Oregon State University
Debt Policy

I. Purpose of the Debt Policy

In support of its mission, Oregon State University (University) maintains a long-term strategic plan. The strategic plan establishes University-wide priorities as well as divisional programmatic objectives. In support of its strategic plan, the University maintains a capital forecast to support these priorities and objectives.

The Debt Policy formalizes the link between the University's strategic plan and the issuance of debt. Debt is a limited resource that must be managed strategically in order to best support the University's priorities. The University's use of debt plays a critical role in ensuring adequate and cost-effective funding for its capital forecast and operating needs. By linking the objectives of the Debt Policy to the University's strategic objectives, the university increases the likelihood of achieving its mission.

The objectives of this policy are to:

a) Outline the University's philosophy on debt.
b) Provide guidance for the use of bonding programs available to the University.
c) Establish a control framework for approving and managing debt including reporting guidelines.
d) Identify metrics to monitor debt capacity and affordability.
e) Identify financing sources available to the University.
f) Establish a framework for analyzing and managing debt portfolio risk and opportunities.
g) Describe the goals of a Central Loan Program within the University's Internal Bank.
h) Provide an ongoing monitoring and reporting framework.

Under the policy, debt is being managed to achieve the following goals:

a) Maintain access to financial markets: capital, money and bank markets.
b) Manage the University's credit rating to maintain the highest possible credit worthiness based on the strategic needs of the University.
c) Optimize the University's debt mix (e.g. fixed/floating rate mix, average life, weighted average cost of capital, liquidity objectives, etc.)
d) Ensure funds are available to support future capital investments and strategic initiatives.
e) Coordinate debt management decisions with asset management decisions to optimize the overall funding and portfolio management strategies.

II. Bond Programs

The University has a range of State and University bond financing options available for its capital investment financing needs, as described below.

State General Obligation (GO) Bonds

State GO Bonds are backed by the full faith and credit of the State of Oregon and are authorized by Articles in the Oregon Constitution specific to each GO bonding program, as shown below. Bond issuance must be authorized by legislative action and repayment ay come from the State or the University.

Article XI-F(1) Bonds	• Used for higher education projects. • Typically issued for auxiliary enterprise projects as the University must demonstrate sufficient operating revenues to pay debt service and operate the project. • General Fund appropriations may not be used to repay bonds.
Article XI-G Bonds	• Used for higher education projects which are authorized to receive aid from the State General Fund. • Limited to financing academic facilities. • The Legislature or the University must provide a dollar-for-dollar match to XI-G bonds, which cannot be from proceeds of another GO bond. • Future General Fund appropriations are 'guaranteed' to repay XI-G bonds.
Article XI-M Bonds	• Used to plan and implement seismic rehabilitation of public education buildings. • Future General Fund appropriations are 'guaranteed' to repay XI-M bonds.
Article XI-Q Bonds	• Used to finance both personal property acquisition and capital construction. • Repayment source is determined by legislative action.

Lottery Bonds

Lottery bonds are backed by lottery revenues and may be used for educational projects authorized by legislative action. Repayment is made from future lottery revenues.

State Energy Loan Program (SELP) Loans

SELP Loans are offered and approved by the Oregon Department of Energy for projects thar save energy, produce energy from renewable resources or use recycled materials to create products, or use alternative fuels. SELP Loans are financed by State GO Bonds and repayment is generally made from university revenues, although they can be repaid using State General Funds appropriations as authorized by legislative action.

Availability of State Bond Program

The availability of State bonding programs is subject to:

- The State's debt capacity
- Compliance with lottery revenue bond covenants
- Legislative approval

Revenue Bonds

In addition to State bonding programs, the University may issue University Revenue Bonds based on its own credit rating. University Revenue Bonds may be backed by a general or specific revenue pledge of the University. No legislative action is required for the issuance of University Revenue Bonds.

Bond Program Selection

University Revenue Bonds potentially offer the most flexibility in funding capital investments.

Important advantages include:

1. Provide a source of matching funds for State GO Bonds.
2. Project timing is not constrained by the legislative approval process.
3. Access to funds is not constrained by competing legislative priorities.
4. Funding is not constrained by State debt capacity limits or lottery revenue bond covenants.

While these represent important considerations, the University recognizes that other State bond programs may be preferable depending on the circumstances, especially if State or lottery funds are the source of repayment. As a general guideline, the University will pursue the bond program that results in the lowest cost of funds and/or the most favorable terms while considering timing and project constraints.

III. Scope of Debt Policy

The University recognizes it has limited control over debt issuance and management decisions for State GO and Lottery Bonds when University revenues are not the source of repayment. As such, these decisions are not included in the scope of the Debt Policy. However, the University will consider such debt in its overall assessment of debt capacity and affordability.

