



HB 2198 Interest Earnings

The Oregon University System (System) is seeking the authority to retain the interest earned on all funds taken in by the universities as revenues, such as tuition, to further support students while also creating an incentive to improve its cash and debt management processes. Currently, the interest earned on student tuition and fees, grants and contract revenues, fees for housing, food services, and parking, state appropriations, and other revenues, estimated to be \$19.1 million per biennium, is credited to the State's General Fund. Recognizing that granting this authority will reduce the resources available to the General Fund, this bill includes a recommended reduction in the amount of the System's base General Fund appropriation budget of \$19.1 million.

The types of funds that would be affected by HB 2198 are predominately tuition and fee revenues paid by students to attend OUS institutions; general funds transferred to OUS; housing, food service and parking revenues collected by campuses; indirect cost revenues earned on grants and contracts and other miscellaneous funds. This bill, if passed, would allow OUS to retain interest earnings on these types of funds and provide enhanced services to students. The rationale for keeping these funds, which are predominately paid by students, at the institutions is that they be used to support the programs and services which positively and directly affect students.

The authority under HB 2198, if granted, will provide an additional and very important incentive to the OUS to further improve collection efforts, optimize accounts payable management and reengineer cash management processes. This authority would add a revenue incentive in the form of interest earnings that would drive further improvements and efficiencies. In addition, the companion legislation noted below (HB 2199), would provide a hedge or protection against interest rate risk associated with the use of variable rate debt.

HB 2199: Expanding Debt Financing Options

Complimentary legislation, HB 2199, that would authorize the System to issue certain types of variable rate debt and to enter into interest rate swap agreements, would enhance the impact of interest earnings that would be granted under HB 2198. Should the System begin to issue variable rate debt (without any interest rate swaps to fix the interest rate), the payments required to amortize (pay off) the debt would vary based on how interest rates move in the marketplace.

The ability to retain the interest earned on all revenues would allow the System to hedge the interest cost shifts on variable rate debt with correlated shifts in the interest it earns on its resources, thereby lowering the volatility in operating budgets. This would allow OUS to more efficiently access the capital markets by making variable rate debt financing (historically lower cost) more manageable from a budgetary perspective. Variable rate debt can be conservatively priced approximately 1% below fixed rate debt. Thus, a 30-year fixed rate tax-exempt bond with an interest rate of 5% requires a \$70,000 annual payment (for principal and interest) for every \$1 million borrowed. That same bond, sold as variable rate debt, would carry an interest rate of 4% and would require \$60,000 (principal and interest) debt service for every \$1 million borrowed, lowering the annual payment by nearly 15% or \$10,000 per million borrowed. This Bill would only apply to Article XI-F bonds used fund and enhance auxiliary enterprise facilities, which are used predominately by students, but also used by faculty, staff and the general public.

