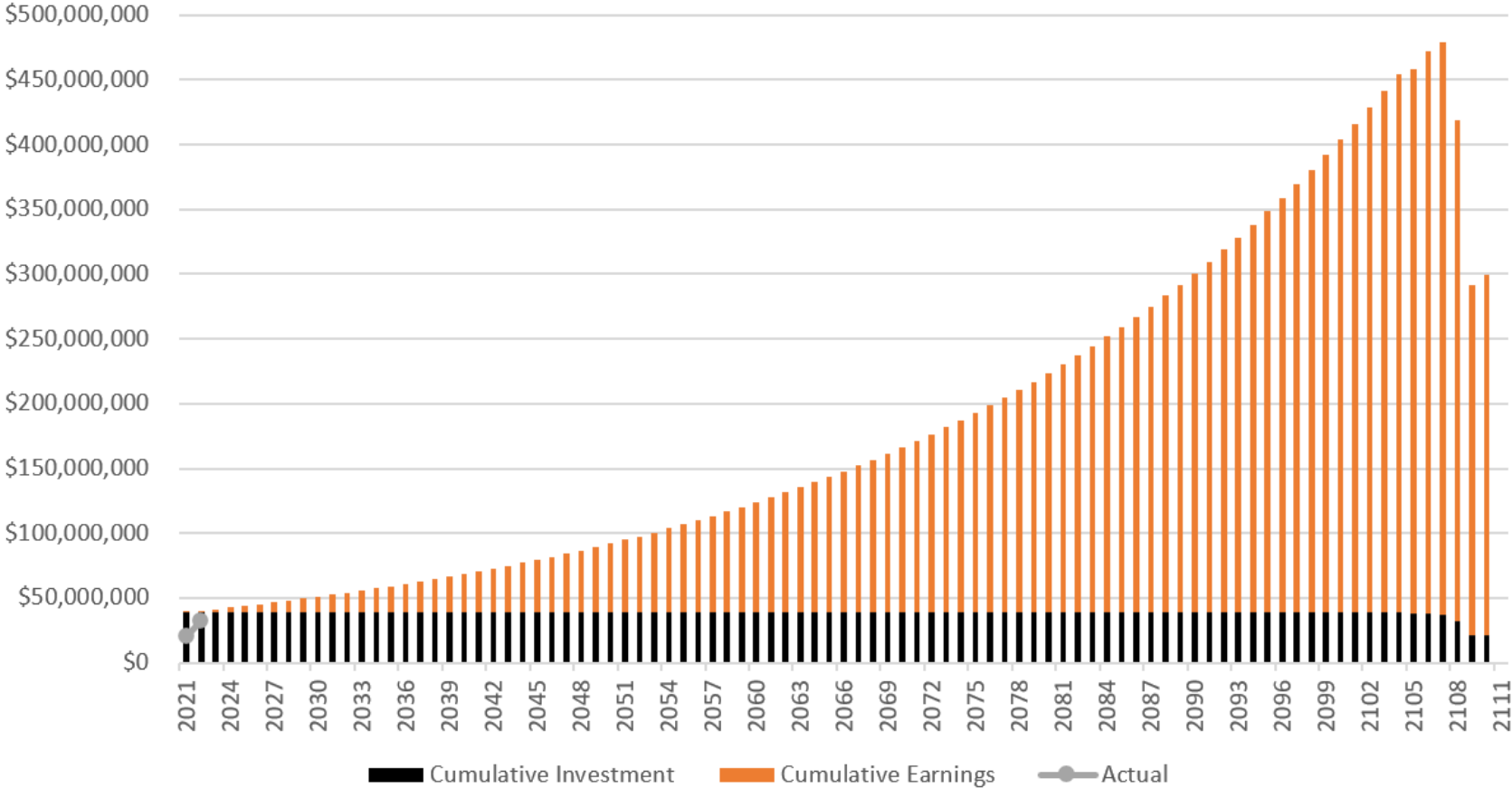
Graph 2



January 19-20, 2023 Board of Trustees Meetings

Graph 3

Bond Repayment Investment Assumed Investment Earning Rate 3.00%



The university reserve funded with a portion of the 2020 Bond proceeds is not a debt service reserve for the 2020 Bonds and is not pledged to bondholders. Except as otherwise provided by the Board, the reserve will be invested pursuant to the university investment policy, as it may be amended from time to time, to provide a reserve for the university to use for payment of taxable university obligations over the long term.