February 22, 2010

TO: MEMBERS OF THE STATE BOARD OF HIGHER EDUCATION

Meetings of the State Board of Higher Education will be held on March 5, 2010.

The Board’s Finance & Administrative Committee will meet from 8-10 a.m. in the Board room, suite 515, PSU Academic and Student Recreation Center; agenda items include four action items (Internal Bank implementation; amendment of the Residence Hall Emergency Reserve Fund policy; approval of the Resolution for the Sale of Articles XI-F(1) and XI-G Bonds; and review and approval of campus athletic financial reports).

The Academic Strategies Committee will meet from 8-10 a.m. in PSU’s Smith Memorial Student Union, Rooms 328/9. Agenda items include: priority area analysis and development reports (Latino Student Success, Central Oregon Student Success, and Graduate Education) and a discussion of the status report on Provosts’ Council work on OUS portfolio/mission alignment.

Following the Board Standing Committee meetings, the full Board will convene at approximately 10:30 a.m. in the Board room. Agenda items include: two consent items (OSU resolution regarding classified information for the U.S. Department of Defense and campus requests for authorization to award honorary degrees at their 2010 commencement ceremonies) and four action items (approval of the Internal Bank policies, approval of the Resolution for the Sale of Articles XI-F(1) and XI-G Bonds; approval of the revised Research Council Charter, and approval of OUS proposed legislative concepts). The Board will also receive a final report from the Student Participation and Completion Committee’s November 2009 symposium. Additionally, the Chancellor, the president of the Interinstitutional Faculty Senate, and the chair of the Oregon Student Association will provide informational reports to the Board.

These meetings will be held in accordance with the time, location, and schedule listed below:

**Friday, March 5, 2010**

7-8 a.m. Faculty/Board Coffee, SMSU 327
8-10 a.m. Academic Strategies Committee, SMSU 328/9
8-10 a.m. Finance & Administration Committee, ASRC 515
10:30 a.m. – 3:00 p.m. Full Board meeting, ASRC 515

The Academic and Student Recreation Center (ASRC) is located at 1800 SW 6th Avenue. Telephone messages for Board members and institution officials attending the meetings may be
called to (541) 554-6450. If special accommodations are required, please contact the Board’s Office at (541) 346-5749 at least 72 hours in advance. All docket materials are available on the OUS website at http://www.ous.edu/sb_meet.htm.

Cordially,

Ryan J. Hagemann
Secretary of the Board
# 2010 Calendar for OUS Board and Standing Committees

Full Board and Board Committee meetings are placeholders and are subject to the approval of the Board president.

<table>
<thead>
<tr>
<th>Month</th>
<th>Full Board Meeting</th>
<th>Board’s Finance &amp; Administrative Committee</th>
<th>Board’s Academic Strategies Committee</th>
<th>Board’s Governance &amp; Policy Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>March (3/14 – Daylight Savings begins)</td>
<td>3/5, 10:30-3:00 PSU Board Room</td>
<td>3/5, 8:00-10:00 PSU Board Room</td>
<td>3/5, 8:00-10:00 PSU SMSU 328/9</td>
<td>3/18, 9:00-12:00 Teleconference</td>
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<tr>
<td>(3/22 –26 Spring Break)</td>
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<td>April (4/4 – Easter)</td>
<td>Telephonic, if needed</td>
<td>4/2, 8:00-10:00 Videoconference</td>
<td>4/8, 3:30-5:30 Videoconference</td>
<td>4/22, 9:00-12:00 Teleconference</td>
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<tr>
<td>May (5/31 – Memorial Day)</td>
<td>Telephonic, if needed</td>
<td>5/7, 8:00-10:00 Videoconference</td>
<td>5/13, 3:30-5:30 Videoconference</td>
<td>5/27, 9:00-12:00 Teleconference</td>
</tr>
<tr>
<td>June</td>
<td>6/4, 10:00-3:00 PSU</td>
<td>6/4, 8:00-10:00 PSU</td>
<td>6/10, 3:30-5:30 PSU</td>
<td>6/24, 9:00-12:00 Teleconference</td>
</tr>
<tr>
<td>July (7/4-Independence Day Monday)</td>
<td>7/9, 10:00-3:00 PSU</td>
<td>7/9, 8:00-10:00 PSU</td>
<td>7/15, 3:30-5:30 PSU</td>
<td>7/22, 9:00-12:00 Teleconference</td>
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<tr>
<td>August</td>
<td>No meeting</td>
<td>No meeting</td>
<td>No meeting</td>
<td>No meeting</td>
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<tr>
<td>September (9/6– Labor Day)</td>
<td>Telephonic, if needed</td>
<td>9/10, 8:00-10:00 Videoconference</td>
<td>9/9, 3:30-5:30 Videoconference</td>
<td>9/23, 9:00-12:00 Teleconference</td>
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<tr>
<td>October (10/11 – Columbus Day)</td>
<td>10/8, 10:00-3:00 PSU</td>
<td>10/8, 8:00-10:00 PSU</td>
<td>10/14, 3:30-5:30 PSU</td>
<td>10/28, 9:00-12:00 Teleconference</td>
</tr>
<tr>
<td>November (11/7 – DST ends) (11/11-Vet's Day) (11/25-Thanksgiving)</td>
<td>Telephonic, if needed</td>
<td>11/5, 8:00-10:00 Videoconference</td>
<td>11/10, 3:30-5:30 Videoconference</td>
<td>11/23, 9:00-12:00 Teleconference</td>
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<td>December (12/4 – OSU/UO Civil War Game) 12/25 Christmas—Saturday (observed on Friday, 12/24)</td>
<td>12/2-3 Board Retreat</td>
<td>12/2-3 Board Retreat</td>
<td>12/2-3 Board Retreat</td>
<td>12/30, 9:00-12:00 Teleconference</td>
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</tbody>
</table>
Meeting Agenda

**ACTION**

1. Approval of minutes of February 11, 2010 meeting  
   8:00-8:10

2. Priority area analysis and development reports; ASC recommendations regarding action items not requiring new funding  
   8:10-9:25
   • Latino Student Success  
   • Central Oregon Student Success  
   • Graduate Education

**DISCUSSION**

3. Status report on Provosts’ Council work on OUS portfolio/mission alignment  
   9:25-9:45

4. Next meeting  
   9:45-10:00
REGULAR MEETING OF THE
BOARD FINANCE AND ADMINISTRATION COMMITTEE
BOARD ROOM, PSU ACADEMIC AND STUDENT RECREATION CENTER
FRIDAY, MARCH 5, 8-10 A.M.

AGENDA

1. CALL TO ORDER/ROLL CALL/WELCOME

2. ACTION ITEMS

a. OUS, Internal Bank Implementation (Kenton/Green) .............................................................. 1

The purpose of the Internal Bank is to facilitate the long-term financial stability of the System through effective asset/liability management strategies and optimizing the organization’s capacity to access the capital markets in the amounts needed at a reasonable price.

b. OUS, Residence Hall Emergency Reserve Fund (Kenton/Green)............................................ 61

Staff recommends that IMD 6.316, Residence Hall Emergency Reserve Fund be transferred to the Internal Bank and be amended, as shown in Attachment A, to allow for the Reserve to be temporarily used to supplement the Interest Rate Reserve of the Internal Bank, should the need arise, and to reflect other changes made subsequent to the adoption of the policy. Any use of the Reserve for interest rate support would be repaid by future positive interest rate spreads.

c. OUS, Resolution for the Sale of Articles XI-F(1) and XI-G Bonds (Green)............................... 67

The staff recommends the Board approve a request to the State Treasurer to issue $188,085,657 of bonds under the authority of Article XI-F(1) of the Oregon Constitution and $48,756,500 of bonds for construction projects under the authority of Article XI-G of the Oregon Constitution.

d. OUS, Fiscal Status of Intercollegiate Athletics as of June 30, 2009 (Kenton/Green) ............ 75

To request Committee acceptance of Intercollegiate Athletics Report dated 06/30/09 that reviews the fiscal status of each OUS institution.

3. ADJOURNMENT
REGULAR MEETING OF THE
STATE BOARD OF HIGHER EDUCATION (#836)
BOARD ROOM, PSU ACADEMIC AND STUDENT RECREATION CENTER SUITE 515
FRIDAY, MARCH 5, 2010, 10:30 A.M. – 3:00 P.M.

AGENDA

1. CALL TO ORDER/ROLL CALL/WELCOME

2. REPORTS
   
   a. Chancellor’s Report
   
   b. Interinstitutional Faculty Senate (IFS) President
   
   c. Oregon Student Association (OSA) Chair

3. CONSENT ITEMS
   
   a. OSU, Resolution Regarding Classified Information for U.S. Department of Defense .......... 101
      The resolution recommended for adoption is that which is required by the Manual and
      is, except for changes in the date and names of Board members, identical to that which
      has been previously adopted by the Board.
   
   b. Authorization to Award Honorary Degrees, OSU and SOU .................................................. 103
      The State Board of Higher Education policy permits institutions, with the concurrence of
      their faculty, to award honorary degrees. Each institution proposing the award of
      honorary degrees has received the Chancellor’s approval of criteria and procedures for
      selection that ensure the award honors distinguished achievement and outstanding
      contributions to the institution, state, or society.

4. ACTION ITEMS
   
   a. OUS, Revised Charge of the OUS Research Council (Triplett/Hagemann) ......................... 107
      The OUS Research Council, created in November 2005, serves as an advisory council to
      the Oregon State Board of Higher Education on research issues in Oregon. The Council
      drafted a revised charge in 2009 in response to the Board’s reorganization.
b. OUS, Internal Bank Implementation (Kenton/Green) .............................................................. 1

The purpose of the Internal Bank is to facilitate the long-term financial stability of the System through effective asset/liability management strategies and optimizing the organization’s capacity to access the capital markets in the amounts needed at a reasonable price. Following the proposed action by the F&A Committee, this item will be presented for full Board approval.

c. OUS, Resolution for the Sale of Articles XI-F(1) and XI-G Bonds (Green)............................... 67

The staff recommends the Board approve a request to the State Treasurer to issue $188,085,657 of bonds under the authority of Article XI-F(1) of the Oregon Constitution and $48,756,500 of bonds for construction projects under the authority of Article XI-G of the Oregon Constitution.

d. OUS, Legislative Concepts (Kenton)...................................................................................... 111

Campus officials and Chancellor’s staff have been investigating legislative concepts that would give the OUS greater flexibility in operations in order to better manage both revenues and expenditures. Seven concepts are being proposed.