In addition to bonds payable from University revenues, other forms of direct and indirect debt covered by this policy may include but are not limited to:

- Leases – capital or operating

- Bank loans, lines of credit and any other debt instruments provided by third party credit providers
- Off-balance sheet financing structures
- Public-Private Partnerships

IV. Capital Investment Funding Prioritization

The University has a capital planning process in which capital investments are vetted for debt financing based on their economics, strategic importance and other relevant factors. The capital forecast will be reviewed and approved by the Oregon State University Board of Trustees (Board) periodically, and only Board-approved capital investments will be eligible for funding, with the exception of specific debt or lease transactions that have been delegated to the University vice president for finance and administration.

V. Debt Management Approval Process

The University vice president for finance and administration is responsible for implementing this policy and for all debt financing activities of the University. This policy provides the framework for debt management decisions.

All new debt issuances will be authorized through a Board resolution that includes any specific parameters regarding the size, structure and pricing of the transaction. The University vice president for finance and administration will report to the Board's Finance and Administration Committee, no less than annually, any issues that may impact the University's debt capacity resulting from unanticipated changes in operating or investment performance.

VI. Selection of Finance Consultants and Service Providers

The University vice president for finance and administration or his/her designee shall be responsible for establishing a selection process for securing professional services related to the issuance or management of debt. The professional services shall be provided by qualified professionals and firms with experience in municipal finance, higher education and providing such services to Oregon-based entities.

Described below are guidelines for the selection and hiring of professional service providers:

a) *Bond Counsel* – The University's Office of General Counsel and the vice president for finance and administration may jointly appoint a qualified bond counsel firm.
b) *Financial Advisor* – The University vice president for finance and administration may select a financial advisor to assist the University with the issuance and management of debt, as well as with ongoing strategic and financial planning advice.
c) *Underwriters* – The University vice president for finance and administration may select underwriters to execute the sale of bonds on the University's behalf.

d) *Banks and Other Credit Providers* – The University vice president for finance and administration may select banks or other credit providers to provide financing on an interim or permanent basis for operating or capital purposes.
e) *Other Service Providers* – The University vice president for finance and administration may periodically solicit for providers of other services necessary to carry out the debt issuance and management activities of the University, including disclosure counsel, paying agent, escrow agent, verification agent, trustee, and services related to post-issuance compliance, among others.

VII. Debt Capacity and Affordability

Debt capacity is a subjective measure, typically associated with balance sheet strength and the ability to repay debt on demand. The University's risk tolerance will inform the amount of leverage that can comfortably be assumed.

Debt affordability is also a subjective measure and typically associated with income statement strength. Operating performance and the ability to meet debt service requirements will inform the affordability of existing and additional debt.

The University recognizes that its strategy and mission must be the primary drivers of its capital investment and use of debt. Although external credit ratings provide a view on debt capacity and affordability, the University will not manage its debt portfolio to achieve a specific rating. Success in achieving University objectives will result in a stronger financial profile and higher ratings over time.

The University will monitor four financial ratios to assist the Board in evaluating debt capacity and affordability in consideration of operating performance, as described below.

1. EBIDA Margin (operating performance ratio)
   Earnings before interest, depreciation and amortization / total revenue
   Measures the ability to repay debt from operating revenue as well as invest in academic programs and facilities to advance its strategic objectives

2. Total Cash and Investments to Operating Expenses (reserve levels and debt capacity ratio)
   Measures level of available reserves to meet the university's operating expenditures

3. Total Cash and Investments to Adjusted Debt (reserve levels and debt capacity ratio)
   Adjusted Debt is total short-term, long-term, and off-balance sheet debt. Adjusted Debt will typically include both debt and equity associated with any public-private partnership net of externally held mandatory sinking funds
   Debt capacity ratio measures ability to repay debt and other debt-like obligations, such as pensions, with available financial resources

4. Debt Service Coverage (debt affordability ratio)
   EBIDA / Annual Debt Service
   Measures the sufficiency of operations on a cash flow basis to cover debt service

All ratio calculations will be based on industry standards and include all 'direct debt'. In addition to bonds and bank debt, direct debt includes capital leases and any off-balance sheet or similar financing structures that would be considered on-credit.

Indirect debt, such as operating leases, is excluded from the above calculations. However, indirect debt is considered part of the University's 'comprehensive debt', which is a broader measure of the University's debt obligations. The University recognizes that the use of indirect debt has an impact on debt capacity and affordability.

Prior to the issuance of any new debt, the University vice president for finance and administration will evaluate the impact on these ratios for discussion with the Finance and Administration Committee of the Board.