5. REPORT ITEMS

a. Student Participation and Completion Committee Report on November 2009 Symposium (with summary video)

b. Board’s Standing Committees Update

6. PUBLIC INPUT

7. BOARD COMMENTS

8. ADJOURNMENT
TABLE OF CONTENTS

Contents

OUS, Internal Bank Implementation ................................................................. 1
  Internal Bank Policy ................................................................. 9
  Debt Policy ................................................................. 15
  Interest Rate Risk Management ................................................................. 27
OUS, Residence Hall Emergency Reserve Fund ......................................... 61
OUS, Resolution for the Sale of Articles XI-F(1) and XI-G Bonds ................. 67
OUS, Fiscal Status of Intercollegiate Athletics as of June 30, 2009 ................. 75
OUS, Resolution Regarding Classified Information for U.S. Department of Defense ................................................. 101
Authorization to Award Honorary Degrees, OSU and SOU ......................... 103
OUS, Revised Charge of the OUS Research Council .................................. 107
OUS, Legislative Concept Proposals ................................................................. 111
OUS, Internal Bank Implementation

INTRODUCTION
Over the past several years, System management has been working with the Legislature, the State Treasurer, the Department of Justice, financial advisors, bond counsel, and key financial managers with the System to improve the treasury management practices of the System via the establishment of an Internal Bank. An Internal Bank is a separate accounting and operating entity designated to hold and invest all System operating cash balances and to manage the long-term Article XI-F(1) debt portfolio for the System. The purpose of the Internal Bank is to facilitate the long-term financial stability of the System through effective asset/liability management strategies and optimizing the organization’s capacity to access the capital markets in the amounts needed at a reasonable price.

With the passage of key legislation during the 2009 Legislative Session, the last roadblock to implementation has been removed. The benefits of establishing and implementing an Internal Bank, as well as the key policies necessary for implementation, are delineated below.

KEY BENEFITS OF IMPLEMENTING AN INTERNAL BANK
Universities across the country are finding creative ways to improve their treasury function. With declining state revenues appropriated to public colleges and universities, the level of operating assets that are needed to hedge the volatility in a more tuition-dependent environment has been increasing. Universities are also beginning to pool operating assets for investment purposes to decrease the volatility of operating cash flows. With these increasing levels of operating assets and the decreased volatility that accrues through pooling, the opportunities for expanding the investment practices applied to these assets (with an appropriate risk-return profile) have become more attractive and, conversely, the cost of not taking a different approach to the investment of these funds is increasing.

Additionally, universities are looking at long-term debt management more from a portfolio perspective. The traditional approach to long-term debt management, where fixed-rate securities are issued and the debt service related to proceeds allocated to specific projects is tied to the underlying debt, is giving way to a portfolio approach to debt management. With a portfolio approach, the terms of long-term debt and the timing of issuance can be negotiated from a more strategic process, taking into consideration the current capital markets. True variable-rate debt can be introduced and maintained at an appropriate level to lower the overall cost of capital and its debt service volatility can be mitigated through both a blended rate and through the volatility of returns on operating assets. The repayment schedule relating to allocations of proceeds can be more flexible (unbound by the underlying debt issuance), based on blended rates and different time frames for repayment.

Bringing both the pooled approach to managing cash balances and investing operating assets together with the portfolio approach to managing long-term debt in an Internal Bank allows tighter asset/liability matching and greater efficiencies in accessing the capital markets, both from the investment and long-term debt perspectives. The System can become more strategic in its treasury management practices; the management and investment of operating cash flows...
and issuances of long-term debt can be managed more effectively if these decisions are
decoupled from some of the traditional operational processes and constraints that lead, in
some cases, to less optimal decisions when looking through a strategic lens.

MANAGEMENT AND INVESTMENT OF OPERATING ASSETS
Currently, investment decisions relating to certain funds, such as the building and equipment
reserves of the auxiliary enterprise funds, are based on the expected cash flows of each
university’s balances within those funds alone, retaining liquidity within that fund necessary to
meet the institution’s specific cash flow demands on that specific fund. The same is true of
unrestricted gift funds, bond proceeds, bond sinking funds, and agency funds. If we were to
combine these cash balances and these cash flows, along with the tuition and fees, state
appropriation, and other income cash balances and flows, volatility can be minimized, liquidity
can be managed, and investments can be made more strategically, looking at the overall risk
profile of the pool rather than the operational cash flow needs at a granular basis.

System cash balances are currently maintained in some 100-plus accounts, designed to match
up with both accounting and statutory segregations, fostering the investment segregations
noted above. Each institution maintains a separate checking account for its Education and
General fund, Auxiliary Enterprise, Designated Operating, and service department activities; a
separate checking account for its student fee funded activities; and a separate checking account
for its payroll disbursements. The Other Funds of each campus, such as those related to
donations, student loans, sinking funds, and bond proceeds, are held in shared accounts that
must be cleared and reconciled by the System Office. This structure is administratively
cumbersome, does not provide sufficient information to manage liquidity, and does not allow
for the pooled investment approach discussed above. Combining the cash balances
necessitated legislative action.

During the 2009 Legislative Session, the System was granted the authority to pool its cash
balances and streamline its banking structure. After the session, the System contracted with
Treasury Strategies to review our current banking structure and propose an optimal structure
under the new authority granted by the Legislature. The proposed structure eliminates the
current bank account structure in favor of a series of zero-balance accounts at each campus
that clear daily into one Systemwide account. These accounts will no longer mirror the
accounting or statutory separations but will be structured based on the major cash flows of the
System. The resulting structure will significantly reduce the number of bank accounts, be easier
to manage, streamline liquidity management and investment processes, and provide for
improved cash flow management throughout the System.

The objectives of this pooled cash and investment management structure are to:

• Pool operating assets to decrease cash flow volatility and better manage liquidity
• Restructure and streamline the System’s banking structure to better manage liquidity
  and save costs
• Manage the investment of operating assets from an overall risk basis, rather than a
  security-type approach
• Maximize return on operating assets within a prudent risk/return profile
• Increase revenues and net assets of the System

The Chancellor’s Office, working with institution management and the State Treasurer’s Office, will begin to implement the proposed banking structure over the next several months. The Chancellor’s staff, working with the investment staff at the State Treasurer’s Office, will develop an investment policy covering the investment of operating assets for review by the Finance and Administration Committee in March.

MANAGEMENT OF XI-F(1) DEBT
Currently, the System finances capital construction of its self-supporting and self-liquidating facilities exclusively with long-term fixed-rate debt. Typically, the State Treasurer issues long-term debt on behalf of the System once or sometimes twice per year. This is done to spread the cost of such issuance over a larger pool of debt. Debt is issued in anticipation of campus needs and the proceeds, along with the obligation to make the debt service payments related to a particular debt issuance, are allocated to particular projects at a particular campus. The System simply acts as a conduit for the campuses to the capital markets. In addition, up until this point in the history of the System, no interim financing vehicles were available to fund construction costs in advance of long-term debt issuance or during construction and the System did not have authority to issue variable-rate debt or interest rate swaps. The current structure has the following disadvantages:

• Each campus takes market interest rate risk with each project financing, being captive to the interest rate at the time of debt issuance
• Issuance of long-term debt before a project has been started and/or in amounts that are not needed immediately to fund construction costs exposes the System to unnecessary interest costs and higher project costs
• Direct linkage of the debt service payments on a particular allocation of bond proceeds to the campus:
  o Eliminates the ability to take advantage of the lower costs of variable-rate debt as the volatility risk of variable-rate debt would not be spread over a sufficient base
  o Creates a significant accounting and processing burden to manage these distinct allocations
• Not having an interim financing vehicle available has created unnecessary project timing constraints due to the timing of long-term debt issuance

With the passage of House Bill (HB) 2199 during the 2007 Legislative Session, OUS was granted the authority to issue variable-rate debt, thus permitting a blended portfolio approach with variable and fixed-rate debt. Also permitted under HB 2199 is the ability for OUS to enter into short-term financing vehicles and interest rate swap agreements. With the addition of specific expenditure limitation for capitalized interest during the 2009 Legislative Session, the System now has the authorities needed to implement a commercial paper (CP) program to provide
interim financing for construction projects and begin pooling and managing its Article XI-F(1) debt as a portfolio.

Under the pooled approach, utilizing low cost CP, campuses would be able to begin their capital projects on a time schedule that is uninhibited by the timing of long-term debt issuances. The System would time and structure the underlying long-term debt issuance to fund the repayment of CP and provide the remainder of the funds needed for capital projects to provide for the lowest cost of capital, utilizing a mix of fixed and floating-rate debt. The System would provide the construction funds to the campus via a loan from the System to the campus at a cost of capital that is established based on the interest costs of the entire portfolio of debt—a blended cost of capital. This will effectively de-link the debt payments made by the campuses to the System from the debt service payments made by the System to the bond-holders. As this approach is implemented, the System will act less like a pass-through vehicle for the universities to the capital markets. Instead, the System will act more like an active financing vehicle strategically managing the debt portfolio via continuous management of the entire debt portfolio and setting an equitable blended rate to all universities.

This new approach to the management of long-term Article XI-F(1) debt will have the following advantages:

**Minimizing the Cost of Capital**

The System will minimize its cost of capital by utilizing a CP program for interim financing to lower interest costs during construction and minimize the portion of taxable debt issued, and by maintaining a portion of the System’s outstanding debt on a floating-rate basis.

Due to the financing flexibility and typically low interest cost associated with variable-rate debt, it is desirable to have the flexibility to maintain a portion of the System’s aggregate debt on a floating-rate basis. However, variable-rate debt also introduces volatility to the System’s debt service obligations. Therefore, the System will balance the mix of variable and fixed-rate debt according to a target guideline that will be established based on the System’s ability to hedge such exposure either through interest earned on its operating cash balances, through reserves maintained for that purpose, or some combination thereof. The actual percentage of variable-rate debt outstanding will fluctuate from time-to-time due in part to financing needs, utilization of the CP program, and prevailing market interest rates.

In certain circumstances, the System may use derivatives to adjust its mix of fixed- and floating-rate debt and manage interest rate exposures. Derivatives may also be an effective way to manage liquidity risks. The System’s philosophy will be to use derivatives strategically to achieve asset and liability portfolio objectives and hedge existing exposures. Derivatives will not be used to create leverage or to speculate on the movement of interest rates. Under no circumstances will an interest rate swap be utilized that is not fully understood by the System or that imposes inappropriate risk on the System.
Managing Volatility
The System will manage interest rate volatility by establishing a standard “blended cost of capital” charged to the campuses that is sufficient to cover debt interest costs, fund the administrative costs of the Internal Bank, and build a reserve to hedge variable-rate movement.

Providing Greater Flexibility and Clearer Planning Horizons
The System will provide greater flexibility and clearer planning horizons to the campuses by de-linking the actual debt service payments on outstanding debt from the campus projects that the debt funded. Utilizing internal loans from the System to fund their capital projects, campuses can:

- Better predict their debt service costs at the beginning of a project
- Take out debt on terms more tailored to their specific project
- Repay debt early
- Focus their concern on managing the project and less on the financing

By establishing a blended cost of capital, campuses can worry less about the interest rate markets and the timing of bond issuances; focusing, instead, on the project itself.

Maximizing Allowable Arbitrage Earnings
The System will maximize allowable arbitrage earnings by more strategically entering the capital markets and by more strategic management of debt sinking funds to help avoid arbitrage rebate.

Simplifying the Administration of the Debt Portfolio
The System currently maintains separate accounts within its sinking funds for each bond allocation within each debt-paying entity for each institution. Implementation of a pooled debt management approach will allow the elimination of these separate accounts and streamline the flow of funds and the accounting for those transactions.

IMPLEMENTATION
In order to implement the Internal Bank and put in place appropriate controls and risk mitigation processes, there are several policies that need to be reviewed and approved by the Board. These policies are:

- Internal Bank Policy
- Operating Funds Management Policy
- Debt Policy
- Interest Rate Risk Policy
INTERNAL BANK POLICY (See Attachment A)
The Internal Bank Policy establishes the Internal Bank and sets forth its purpose and major operating parameters. The following provisions are included:

- Management of the Internal Bank – Establishes the Director of Treasury Operations as the manager of the Internal Bank and sets forth his/her roles and responsibilities, including both management responsibilities and reporting requirements
- Transactions Undertaken by the Internal Bank – Sets forth the transactions that may be undertaken by the Internal Bank and the process for their approval
- Deposit Interest Rate – Describes the process for setting the deposit interest rate to be paid to System institutions
- Internal Lending Rate – Delineates the process for setting the internal loan interest rates to charge System institutions
- Internal Bank Reserves – Establishes and limits the types of reserves to be held by the Internal Bank
- Policies to Guide and Control the Operation of the Internal Bank – References the policies related to the Internal Bank
- Internal Bank Oversight Committee – Establishes an oversight committee made up of key institution representatives to provide accountability and foster transparency for the activity and management of the Internal Bank

OPERATING FUNDS MANAGEMENT POLICY (Under Development)
This policy establishes the funds management guidelines pertaining to the operating assets of the System. This policy is under development.

DEBT POLICY (See Attachment B)
The Debt Policy establishes the guidelines pertaining to the issuance of debt and the management of the debt portfolio. The Board already has a Debt Policy in place; however, this is a significant rewrite to align the policy with the Internal Bank implementation and to streamline and focus the provisions of the policy. The following provisions are included:

- Debt Affordability and Capacity – Sets forth the procedures and financial indicators to be used to assess project viability and debt capacity
- Real Property Financed by Third Parties – Establishes the types of third party financing agreements to include in debt capacity and project viability
- Financing Sources – Delineates the various types of financing structures and funding sources for capital projects at System institutions
- Compliance with IRS Regulations – Details the various IRS regulations regarding the usage of tax-exempt bond proceeds in order to maintain the bonds’ tax-exempt status
- Portfolio Management of Debt – Discusses the various financing mechanisms and establishes key limitations related to XI-F(1) debt portfolio management. Also discusses the various risks associated with debt portfolio management
- Central Loan Program Management – Summarizes provisions and benefits of the internal loan program relating to XI-F(1) debt proceeds
• Approval Process – Delineates the approval process to be followed for issuance of System debt

**INTEREST RATE RISK POLICY (See Attachment C)**

The Interest Rate Risk Policy sets forth the parameters around the issuance of derivative financial instruments. The following provisions are included:

• Oversight – Describes the accountability structure over derivative financial instruments
• Derivative Use Guidelines – Delineates the circumstances under which the System may utilize derivative financial instruments
• Allowable Derivative Instruments – Sets forth the types of derivative financial instruments that may be used
• Policy Controls – Establishes the operating and exposure controls to address derivative program risks

**CONCEPT AND POLICY REVIEW**

The System has sought and obtained the support of the Board, the Governor, the State Treasurer, and the Legislature to implement the Internal Bank concept for the System. Key statutory authority has been obtained over the last two legislative sessions to enable the System to implement an Internal Bank. The State Treasurer’s Office has been working hard to move these concepts forward to help the System increase its revenues and lower its costs.

The proposed debt and interest rate risk policies have been reviewed by the State Treasurer’s Director of Debt Management and all recommended changes stemming from that review have been incorporated in these proposed policies.

The Internal Bank concept has been discussed with, and is supported by institution management. The draft policies attached were reviewed by the Vice Presidents for Finance and Administration and were reviewed by the Finance and Administration Committee on Friday, February 5, 2010. Changes in the draft policies stemming from those reviews are noted in the attachments.

The Operating Funds Management Policy remains under development and, once drafted, will be reviewed by System management and the State Treasurer’s Investment Division. This policy will be discussed during the April Finance and Administration Committee meeting.

Staff has also reviewed the existing Internal Management Directives (IMDs) related to debt management. Should the Internal Bank policy and related policies be adopted, staff is proposing that the IMD sections attached (Attachment D) be repealed, as they are either redundant, unnecessary or in conflict with the operation of the Internal Bank.
**Staff Recommendation to the Committee:**

- Staff recommends that the following policies be approved by the Finance and Administration Committee and by the full Board as appropriate:
  1. Internal Bank Policy (Attachment A) (redline, pg 9; clean, pg 35)
  2. Debt Policy (Attachment B) (redline, pg 15; clean, pg 41)
  3. Interest Rate Risk Policy (Attachment C) (redline, pg 27; clean, pg 53)
- Staff recommends that IMD 6.300, 6.305, 6.306, 6.310, and 6.315 (Attachment D, pg 33) be repealed.
ATTACHMENT A (Redline)

OREGON UNIVERSITY SYSTEM

SECTION: Section 6 – Finance and Business Affairs: Treasury Management
TITLE: Internal Bank Policy
NUMBER: 6.XXX
EFFECTIVE DATE: March 5, 2010 (TENTATIVE)

POLICY/PURPOSE:

In order to more efficiently and effectively carry out the treasury management function within the Oregon University System (System), the Board has established within the Chancellor’s Office an internal bank. The internal bank will operate in perpetuity and will integrate the three primary functions of treasury management within the System: limited term investment management (the management of non-endowment investment assets), debt management (both short- and long-term) and cash management (transaction and process management). In order to effectively integrate these functions, the following policies are established:

- The cash balances (limited term assets) of each institution and the Chancellor’s Office are pooled for investment purposes and the internal bank is charged with the responsibility to manage the processing and investment of those funds to maximize investment returns within a prudent level of risk while assuring necessary liquidity.

- Financing necessary for approved System capital purchases (including lease purchases) and capital construction projects that will be repaid by System-generated resources (tuition & fees and other self-generated revenues) is provided by the internal bank to System institutions through a central loan program.

- The System’s Article XI-F(1) debt is managed in a portfolio approach and the internal bank is charged with the responsibility to manage the System’s XI-F(1) debt portfolio to minimize the System’s cost of capital within a prudent level of risk.

The purpose of the Internal Bank is to facilitate the long-term financial stability of the System though effective asset/liability management strategies and optimizing the organization’s capacity to access the capital markets in the amounts needed at a reasonable price.

The operation of the internal bank will comply with all applicable federal and state statutes, rules and policies. Accordingly, the internal bank will coordinate and cooperate with the Oregon State Treasury and the Department of Administrative Services in making investment and debt financing decisions.
PRINCIPLES/GUIDELINES/PROCEDURES:

Management of the Internal Bank
The Internal Bank will be managed by the Director of Treasury Operations who will report to the Vice Chancellor for Finance and Administration through the Associate Vice Chancellor for Finance and Administration and Controller. The Director will employ a staff to provide the services that align with the goals of the Internal Bank, including other related services that the campuses desire to purchase from the internal bank. Payment for management of the activities of the Internal Bank will be paid out of the Internal Bank's income, generated by interest rate spreads, service fees, and by moneys so appropriated by the State Legislature. Payment for specific services that are provided by the Internal Bank on an institution by institution basis, such as bank account reconciliation services, will be paid by each institution separately.

The Director of Treasury Operations will be responsible for:

- Establishing the internal deposit interest rate
- Establishing the internal lending rate
- Establishing and maintaining the internal lending program
- Management of the System’s operating asset investment and long-term debt portfolios
- Developing and maintaining related internal control processes and procedures
- Accounting for the operation of the Internal Bank
- Developing financial and other performance monitoring reports
- Developing and implementing operating policies and procedures
- Developing and managing the annual operating budget of the Internal Bank
- Maintaining access to adequate liquidity sources to meet the needs of the System and its universities

The Director of Treasury Operations, in coordination with the State Treasurer's Office will contract with a professional financial advisory firm to assist with the management of the investment and debt portfolio as appropriate and bond counsel to assist with the management of the debt portfolio.

At least quarterly, the Director of Treasury Operations will report to the Internal Bank Oversight Committee (see below) on the financial and operating performance of the Internal Bank. These reports would include the operating budget, financial statements and any other performance reports needed to evaluate the Internal Bank’s financial performance and the achievement of its long-term goals.

Transactions Undertaken by the Internal Bank
The Director of Treasury Operations, with the assistance of the University System's financial adviser, and in consultation with the State Treasurer's Office, will make recommendation to the Board’s Finance and Administration Committee regarding the following transactions of the Internal Bank:
1. Investments of operating assets, including loans of operating assets to campuses for capital projects
2. Issuances of debt including:
   a. Commercial paper for XI-F capital projects that have been approved for debt financing by the Legislature and OUS Board
   b. Long-term debt for XI-F capital projects that have been approved for debt financing by the Legislature and OUS Board
3. Transactions undertaken to manage the debt portfolio including:
   a. Refunding outstanding debt pursuant to the State Treasurer’s refunding guidelines
   b. Structural refinancing of the debt portfolio
   c. Issuances of derivative financial instruments, including interest rate swap agreements

Recommended investment and debt transactions that are approved by the Board may also need approval by the State Treasurer and/or the Department of Administrative Services.

**Deposit Interest Rate**
The Director of Treasury Operations, working with the System’s professional advisory firm and the State Treasurer’s Office Internal Bank Oversight Committee, will develop the policy that establishes the interest rate to be credited to institution accounts based on market conditions. The rate will be evaluated and adjusted as necessary.

**Internal Lending Rate**
Annually, in December, the Director of Treasury Operations, working with the System’s professional advisory firm and the State Treasurer’s Office Internal Bank Oversight Committee, will establish the internal loan program interest rates. Different interest rates will be established for different internal loan durations. It is the goal and objective to establish those rates to remain in perpetuity. However, it is understood that, should the capital markets behave in an unanticipated manner and the reserves available to the Internal Bank are projected to become depleted or excessively large, the internal loan program interest rates may be modified on all internal loans outstanding, including loans that relate to financings undertaken before the establishment of the Internal Bank. This is critical to ensure that the interest rate adjustment is equitable across the System and is not unfairly applied to only the projects that were financed subsequent to the establishment of the Internal Bank.