VIII. Financing Sources

The University has access to a wide range of financing structures and funding sources, each with specific benefits, risks and costs. All potential funding sources are reviewed by management within the context of the Debt Policy and the overall portfolio to ensure that any financial product or structure is consistent with the University's objectives. Regardless of what financing structure is utilized, due-diligence review must be performed for each transaction, and may (i) quantification of potential risks and benefits, (ii) analysis of the impact on the University's long-term creditworthiness, debt capacity and debt affordability, and (iii) impact on the budget.

The University may access funds from either the capital markets or directly from banks and other third parties. Described below are some of the main financing structures and funding sources available to the University:

- **Tax-Exempt Debt.** Tax-exempt debt is a significant component of the University's capitalization due in part to its substantial cost benefits. The University manages the debt portfolio to maximize utilization of tax-exempt debt relative to taxable debt whenever possible, recognizing that the University must adhere to Internal Revenue Service (IRS) regulations regarding the use of facilities financed by tax-exempt debt, among other restrictions.
- **Taxable Debt.** In instances where capital investments do not qualify for tax-exempt debt or more flexibility is desired, the use of taxable debt may be considered. In addition, taxable debt may be used to finance working capital or other operating needs which are not eligible for tax-exempt financing.
- **Fixed Rate Debt.** Fixed rate debt, in which the interest rate is fixed until maturity, represents a significant component of the University's capitalization. Fixed rate debt

provides budgetary certainty but is typically more restrictive in its prepayment flexibility compared to short-term or variable rate debt.

- **Internal or External Sources of Liquidity.** The University may use internal funds or external funds, which may include bank lines of credit, floating rate notes, or commercial paper, to provide funds to the Internal Bank for interim financing of projects in anticipation of philanthropy, planned issuance of long-term debt or reimbursement/repayment from other sources of funds. The use of external sources of liquidity may provide greater flexibility relative to the timing and structuring of individual transactions. The external sources of liquidity are a form of short-term financing and are generally variable rate debt.
- **Other Types of Variable Rate Debt.** The University may desire more variable rate exposure in its capital structure to potentially lower its overall cost of capital, provide greater redemption or refinancing flexibility compared to fixed rate debt, or to diversity its debt portfolio, among other reasons. Products, such as variable rate demand bonds, floating rate notes and other structures in which the interest rate is periodically reset based on an index and remarketing, can potentially provide these benefits. The University recognizes that these structures also have risks that must be weighed against the potential benefits.
- **Bank Products.** Rather than accessing funds via the capital markets, the University may find it more advantageous to access funding from banks or other third parties. Some considerations in evaluating the attractiveness of private sources of capital include cost of funds, size of borrowing, timing constraints and other terms.
- **Capital and Operating Leases.** Lease structures provide another source of funding for capital investments and other needs. The University recognizes that capital leases and operating leases may constitute direct or indirect debt for credit purposes. Before entering into a lease agreement, the University will assess the economics, risks and benefits compared to other forms of financing.
- **Off-Balance Sheet Financing, including Public-Private Partnerships.** Third parties may provide other types of funding for capital investments and other needs. The University recognizes that these structures can be more expensive than traditional debt structures, and may carry risks beyond financing risk, including risks to the University's reputation and student experience. The University recognizes that these structures may have a direct or indirect impact on the University's debt position or overall credit profile. The University will evaluate the potential financial and qualitative risks and benefits of these structures before entering into any contracts or agreements.

IX. Compliance with IRS Regulations

In order to access tax-exempt financing, the University must comply with all applicable IRS regulations including, but not limited to, regulations relating to the use of bond proceeds, the use of bond financed facilities, and arbitrage in order to maintain the bond's tax-exempt status. The University will ensure that pre-issuance and post-issuance compliance procedures are in place to ensure full compliance. Compliance procedures are in place to track proceeds, arbitrage calculations, records maintenance, private business use, report continuing disclosures and filings, and if applicable, remediation actions.

X. Debt Portfolio Risk and Opportunity Management

The University will actively manage the risks and opportunities in its debt portfolio. This includes monitoring and seeking opportunities and mitigate risk. However, the University recognizes that in certain situations it may be prudent to assume risk if the potential benefits outweigh the potential risks. In all cases, the University will only assume risk if the University is adequately compensated.

Debt Portfolio Risk Framework

Debt portfolio risks can be categorized as either components of interest rate risk or liquidity risk. Interest rate risk components impact the University's cost of funds and can generally be budgeted for and managed as part of the University's operations. Liquidity risk components represent more immediate and unexpected events that may require the University to draw on its financial resources. The University will seek to quantify these risks whenever possible as part of its management of the debt portfolio. Described below are key components of these risks.