**Internal Bank Reserves**
The Internal Bank may build and maintain an Interest Rate Reserve to hedge future volatility in the debt markets by charging a spread between the investment income generated on operating cash balances and the amount credited to institution accounts and/or by charging a spread between the internal lending rates charged for financing Board-approved self-supporting and self-liquidating projects and the blended cost of the outstanding debt portfolio. The Interest Rate Reserves shall not be maintained at a level higher than needed to appropriately hedge future interest rate volatility. Should the Interest Rate Reserve exceed the necessary level, the internal deposit and/or lending rates may be adjusted either temporarily or permanently to reduce the reserve to the proper...
level. The Interest Rate Reserve may not be used for any other purpose without the approval of the Board’s Finance and Administration Committee.

The Finance and Administration Committee may establish additional reserves to be held by the Internal Bank that align with its goals and objectives. The purpose and uses of such reserves will be clearly delineated within this policy.

**Additional Policies to Guide and Control the Operation of the Internal Bank**

The policies that guide and control the operations of the bank and limit financial risk to the System include, but are not limited to:

- **An operating asset investment operating funds management policy** that provides guidance in the investment of the System’s operating assets and the management of the System’s liquidity
- **A debt policy** that provides guidance in the issuance of debt and the ongoing management of the debt portfolio of the University System
- **An interest rate risk policy** that provides control over the types and nature of derivate financial instruments that may be utilized by the Internal Bank

These policies will be reviewed by the Board’s Finance and Administration Committee at least once every two years.

**Transparency and Accountability**

Transparency and accountability will be a key objective of the management and operation of the Internal Bank. All income and expenses of the Internal Bank will be reported to the Internal Bank Oversight Committee via periodic financial statements. All investment and debt transactions and all internal lending transactions will be reported to the Internal Bank Oversight Committee, along with reports on the System’s risk position, hedging activities, and compliance with related policies.

**Internal Bank Oversight Committee**

To help ensure that the goals and objectives of the Internal Bank are being met and in order to foster accountability and transparency with respect to the activities of the Internal Bank, there is established an **Internal Bank Oversight Committee (Oversight Committee)**. The Oversight Committee is made up of the Vice Presidents for Finance and Administration of each of the campuses, or his/her designee, and will be chaired by the Vice Chancellor for Finance and Administration. The role of the Oversight Committee is to review and evaluate the financial and operating performance of the Internal Bank, and to work with the Director of Treasury Operations to establish:

- Deposit and internal loan interest rates and related policies,
- Fees and related policies,
- Operating policies for the Internal Bank, and
- The operating budget of the Internal Bank.

Meetings of the Oversight Committee will be held at least quarterly, at which time the Director of Treasury Operations will present the operating budget, financial statements and
any other performance reports needed to evaluate the Internal Bank’s financial performance and the achievement of its long-term goals.

The role of the Oversight Committee does not include the approval of individual campus capital projects. That role remains the sole purview of the Finance and Administration Committee of the Board.

**Policy Conflicts**
The provisions of this policy will supersede conflicting policy provisions in other Internal Management Directives, Board policies, and/or other fiscal policies.
ATTACHMENT B (Redline)

OREGON UNIVERSITY SYSTEM

SECTION: Section 6 – Finance and Business Affairs: Treasury Management
TITLE: Debt Policy
NUMBER: 6.XXX
EFFECTIVE DATE: March 1, 2010 (TENTATIVE)

POLICY/PURPOSE:

I. Overview

In support of their respective missions, Oregon University System (System) institutions each maintain a long-term strategic plan. These strategic plans establish university-wide priorities as well as university-wide and divisional programmatic objectives. Each System university develops a capital plan to support these priorities and objectives.

The System’s use of debt plays a critical role in ensuring adequate and cost-effective funding for the System institutions capital plans. By linking the objectives of its Debt Policy to its universities strategic objectives, the System ultimately increases the likelihood of achieving its mission.

The Debt Policy is intended to be a “living” document that will evolve over time to meet the changing needs of the System.

II. Scope

The Debt Policy covers all forms of debt including long-term, short-term, fixed-rate, and variable-rate debt. It also covers other forms of financing including both on-balance sheet and other forms of financing that effectively operate as capital debt instruments even when not classified as such for financial statement purposes, such as off-balance sheet structures, certain operating leases, and other structured products used with the intent of funding capital projects.

The use of derivatives is considered when managing the debt portfolio and structuring transactions. Conditions guiding the use of derivatives are addressed in a separate Interest Rate Risk Management Policy.

III. Objectives

The objectives of this policy are to:

a) Outline the System’s philosophy on debt
b) Establish a control framework for approving and managing debt
c) Define reporting guidelines
d) Establish debt management guidelines

The Debt Policy formalizes the link between the System universities Strategic Plans and the issuance of debt. Debt is a limited resource that must be managed strategically in order to best support System priorities.

The policy establishes a control framework to ensure that appropriate discipline is in place regarding capital rationing, reporting requirements, debt portfolio composition, debt servicing, and debt authorization. It establishes guidelines to ensure that existing and proposed debt issues are consistent with financial resources to maintain an optimal amount of leverage, a strong financial profile, and a strategically optimal credit rating.

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

a) Maintaining access to financial markets: capital, money, and bank markets.
b) Managing the System’s credit rating (if applicable) to meet its strategic objectives while maintaining the highest possible creditworthiness that provides the most favorable cost of capital and borrowing terms;
c) Optimizing the System’s debt mix (i.e. short-term and long-term, fixed-rate and floating-rate, traditional and synthetic) for the System’s debt portfolio;
d) Managing the structure and maturity profile of debt to meet liquidity objectives and to make funds available to support future capital projects and strategic initiatives;
e) Coordinating debt management decisions with asset management decisions to optimize overall funding and portfolio management strategies;
f) Coordinating debt management decisions to maximize overall access to resources, including consideration of strategic opportunity costs, potential lost revenue, and interest and inflation rate tradeoffs.

System universities may use debt to accomplish critical priorities by prudently using debt financing to accelerate the initiation or completion of certain projects. As part of its review of each project, the university and the System will evaluate all funding sources to determine the optimal funding structure to achieve the most beneficial cost of capital.

IV. Oversight

The Vice Chancellor for Finance and Administration is responsible for implementing this policy and for all debt financing activities of the System. This policy is approved by the Board. The approved policy provides the framework under which debt management decisions are made.

The exposure limits listed in the policy are monitored on a regular basis by the Vice Chancellor for Finance and Administration. The Vice Chancellor for Finance and Administration reports regularly to the Chancellor, the Board, and the Internal Bank Oversight Committee on the System’s debt position and plans.
PRINCIPLES/GUIDELINES/PROCEDURES:

V. Debt Affordability and Capacity

Project Viability:
All projects using self-generated revenues to repay the debt will be carefully reviewed to ensure that they are financially viable based on reasonable and prudent estimates of the revenues and expenses associated with each project or combination of similar projects. When determining whether a project meets the self-supporting requirements, the Board may take into consideration the total available unobligated revenues of the university, or the System as a whole. This review process will include an analysis of the total cost of the project, including site preparation, environmental assessment/remediation, architectural and engineering costs, and construction, renovation or purchase costs. A financial pro-forma should be prepared by the university that estimates the revenues and expenses associated with the operations, maintenance, and debt service of the project over the life of the bonds. Projected operating revenues should provide coverage of operating expenses, maintenance, and debt service. Sources and uses of funds should be identified as part of this analysis. The financial pro-forma will be reviewed by the Director of Treasury Operations prior to recommendation of projects to the Board.

Institutional Concerns:
Institutional financial viability will also be considered as part of the debt approval process. The institution must demonstrate that there is sufficient enrollment or research demand or other compelling needs or strategic opportunities to justify the investment in the project and to generate the resources for debt repayment. Three years of trend data will be considered as part of this analysis in order to demonstrate institutional financial viability over a series of years.

The following financial statement ratios will be considered in order to determine institutional financial viability as part of this analysis:

- Primary reserve ratio — unrestricted net assets / operating expenses
- Current ratio — current assets / current liabilities
- Debt burden ratio — annual debt service (principal + interest) / total operating expenses, with a guideline maximum debt burden ratio of 7 percent, as established by the Board

In addition to presenting the actual ratios computed for the prior three fiscal years, the university will be responsible for calculating pro-forma ratios to incorporate additional debt allocated during the current fiscal year as well as for other future proposed projects and to analyze this information together to determine financial viability.

The ratios and limits are intended to help the System universities maintain a competitive financial profile, funding for facilities needs and reserves, and compliance with System debt service to budget guidelines.
The Debt Policy is shared with external credit analysts and other parties in order to provide them with background on the System's philosophy on debt and management's assessment of debt capacity and affordability.

VI. Real Property Financed by Third Parties

In computing financial ratios, universities need to identify and incorporate information related to real property financed by third parties when by written agreement the university is obligated to provide payments toward the property financing or to take over the financial obligation at a specified future date. Examples include agreements with an affiliated foundation and long-term capital leases. In determining whether long-term leases should be included when computing financial ratios, the institution must distinguish between capital and operating leases. Capital leases are considered debt, and must therefore be included in the ratios. Operating leases are not considered debt, and are therefore excluded from the ratio calculations.

Third-party financings may not include annual appropriation pledges of the State's general fund, and long-term leases must comply with DAS administrative rules. In addition, third-party financings may not use the State’s credit or view the State as the underlying guarantor.

VII. Financing Sources

There are numerous types of financing structures and funding sources available, 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 and System’s objectives. Regardless of what financing structure(s) is utilized, due-diligence review must be performed for each transaction, including (i) quantification of potential risks and benefits, and (ii) analysis of the impact on System creditworthiness and institution debt affordability and capacity.

Tax-Exempt Debt

Tax-exempt debt is a significant component of the System’s capitalization due in part to its substantial cost benefits; therefore, tax-exempt debt is managed as a portfolio of obligations designed to meet long-term financial objectives rather than as a series of discrete financings tied to specific projects. The System manages the debt portfolio to maximize its utilization of tax-exempt debt relative to taxable debt whenever possible, keeping in mind potential issues related to the restrictions on the use of facilities financed with tax-exempt debt and the potential future uses of the facility(ies) being financed by the debt. In all circumstances, however, individual projects continue to be identified and tracked to ensure compliance with all tax and reimbursement regulations.

For tax-exempt debt, the System will consider maximizing the external maturity of any tax-exempt bond issue, subject to prevailing market conditions and opportunities and other considerations, including the useful life of financed facilities, future debt capacity of the
System, applicable regulations, and the State Treasurer’s statewide debt portfolio management goals and policies.

**Taxable Debt**

In instances where certain of the System’s capital projects do not qualify for tax-exempt debt, the use of taxable debt may be considered. The taxable debt market offers certain advantages in terms of liquidity, marketing efficiency, and flexibility in the use of proceeds; such advantages will be considered when evaluating the costs and benefits of a taxable debt issuance.

**Build America Bond Program**

The American Recovery and Reinvestment Act (ARRA) of 2009 included provisions authorizing state governments to issue taxable bonds and receive an interest rate rebate in the amount of 35 percent of the interest paid from the Federal government (Build America Bond Program or BAB). This program opens up the taxable debt market to the System, which may prove to lower borrowing costs. Bonds issued under this program must be treated in the same manner as tax-exempt debt with respect to the use of the bond proceeds (must be used for exempt purposes and follow the same private use rules as tax-exempt bond proceeds) and with respect to arbitrage rules. Accordingly, the System will manage debt issued under the BAB program as a part of the tax-exempt debt portfolio.

**Commercial Paper**

Commercial paper provides the System cash flow needs interim financing for projects in anticipation of philanthropy, planned issuance of long-term debt or from other sources of funds. The use of commercial paper also provides greater flexibility on the timing and structuring of individual bond transactions. This flexibility may also make commercial paper appropriate for financing equipment and as a tool to help manage the System’s short-term liquidity position. The amount of commercial paper is limited by the Debt Policy ratios, the System’s variable-rate debt allocation limit, and the System’s available liquidity support.

**System-issued vs. Other State-issued Debt**

In determining the most cost effective means of issuing debt, the System evaluates the merits of issuing debt “directly” (e.g., under Articles XI-G or XI-F(1) of the Oregon Constitution) vs. “issuing” debt through or a State-issuing entity (e.g., The Oregon Lottery, Certificates of Participation, or the State Energy Loan Program.)

When “issuing” debt through a State-issuing entity, the Legislature may appropriate funds to the System to repay the debt, or may appropriate funds to the State-issuing entity to repay the debt. Debt issued through a State-issuing entity will not be managed as a part of the debt portfolio, but will be managed discretely. Debt issued through a State-issuing entity is normally only available if authorized by the Legislature and is not available as an option unless so authorized.
System issued debt under Article XI-G of the Oregon Constitution is repaid by Legislative appropriation to OUS and is not managed as a part of the debt portfolio, but will be managed discretely.

In the case of debt that will be repaid by System-generated revenues, the System performs a cost benefit analysis between this financing option and others available and takes into consideration the comparative funding costs and the flexibility in market timing of each alternative. The System also takes into consideration the future administrative flexibility and financial options of each issue, such as the ability to call and/or refund issues at a later date, as well as the administrative flexibility to structure and manage the debt in a manner that the System believes to be appropriate.

Derivative Products

Derivative products may enable more opportunistic and flexible management of the debt portfolio. Derivative products, including interest rate swaps and locks, may be employed primarily to manage or hedge the System’s interest rate exposure. The System, in consultation with the State Treasurer and in compliance with the State’s Interest Rate Swap Policy, utilizes a framework to evaluate potential derivative instruments by considering (i) its current variable-rate debt allocation, (ii) existing market and interest rate conditions, (iii) the impact on future financing flexibility, and (iv) the compensation for assuming risks or the costs for eliminating certain risks and exposure. Risks include, but are not limited to, tax risk, interest rate risk, liquidity risk, counterparty credit risk, basis risk, and any other potential risks either imposed or removed through the execution of any transaction.

The System analyzes and quantifies the cost/benefit of any derivative instrument relative to achieving desirable long-term capital structure objectives. Under no circumstances will a derivative transaction be utilized that is not understood fully by management or that imposes inappropriate risk on the System. In addition, management discloses the impact of any derivative product on the System’s financial statements per GASB (Governmental Accounting Standards Board) requirements and includes their effects in calculating the Debt Policy ratios.

Other Financing Sources

Given limited debt capacity and substantial capital needs, opportunities for alternative and non-traditional transaction structures may be considered, including off-balance sheet financings. The System recognizes these types of transactions often can be more expensive than traditional debt structures; therefore, the benefits of any potential transaction must outweigh any potential costs.

All structures can be considered only when the economic benefit and the likely impact on the System’s debt capacity and credit have been determined. Specifically, for any third-party or developer-based financing, management ensures the full credit impact of the structure is evaluated and quantified.
VIII. Compliance with IRS Regulations

When tax-exempt governmental-purpose bonds are issued, the System must comply with various all applicable IRS regulations regarding the usage of tax-exempt bond proceeds 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 bonds’ tax-exempt status.

*Reimbursement Resolution (aka Declaration of Official Intent)*

If a project that may be financed with tax exempt debt is begun prior to the bond financing being sold, a university may temporarily spend funds from another source with the intent to reimburse the expenditures with the future bond proceeds. In order to reimburse those expenditures with the proceeds from a tax-exempt bond issue, a Declaration of Official Intent must be prepared prior to the date on which the expenditures are made and no more than 18 months prior to the date the bonds are sold. The Declaration of Official Intent is signed by the Vice Chancellor for Finance and Administration. The Chancellor’s Office must be notified in advance of any expenditure to be made from other sources if there is intent to reimburse from bond proceeds. A reimbursement resolution is also required for expenditures to be reimbursed from lottery bonds or COPs, with documents prepared by the Department of Administrative Services.

*Private Use*

The amount of bond proceeds from each bond series which benefits private parties is limited by the IRS. There are two separate limitations of 5 percent and 10 percent depending on whether the use of the proceeds is related or unrelated to OUS’ mission. The private use of each bond series is monitored by the Chancellor’s Office to ensure that the tax-exempt status of System bonds is not jeopardized. Historically, the limitations of 5 percent and 10 percent related to the entire bond series, not to each individual project funded from the bonds. Therefore, in some cases, all of the private use allowance for a particular bond series may have been used for a single project, with no remaining allowance available for use by any other projects funded by that bond series during the remaining term of the bonds.

The private use of tax-exempt bond proceeds must be monitored for the life of the bond series (generally 20-30 years.) Therefore, at the time tax-exempt bonds are issued, the Chancellor’s Office will require information related to each project on uses of the facilities that would be considered to benefit a private party. In addition, the universities must provide information on an ongoing basis to allow the Chancellor’s Office to continually monitor private use. Any time there is a potential change in use of a tax-exempt bond-funded facility, the university must discuss the change with the Chancellor’s Office, in advance, to ensure that there is no impact on the tax-exempt status of the bonds. The Chancellor’s Office will consult with its bond counsel on any potential change in the tax status of a tax-exempt issue.
Arbitrage Rebate

The Chancellor's Office will establish appropriate accounting and reporting procedures to meet IRS arbitrage rebate compliance requirements. This includes tracking investment earnings on unspent bond proceeds, calculating rebate payments, and remitting any arbitrage rebate in a timely manner.

IX. Portfolio Management of Debt

For purposes of this section, the System’s debt portfolio is defined as debt issued under Article XI-F(1) of the Oregon Constitution (XI-F debt). The System considers its debt portfolio holistically, that is, it optimizes the portfolio of debt for the entire System rather than on a project-by-project basis while taking into account the System's cash and investment portfolio. Therefore, management makes decisions regarding project prioritization, debt portfolio optimization, and financing structures within the context of the overall needs and circumstances of the universities of the System.

Variable-Rate Debt

Exposure to variable interest rates within the System's debt portfolio may be desirable in order to:

a) take advantage of repayment/restructuring flexibility;
b) benefit from historically lower average interest costs;
c) reduce financial interest rate risk by providing a “match” between debt service requirements and the projected cash flows from the System’s assets; and
d) diversify its pool of potential investors and gain additional access to the capital markets.

Management monitors overall interest rate exposure, analyzes and quantifies potential risks, including interest rate, liquidity and rollover risks, and coordinates appropriate fixed/variable allocation strategies. The portfolio allocation to variable-rate debt may be managed or adjusted through (i) the issuance or redemption of debt in the conventional debt market (e.g., new issues and refundings) and (ii) the use of interest rate derivative products including swaps.

The amount of variable-rate debt outstanding (adjusted for any derivatives) shall not exceed 20 percent of the System’s outstanding XI-F debt. This limit is based on the System's desire to: (i) limit annual variances in its interest payments, (ii) provide sufficient structuring flexibility to management, (iii) keep the System’s variable-rate allocation within acceptable external parameters, and (iv) utilize variable-rate debt (including derivatives) to optimize debt portfolio allocation and minimize costs.

\[
\text{VARIABLE-RATE DEBT (INCLUDING SYNTHETIC)} \quad \text{TOTAL XI-F DEBT OUTSTANDING} \quad \leq 20\%
\]
Refinancing Outstanding Debt

The System monitors its debt portfolio on a continual basis to assure portfolio management objectives are being met and to identify opportunities to lower its cost of funding, primarily through refinancing outstanding debt.

The System monitors the prices and yields of its outstanding debt and attempts to identify potential refunding candidates by examining refunding rates and calculating the net present value of any refunding savings after taking into account all transaction costs. The System may choose to pursue refinancings for economic and/or legal reasons. The System currently adheres to the State of Oregon’s refunding thresholds. Net Present Value (NPV) savings of 3 percent or otherwise as permitted by the State Treasurer.

Liquidity Requirements

The System’s portfolio of variable-rate debt and commercial paper require liquidity support in the event of variable rate demand bonds being put back to the System or the Commercial Paper maturing without new investors. Generally, the System can purchase liquidity support externally from a bank in the form of a standby bond purchase agreement or line of credit. In addition, the System can also use its own capital or the capital available to the State Treasurer (if approved) in lieu of or to supplement external facilities. Alternatively, it can utilize variable-rate structures that do not require liquidity support (e.g., resetting variable rate term loans).

Just as the System manages its debt on a portfolio basis, it also manages its liquidity needs by considering its entire asset and debt portfolio, rather than managing liquidity solely on an issue-specific basis. This approach permits Systemwide evaluation of desired liquidity exposure, provides administrative flexibility, and reduces total liquidity costs.

A balanced approach is used to provide liquidity support to enhance credit for variable-rate debt, through a combination of external bank liquidity, self-liquidity, and other financial tools. Using a variety of approaches limits dependence on an individual type or source of credit; it also increases access to different types of investors. The System must balance liquidity requirements with its investment objectives and its cost and renewal risk of third-party liquidity providers and internal capacity.

Further, a portfolio-approach to liquidity can enhance investment flexibility, reduce administrative requirements, lower total interest costs, and reduce the need for external bank liquidity.