Interest Rate Risk Components

Market Rate Risk	Customarily thought of as interest rate risk, but limited to market risk only (e.g., risk that interest rates in general will rise due to inflation expectations or other reasons)
Credit Risk	Risk that any actual or perceived changes in creditworthiness result in a higher cost of capital
Tax Risk	Risk that any actual or potential changes in Federal and/or State law will adversely impact the pricing or availability of tax-exempt debt
Blanket Liquidity or Credit Facility Re-pricing Risk	Risk that the cost of liquidity facilities to support uncommitted debt or working capital lines of credit will increase
Basis Risk*	Risk that interest rate hedges will be inefficient
Swap Counterparty Credit Risk*	Risk that expected payments from swap counterparties are not received

Liquidity Risk Components

Roll/Remarketing Risk	Risk that put bonds, commercial paper, variable rate demand bonds or similar products cannot be rolled or remarketed
Bank Liquidity or Credit Facility Renewal Risk	Risk that liquidity facilities to support uncommitted debt or working capital lines of credit may not be available at all or on acceptable terms
Failure of a Liquidity Facility Provider	Risk that a liquidity facility provider ceases to operate due to bankruptcy or other cause
Swap Collateralization Risk*	Risk that collateral may need to be posted under a swap agreement
Swap Termination Risk	Risk of an involuntary termination triggered by an automatic termination event

* Risks related to derivative products. As noted below, the University has no plans to utilize derivative products at this time.

Derivative Products

Derivative products, including interest rate swaps, may be employed primarily to manage or hedge the University's interest rate exposure. Before executing any derivative product, the University will consider the State's Interest Rate Swap Policy and any other requirements of the State Treasurer.
At this time, the University has no plans to utilize derivative products. Prior to the issuance of any derivative product agreement, the University will seek approval from the Board to amend the Debt Policy and adopt guidelines for the use of derivatives.

Variable Rate Exposure

Exposure to variable interest rates in the University's portfolio may be desirable in order to:

- Take advantage of repayment and restructuring flexibility.
- Benefit from historically lower average interest costs.
- Reduce interest rate risk by providing a match or natural hedge between anticipated interest payments and the projected cash flows from the University's cash and investments.
- Diversify its pool of potential investors and gain additional access to capital markets. The University will monitor the risks from variable rate exposure based on the debt portfolio risk framework. In addition, as a general guideline, the amount of variable rate debt outstanding shall not exceed 20% of the University's overall debt portfolio.

Refinancing Opportunities

The University will monitor the debt portfolio on a periodic basis to identify opportunities to lower its cost of funding or to optimize its risk position by refinancing or restructuring outstanding debt. The University may also seek to refinance debt for legal reasons, such as to ensure compliance with IRS regulations or to address any bond document related issues. Before proceeding with any refinancing or restructuring transaction, the University will ensure that any transaction complies with applicable Oregon State Law and Administrative Rules.

XI. Central Loan Program Management

In accordance with the University's Internal Bank Policy, the University has adopted a Central Loan Program under which it provides funding for projects through internal loans. These loans are de-linked from the University's external debt obligations and other financing sources. The University will manage and optimize its debt obligations on a portfolio basis. As a general guideline, the loan repayment schedule for a particular project will not be tied to a specific bond issue. The interest rate charged on internal loans will be a blended rate that reflects the University's expected cost of capital plus the funding of any reserves, such as an interest rate stabilization fund, and expenses deemed necessary to the operation of the Internal Bank. The blended rate will be reset periodically in accordance with the Internal Bank Policy. The benefits of the Central Loan Program include:

a) Enabling the structuring of transactions in the best economic interests of the University that may not be possible on a project-specific basis.
b) Providing continual access to capital for internal borrowers rather than having to wait for a bond issue or other type of financing to be completed.
c) Funding specific projects with predictable financial terms.
d) Enabling the funding of projects based on strategic need independent of external financing market conditions.
e) Reducing volatility and providing a more stable cost of funds over time for internal borrowers.
f) Permitting prepayment of internal loans without penalty.
g) Achieving equity among internal borrowers through a blended rate.

XII. Debt Policy Monitoring and Reporting

The University vice president for finance and administration will periodically review the Debt Policy to ensure it remains consistent with the University's objectives and industry standards. Any recommendations for changes to the policy will be brought to the Finance and Administration Committee.

On at least an annual basis, the University vice president for finance and administration will review the University's debt capacity and affordability ratios and will report any concerns to the

Finance and Administration Committee of the Board. In addition, as part of the Board approval process for external financings, the University vice president for finance and administration will inform the Board of the impact of the University's debt capacity and affordability ratios, as well as the operating budget.

Document History

- Promulgated October 17, 2014 by majority vote of the Board of Trustees
- Amended by the Board of Trustees on October 8, 2021