Overall Exposure

The System may be exposed to interest rate, third-party credit, tax (the risk that the tax code may change in future periods and impact the cost or financial result of certain debt instruments), and other potential risks in areas other than direct System debt (e.g., off-balance sheet transactions, counterparty exposure in the investment portfolio, etc.) and, therefore, exposure will be measured and monitored on a comprehensive Systemwide basis.
The chart below attempts to visually display the interplay of risks that may be present depending on the types of debt instruments employed. For instance, when using variable rate debt, interest rate risk increases for obvious reasons. For less obvious reasons, if the System utilizes third-party liquidity to support its variable rate debt, the risk of the credit-worthiness of the liquidity provider comes into play. Additionally, income tax risk is interjected when variable rate bonds are remarketed as the tax laws may change and impact the cost of carrying the variable rate debt. If the System were to convert that variable rate debt to fixed via an interest rate swap agreement, the interest rate risks would be mitigated, but the risk of the credit-worthiness of the third-party liquidity provider would not.

X. Central Loan Program Management

For purposes of this policy section, the central loan program pertains only to proceeds of XI-F debt or internal liquidity.

Each institution is responsible for the repayment of all funds borrowed from the central loan program, plus interest and any fees established in the System's internal lending policies, regardless of the internal or external source of funds.

Loan structures with standard financial terms are offered to institutional borrowers. The System may provide for flexible financing terms in order to accommodate individual institutional needs if it is determined to be in the university's and System's best interest. The Vice Chancellor for Finance and Administration will clearly articulate the policies and procedures for the assumption and repayment of debt to all borrowers. The Director of Treasury Operations is the System's loan officer for institutional borrowers.
De-linking External and Internal Debt Structures

The System has adopted a central loan program under which it provides funding for projects across all institutions under the guidance of the Vice Chancellor for Finance and Administration. In this regard, the System has established a pool of financing resources, including debt, for a central source of capital.

The benefits of this program include:

a) Enabling the structuring of transactions in the best economic interests of the System that might not be possible on a project-specific basis,
b) providing continual access to capital for borrowers,
c) permitting the System to fund capital needs on a portfolio basis rather than on a project-specific basis,
d) funding specific projects with predictable financial terms,
e) achieving a consistently low average internal borrowing costs while minimizing volatility in interest rates,
f) permitting prepayment of internal loans without penalty, and
g) achieving equity among borrowers through a blended rate.

The diagram below outlines the relationship between the System’s internal borrowers, the central loan program, and the external debt market for debt that is repaid via system-generated revenues:

![Diagram of debt market and central loan program relationships]

The central loan program can access funds from a variety of sources to originate loans to institutions. The System manages its funding sources on a portfolio basis, and therefore payments from institutions are not tied directly to a particular source of funds. (Note: due to federal tax and reimbursement requirements, actual bond debt service for certain projects still must be tracked.)

Blended Interest Rate

The System charges a blended interest rate to its institutions based on its cost of funding. In some instances, at the discretion of the Vice Chancellor for Finance and Administration, the
type and useful life of the project being financed may affect the appropriate term and interest rate of any loan.

This blended interest rate may change periodically to reflect changes in the System’s average aggregate expected long-term cost of borrowing. The blended interest rate may also include a reserve for interest rate stabilization purposes.

In addition to charging borrowers interest, the central loan program collects amounts to pay for costs of administering the debt portfolio. These costs are clearly articulated to institutions, and are passed on to borrowers in the form of a rate surcharge and an upfront fee for loan origination. These charges may be reviewed and adjusted from time-to-time.

XI. Approval Process

The System, through the Oregon State Treasury, issues debt under Articles XI-F(1) and XI-G of the Oregon Constitution. The System may also enter into other financing agreements (e.g., capital leases) with external entities for amounts in excess of $100,000 with the approval of the State Treasurer and the Director of the Oregon Department of Administrative Services (DAS). Should the System be granted authority in the future to establish a revenue bond program, it is anticipated that such debt would be issued through the Oregon State Treasury as well.

All debt issued by the System must be authorized through a board resolution (or the Finance and Administration Committee as authorized by the board). When the System issues debt under Article XI-F(1) of the Oregon Constitution, the board’s authorizing resolution must include its finding, based on the analysis of debt affordability and capacity delineated in section IV above, that the XI-F(1) debt financed projects are both self-liquidating and self-supporting.

The Board delegates the authority to approve the pricing of System-issued debt to the Vice Chancellor for Finance and Administration.

Other State-issued debt is approved as follows:
- DAS issues Certificates of Participation on behalf of the System.
- The Oregon Lottery issues Lottery bonds on behalf of the System.
- The Oregon Department of Energy loans money to System institutions for energy savings projects.

When the System participates in debt programs that are administered by other State agencies, such bonds are issued by the State Treasurer who also possesses the authority to price such bonds.

XII. Policy Conflicts

The provisions of this policy will supersede conflicting policy provisions in other Internal Management Directives, board policies, and/or other fiscal policies.
ATTACHMENT C (Redline)

OREGON UNIVERSITY SYSTEM

SECTION: Section 6 – Finance and Business Affairs: Investment Management
TITLE: Interest Rate Risk Management
NUMBER: 6.XXX
EFFECTIVE DATE: March 5, 2010

POLICY/PURPOSE:

I. Overview

The Oregon University System (System) maintains a Debt Policy which sets forth guidelines on the authorization and management of debt. The System manages its debt issued under Article XI-F(1) of the Oregon Constitution (XI-F debt) on a consolidated, portfolio basis and makes debt management decisions to achieve the lowest cost of debt capital and maximize its portfolio objectives. The nature of managing debt as a portfolio implies that there may be a mismatch of the specific terms on either side of the balance sheet. These mismatches may include maturity, payment schedule, interest rate, etc. These mismatches cause interest rate risk that may affect cash flow or the value of the underlying debt and corresponding loan. The use of derivatives can play a key role in managing the interest rate risk associated with the System’s debt portfolio and other managed portfolios.

In certain circumstances, derivatives are an effective way for the System to adjust its mix of fixed- and floating-rate debt and manage interest rate exposures. Derivatives may also be an effective way to manage liquidity risks. The System's philosophy is to use derivatives strategically to achieve asset and liability portfolio objectives and hedge existing exposures. Derivatives will not be used to create leverage or to speculate on the movement of interest rates.

II. Scope

The Interest Rate Risk Management Policy applies to any derivatives used for the purpose of hedging interest rate exposures. This policy does not apply to derivatives used by the State Treasurer’s office in its management of the System’s endowment and assets of any System university-related foundations.

Additionally, any decisions made regarding the use of derivatives must take into consideration the resulting impact under the System’s Debt Policy.

III. Objectives

This policy is intended to:

(i) Outline the System’s philosophy on derivatives
(ii) Provide guidelines on the use of derivatives
(iii) Identify approved derivative instruments
(iv) Establish a control framework related to the use of derivatives

The System views derivatives as a tool to achieve its asset and liability management objectives. As a result, it is the System’s philosophy to use derivatives strategically in support of this cause. It is also the System’s philosophy to not use derivatives to create leverage or speculate on interest rate movements. The System recognizes that the prudent and selective use of derivatives may help it to lower its cost of debt capital and manage its interest rate exposure.

This policy provides guidelines on the use of derivatives including the circumstances under which they may be used and the factors that are considered in deciding whether to use them. Derivatives may be used to achieve the following objectives:

(i) Reduce the cost for debt financing when compared to conventional debt structures
(ii) Manage interest rate volatility
(iii) Manage fixed- and variable-rate debt mix
(iv) Help match the cash flows from assets with those from liabilities
(v) Hedge future debt issues or synthetically advance refund bonds

The policy also outlines a control framework to ensure that an appropriate discipline is in place regarding the use of derivatives. Controls exist to address both operational risks and exposure risks.

IV. Oversight

The Vice Chancellor for Finance and Administration (VCFA) is responsible for coordination with Oregon State Treasury in implementing this policy and for all interest rate risk management activities of the System. The policy and any subsequent, material changes to the policy are approved by the Board’s Finance and Administration Committee (F&A Committee).

The VCFA provides oversight and monitors all derivative transactions. The Director of Treasury Operations reports on all derivative transaction, at least quarterly, to the Internal Bank Oversight Committee (Oversight Committee) and at least annually to the Chancellor and the F&A Committee on the System’s outstanding derivatives.

V. Derivative Use Guidelines

The System may use derivatives to achieve a lower cost of debt funding, manage its exposure to interest rate volatility, and/or match the timing and nature of cash flows associated with its assets and liabilities. The System may accomplish this by hedging the interest rate volatility of projected debt issuances or by using derivatives to adjust its exposure to variable interest rates.
To determine its portfolio exposure, the System looks at the composition of its outstanding assets and liabilities (adjusted for any hedges) and the change in this composition over a predetermined planning horizon. Taking into account the potential for future uncertainty, the System determines what, if any, action should be taken to keep its portfolio exposures at desirable levels over this period.

In determining when to hedge, the System monitors its interest rate exposure, the capital markets, and its future funding and liquidity requirements. Special attention is paid to the relative level of interest rates, the shape of the yield curve, and signals of interest rate increases or decreases from the Federal Reserve.

The System analyzes and quantifies the cost/benefit of any derivative instrument relative to achieving desirable long-term capital structure objectives. Before entering into a derivative, the System evaluates its risks including, but not limited to: tax risk, interest rate risk, liquidity risk, credit risk, basis risk, rollover risk, termination risk, counterparty risk, and amortization risk.

When evaluating its hedging options, the System generally prefers the lowest cost, most liquid, and most flexible hedging strategy available. In instances where no one hedging strategy meets all these needs, the System prioritizes these requirements to decide on an optimal strategy.

At their inception, derivatives are chosen to closely match the exposures being hedged. As time passes, the System’s debt management objectives may change and any decisions will be made with the best information available at that time regardless of hedges that may be in place. For instance, the System may use derivatives to hedge future interest rates associated with a fixed-rate bond issuance. If at the time of issuance it is deemed more beneficial to issue floating-rate bonds, then the System will not let its past hedging decisions constrain its current bond issuance decisions.

In addition, management discloses the impact of all derivatives on the System’s financial statements per GASB requirements and includes their effects in calculating the financial ratios identified in the System’s Debt Policy.

The Oversight Committee will set acceptable risk tolerances for each portfolio, which will determine whether adequate hedging has occurred.

VI. Allowable Derivative Instruments

The System recognizes that there are numerous derivatives of varying degrees of complexity. The System attempts to avoid structural complexity in its use of derivatives and believes the following instruments, used alone or in combination with each other, allow for sufficient flexibility to help the System meet its interest rate risk management objectives.

**Interest Rate Swaps** – Swaps are contracts to exchange payments based on different interest rate indices, generally with one such index based on interest rates that are fixed at
a specific rate for the term of the contract and the other based on interest rates that are to be adjusted from time to time throughout the term of the contract. The System may utilize these contracts to change its mix of fixed rates and floating rates to achieve optimal asset-liability balance. They may also be used as a means to hedge future variable rate financings.

**Interest Rate Call or Put Options** — An option gives the holder a right, but not an obligation, to buy or sell a security at or by a specified date(s) at an agreed upon price in exchange for the payment of a premium. Interest rate options, typically in the form of interest rate caps and/or floors, are designed to provide protection against interest rates being above a certain cap rate or below a certain floor rate. Options may be used when the purchaser faces an asymmetrical risk profile, for instance, the risk that interest rates may rise prior to a new debt issuance. Options to enter into swaps, or swaptions, give the buyer the right to enter into a swap as a fixed-rate or floating-rate payer depending on the buyer’s interest rate exposure.

The System will not sell options, except to the extent they are sold to better hedge an underlying exposure that contains an offsetting option position. For example, a bond with a call option held by the System may be hedged better by entering into a derivative with an offsetting sold call option.

**Interest Rate Locks** — A rate lock is a forward contract that represents a sale of a specific benchmark security (e.g., U.S. Treasuries, LIBOR, or tax-exempt indices) or other appropriate benchmark security at an agreed price or interest rate. The System may utilize these contracts to help lock in a future financing rate.

Before entering into any derivative transaction, the System first gains a full understanding of the transaction and performs appropriate due diligence, such as (i) a quantification of potential risks and benefits, and (ii) an analysis of the impact on the System’s debt portfolio. The duration of each derivative may be different from the duration of the risk being offset.

VII. **Policy Controls**

The System has established both operating and exposure controls to address program risks.

**Operating Controls**

When utilizing derivatives, it is important for operating controls to be in place to provide for adequate segregation of duties and management oversight. The System has controls addressing trade initiation, approval, confirmation, and accounting.

Appendix A to this Policy lists the individuals who may enter into derivatives on behalf of the System. These individuals may not approve their own transactions, unless explicitly stated in Appendix A. Initiators may not confirm transactions with counterparties and may not enter the accounting related to a trade. These controls are in place to assure trades are fully disclosed, accounted for, and approved by appropriate parties.
Appendix A also contains a list of individuals with authority to approve transactions. In all instances, unless provided for in Appendix A, an approver may not also be the initiator for a specific transaction.

Confirmations serve the purpose of confirming the details of a trade as understood by the System and its counterparty. Trade confirmations are done by an individual who does not have authority to either initiate or approve transactions.

Transactions are recorded for accounting purposes by an individual who is neither the initiator nor the approver. This segregation helps to assure that trades are accounted for correctly and are recorded and valued correctly on an ongoing basis.

**Exposure Controls**

The System manages its derivatives exposure by looking at its derivatives portfolio independently and also in the context of its overall asset and liability portfolios. Prior to entering into a derivative transaction, the System will examine the impact of such trade independently and on the asset and liability portfolios as a whole. The System will also coordinate this review with the financial advisor contracted by the State Treasurer pursuant ORS 286A.132(a).

All derivatives will be monitored by the State Treasurer’s financial advisor to provide valuations of the derivatives and monitor compliance with the terms and conditions of the derivative contract.

Appendix B to the policy establishes limits related to counterparty credit ratings, and the maximum allowable percentage of floating rate debt.

Exposure controls are in place to limit the System’s exposure to the various market risks associated with derivatives.

**Appendix A**

**OPERATING CONTROLS**

**Authorized Initiators** — The individuals holding the following positions are hereby authorized to initiate interest rate derivative transactions on behalf of the System:

- Chancellor
- Vice Chancellor for Finance and Administration
- Associate Vice Chancellor for Finance and Administration and Controller
- Director of Treasury Operations

**Approval** — All interest rate derivative transactions on behalf of the System must be approved by both:
• The Board’s Finance and Administration Committee, and
• The Director of Debt Management, Oregon State Treasury

Appendix B

EXPOSURE CONTROLS

Maximum Percentage of Floating Rate Debt — The System’s outstanding debt portfolio will have no more than 20 percent of the principal amount in floating rate debt, as described in its Debt Policy. This percentage is calculated to factor in the effects of interest rate derivatives.

Counterparty Credit Exposure — All derivative counterparties will be rated A3 or better by Moody’s and A– or better by Standard & Poors. The maximum allowable credit exposure, determined by the net mark-to-market of all trades with a single counterparty, will be $25 million for counterparties rated Aa2/AA or better and $10 million for counterparties rated less than Aa2/AA.

The System may take steps to reduce its exposure to a counterparty by either (i) requiring the counterparty to post collateral in the full amount of the exposure (all the while abiding by the terms of any Credit Support Annex between the System and the counterparty), (ii) terminating all or a portion of its outstanding contract(s) with the counterparty, or (iii) requiring the counterparty to obtain swap insurance or provide another form of third-party security agreeable to the System.

The System will also strive to limit counterparty exposure to no more than $100 million per notional amount with the strategy of diversifying the use of counterparties. In determining counterparty credit exposure, the System will also consider the counterparty’s credit exposure to other System related organizations (e.g., related university foundations.)

Measuring Exposure — The internal bank will compute the overall interest rate risk exposure faced by the internal bank within 90 days after each debt issuance and no less frequently than once per year. The internal bank may use its own computational models to compute this risk or contract with a third party to supply this information.
ATTACHMENT D

FINANCIAL MANAGEMENT OF BONDED DEBT RELATING TO AUXILIARY ENTERPRISES AND OTHER SELF-LIQUIDATING ACTIVITIES

6.300—FINANCING SELF-LIQUIDATING BOND DEBT SERVICES

(6.300-6.325 were approved by the State Board of Higher Education, Meeting #668, November 21, 1997, pp. 572-580; 6.300-6.520 were amended by the Board, Meeting #721, July 18, 2003, pp. 172-186)

(1) Auxiliary enterprise and other self-liquidating activities shall be assigned to one of the following categories for debt financing purposes:

(a) Residence halls and residential dining facilities (other than Portland State University).
(b) Portland State University residence halls.
(c) Other housing facilities.
(d) Parking facilities.
(e) Auxiliary enterprise facilities financed primarily from building fees.
(f) Other facilities that meet the requirements of Article XI F(1) and are specifically approved by the Board of Higher Education.

(2) The projects approved in accordance with (1) above are expected to be fully self-supporting and self-liquidating from user fees, gifts, grants, building fees, rental income, or other sources as approved by the Board of Higher Education.

6.305—Bond Issues for Auxiliary Enterprise and Other Self-Liquidating Activities

When authorized pursuant to ORS 351.350 or 351.353 and Article XI F(1) of the Oregon Constitution, bonds may be issued to finance construction of auxiliary enterprises and other self-liquidating facilities only if the Board:

(1) Establishes and maintains for bonds so issued appropriate reserves as described below; and
(2) Otherwise conforms to statutory and constitutional requirements.

6.306—Provision for Sinking Funds

The auxiliary enterprise or other self-liquidating activity responsible for annual debt service shall provide and maintain sinking funds for the ensuing year except that for bonds issued prior to July 1986, a two-year sinking fund is required.

6.310—Financial Operating Resources for Auxiliary Enterprise and Other Self-Liquidating Projects
(1) The building fee, established by the Board pursuant to ORS 351.170, is a Department resource, without regard to the institution at which it is collected, and shall be applied for debt service other than for residence halls, housing, parking, clinics, or other self-liquidating facilities.

(2) Debt service for bonds issued for housing, parking, clinics, or other self-liquidating facilities shall be provided primarily from fees charged to users of the facilities.

(3) Debt service for other specifically approved facilities shall be provided from sources identified at the time of authorization and approval of the project by the Board.

(4) Income from investment of sinking funds shall be credited to the institution sinking funds.

(5) Income from investment of XI-F bond building funds shall be distributed to the sinking funds in proportion to the allocation of the unspent building funds to the respective auxiliary enterprise and other self-liquidating project categories.

6.315 Allocation of Debt Service Responsibility for Auxiliary Enterprise and Other Self-Liquidating Projects

Annual debt service on bonds issued for auxiliary enterprise or other self-liquidating projects shall be apportioned on the following bases:

(1) Interest and principal payments for debt service on:
   (a) Bond proceeds allocated to residence hall and residential dining facilities after February 28, 1997,
   (b) Portland State University residence halls,
   (c) Other housing; and
   (d) Parking shall be the responsibility of the institution at which the facilities are located.

(2) Interest and principal payments for debt service on bonds allocated before March 1, 1997, for residence hall and residential dining facilities at all institutions, except Portland State University, shall be allocated to each institution in proportion to the average academic year occupancy of its residence halls for a five-year period beginning 1994-95 and ending 1998-99.

(3) Interest and principal payments for debt service on other auxiliary enterprise facilities shall be provided from building fees or other income as identified in the specific construction program.
ATTACHMENT A

OREGON UNIVERSITY SYSTEM

SECTION: Section 6 – Finance and Business Affairs: Treasury Management
TITLE: Internal Bank Policy
NUMBER: 6.XXX
EFFECTIVE DATE: March 5, 2010 (TENTATIVE)

POLICY/PURPOSE:

In order to more efficiently and effectively carry out the treasury management function within the Oregon University System (System), the Board has established within the Chancellor’s Office an internal bank. The internal bank will operate in perpetuity and will integrate the three primary functions of treasury management within the System: limited term investment management (the management of non-endowment investment assets), debt management (both short- and long-term) and cash management (transaction and process management). In order to effectively integrate these functions, the following policies are established:

- The cash balances (limited term assets) of each institution and the Chancellor’s Office are pooled for investment purposes and the internal bank is charged with the responsibility to manage the processing and investment of those funds to maximize investment returns within a prudent level of risk while assuring necessary liquidity.

- Financing necessary for approved System capital purchases (including lease purchases) and capital construction projects that will be repaid by System-generated resources (tuition & fees and other self-generated revenues) is provided by the internal bank to System institutions through a central loan program.

- The System’s Article XI-F(1) debt is managed in a portfolio approach and the internal bank is charged with the responsibility to manage the System’s XI-F(1) debt portfolio to minimize the System’s cost of capital within a prudent level of risk.

The purpose of the Internal Bank is to facilitate the long-term financial stability of the System through effective asset/liability management strategies and optimizing the organization’s capacity to access the capital markets in the amounts needed at a reasonable price.

The operation of the internal bank will comply with all applicable federal and state statutes, rules and policies. Accordingly, the internal bank will coordinate and cooperate with the Oregon State Treasury and the Department of Administrative Services in making investment and debt financing decisions.
PRINCIPLES/GUIDELINES/PROCEDURES:

Management of the Internal Bank
The Internal Bank will be managed by the Director of Treasury Operations who will report to the Vice Chancellor for Finance and Administration through the Associate Vice Chancellor for Finance and Administration and Controller. The Director will employ a staff to provide the services that align with the goals of the Internal Bank, including other related services that the campuses desire to purchase from the internal bank. Payment for management of the activities of the Internal Bank will be paid out of the Internal Bank's income, generated by interest rate spreads, service fees, and by moneys so appropriated by the State Legislature. Payment for specific services that are provided by the Internal Bank on an institution by institution basis, such as bank account reconciliation services, will be paid by each institution separately.

The Director of Treasury Operations will be responsible for:

- Establishing the internal deposit interest rate
- Establishing the internal lending rate
- Establishing and maintaining the internal lending program
- Management of the System’s operating asset investment and long-term debt portfolios
- Developing and maintaining related internal control processes and procedures
- Accounting for the operation of the Internal Bank
- Developing financial and other performance monitoring reports
- Developing and implementing operating policies and procedures
- Developing and managing the annual operating budget of the Internal Bank
- Maintaining access to adequate liquidity sources to meet the needs of the System and its universities

The Director of Treasury Operations, in coordination with the State Treasurer's Office will contract with a professional financial advisory firm to assist with the management of the investment and debt portfolio as appropriate and bond counsel to assist with the management of the debt portfolio.

At least quarterly, the Director of Treasury Operations will report to the Internal Bank Oversight Committee (see below) on the financial and operating performance of the Internal Bank. These reports would include the operating budget, financial statements and any other performance reports needed to evaluate the Internal Bank’s financial performance and the achievement of its long-term goals.

Transactions Undertaken by the Internal Bank
The Director of Treasury Operations will make recommendation to the Board’s Finance and Administration Committee regarding the following transactions of the Internal Bank:

1. Investments of operating assets, including loans of operating assets to campuses for capital projects
2. Issuances of debt including:
   a. Commercial paper for XI-F capital projects that have been approved for debt financing by the Legislature and OUS Board
   b. Long-term debt for XI-F capital projects that have been approved for debt financing by the Legislature and OUS Board

3. Transactions undertaken to manage the debt portfolio including:
   a. Refunding outstanding debt pursuant to the State Treasurer’s refunding guidelines
   b. Structural refinancing of the debt portfolio
   c. Issuances of derivative financial instruments, including interest rate swap agreements

Recommended investment and debt transactions that are approved by the Board may also need approval by the State Treasurer and/or the Department of Administrative Services.

**Deposit Interest Rate**
The Director of Treasury Operations, working with the Internal Bank Oversight Committee, will develop the policy that establishes the interest rate to be credited to institution accounts based on market conditions. The rate will be evaluated and adjusted as necessary.

**Internal Lending Rate**
Annually, the Director of Treasury Operations, working with the Internal Bank Oversight Committee, will establish the internal loan program interest rates. Different interest rates will be established for different internal loan durations. It is the goal and objective to establish those rates to remain in perpetuity. However, it is understood that, should the capital markets behave in an unanticipated manner and the reserves available to the Internal Bank are projected to become depleted or excessively large, the internal loan program interest rates may be modified on all internal loans outstanding, including loans that relate to financings undertaken before the establishment of the Internal Bank. This is critical to ensure that the interest rate adjustment is equitable across the System and is not unfairly applied to only the projects that were financed subsequent to the establishment of the Internal Bank.

**Internal Bank Reserves**
The Internal Bank may build and maintain an Interest Rate Reserve to hedge future volatility in the debt markets by charging a spread between the investment income generated on operating cash balances and the amount credited to institution accounts and/or by charging a spread between the internal lending rates charged for financing Board-approved self-supporting and self-liquidating projects and the blended cost of the outstanding debt portfolio. The Interest Rate Reserves shall not be maintained at a level higher than needed to appropriately hedge future interest rate volatility. Should the Interest Rate Reserve exceed the necessary level, the internal deposit and/or lending rates may be adjusted either temporarily or permanently to reduce the reserve to the proper level. The Interest Rate Reserve may not be used for any other purpose without the approval of the Board’s Finance and Administration Committee.
The Finance and Administration Committee may establish additional reserves to be held by the Internal Bank that align with its goals and objectives. The purpose and uses of such reserves will be clearly delineated within this policy.

**Additional Policies to Guide and Control the Operation of the Internal Bank**

The policies that guide and control the operations of the bank and limit financial risk to the System include, but are not limited to:

- An operating funds management policy that provides guidance in the investment of the System’s operating assets and the management of the System’s liquidity
- A debt policy that provides guidance in the issuance of debt and the ongoing management of the debt portfolio of the System
- An interest rate risk policy that provides control over the types and nature of derivate financial instruments that may be utilized by the Internal Bank

These policies will be reviewed by the Board’s Finance and Administration Committee at least once every two years.

**Transparency and Accountability**

Transparency and accountability will be a key objective of the management and operation of the Internal Bank. All income and expenses of the Internal Bank will be reported to the Internal Bank Oversight Committee via periodic financial statements. All investment and debt transactions and all internal lending transactions will be reported to the Internal Bank Oversight Committee, along with reports on the System’s risk position, hedging activities, and compliance with related policies.

**Internal Bank Oversight Committee**

To help ensure that the goals and objectives of the Internal Bank are being met and in order to foster accountability and transparency with respect to the activities of the Internal Bank, there is established an Internal Bank Oversight Committee (Oversight Committee). The Oversight Committee is made up of the Vice Presidents for Finance and Administration of each of the campuses, or his/her designee, and will be chaired by the Vice Chancellor for Finance and Administration. The role of the Oversight Committee is to review and evaluate the financial and operating performance of the Internal Bank and to work with the Director of Treasury Operations to establish:

- Deposit and internal loan interest rates and related policies,
- Fees and related policies,
- Operating policies for the Internal Bank, and
- The operating budget of the Internal Bank.

Meetings of the Oversight Committee will be held at least quarterly, at which time the Director of Treasury Operations will present the operating budget, financial statements and any other performance reports needed to evaluate the Internal Bank’s financial performance and the achievement of its long-term goals.

The role of the Oversight Committee does not include the approval of individual campus capital projects. That role remains the sole purview of the Board.
Policy Conflicts
The provisions of this policy will supersede conflicting policy provisions in other Internal Management Directives, Board policies, and/or other fiscal policies.
ATTACHMENT B

OREGON UNIVERSITY SYSTEM

SECTION: Section 6 – Finance and Business Affairs: Treasury Management
TITLE: Debt Policy
NUMBER: 6.XXX
EFFECTIVE DATE: March 1, 2010 (TENTATIVE)

POLICY/PURPOSE:

I. Overview

In support of their respective missions, Oregon University System (System) institutions each maintain a long-term strategic plan. These strategic plans establish university-wide priorities as well as university-wide and divisional programmatic objectives. Each System university develops a capital plan to support these priorities and objectives.

The System’s use of debt plays a critical role in ensuring adequate and cost-effective funding for the System institutions capital plans. By linking the objectives of its Debt Policy to its universities strategic objectives, the System ultimately increases the likelihood of achieving its mission.

II. Scope

The Debt Policy covers all forms of debt including long-term, short-term, fixed-rate, and variable-rate debt. It also covers other forms of financing including both on-balance sheet and other forms of financing that effectively operate as capital debt instruments even when not classified as such for financial statement purposes, such as certain operating leases and other structured products used with the intent of funding capital projects.

The use of derivatives is considered when managing the debt portfolio and structuring transactions. Conditions guiding the use of derivatives are addressed in a separate Interest Rate Risk Management Policy.

III. Objectives

The objectives of this policy are to:

a) Outline the System’s philosophy on debt
b) Establish a control framework for approving and managing debt
c) Define reporting guidelines
d) Establish debt management guidelines
The Debt Policy formalizes the link between the System universities Strategic Plans and the issuance of debt. Debt is a limited resource that must be managed strategically in order to best support System priorities.

The policy establishes a control framework to ensure that appropriate discipline is in place regarding capital rationing, reporting requirements, debt portfolio composition, debt servicing, and debt authorization. It establishes guidelines to ensure that existing and proposed debt issues are consistent with financial resources to maintain an optimal amount of leverage, a strong financial profile, and a strategically optimal credit rating.

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

a) Maintaining access to financial markets: capital, money, and bank markets.

b) Managing the System’s credit rating (if applicable) to meet its strategic objectives while maintaining the highest possible creditworthiness that provides the most favorable cost of capital and borrowing terms;

c) Optimizing the System’s debt mix (i.e. short-term and long-term, fixed-rate and floating-rate, traditional and synthetic) for the System’s debt portfolio;

d) Managing the structure and maturity profile of debt to meet liquidity objectives and to make funds available to support future capital projects and strategic initiatives;

e) Coordinating debt management decisions with asset management decisions to optimize overall funding and portfolio management strategies;

f) Coordinating debt management decisions to maximize overall access to resources, including consideration of strategic opportunity costs, potential lost revenue, and interest and inflation rate tradeoffs.

System universities may use debt to accomplish critical priorities by prudently using debt financing to accelerate the initiation or completion of certain projects. As part of its review of each project, the university and the System will evaluate all funding sources to determine the optimal funding structure to achieve the most beneficial cost of capital.

IV. Oversight

The Vice Chancellor for Finance and Administration is responsible for implementing this policy and for all debt financing activities of the System. This policy is approved by the Board. The approved policy provides the framework under which debt management decisions are made.

The exposure limits listed in the policy are monitored on a regular basis by the Vice Chancellor for Finance and Administration. The Vice Chancellor for Finance and Administration reports regularly to the Chancellor, the Board, and the Internal Bank Oversight Committee on the System’s debt position and plans.
PRINCIPLES/GUIDELINES/PROCEDURES:

V. Debt Affordability and Capacity

Project Viability:
All projects using self-generated revenues to repay the debt will be carefully reviewed to ensure that they are financially viable based on reasonable and prudent estimates of the revenues and expenses associated with each project or combination of similar projects. When determining whether a project meets the self-supporting requirements, the Board may take into consideration the total available unobligated revenues of the university, or the System as a whole. This review process will include an analysis of the total cost of the project, including site preparation, environmental assessment/remediation, architectural and engineering costs, and construction, renovation or purchase costs. A financial pro-forma will be prepared by the university that estimates the revenues and expenses associated with the operations, maintenance and debt service of the project over the life of the bonds. Projected operating revenues will provide coverage of operating expenses, maintenance, and debt service. Sources and uses of funds should be identified as part of this analysis. The financial pro-forma will be reviewed by the Director of Treasury Operations prior to recommendation of projects to the Board.

Institutional Concerns:
Institutional financial viability will also be considered as part of the debt approval process. The institution must demonstrate that there is sufficient enrollment or research demand or other compelling needs or strategic opportunities to justify the investment in the project and to generate the resources for debt repayment. Three years of trend data will be considered as part of this analysis in order to demonstrate institutional financial viability over a series of years.

The following financial statement ratios will be considered in order to determine institutional financial viability as part of this analysis:

- Primary reserve ratio — unrestricted net assets / operating expenses
- Current ratio — current assets / current liabilities
- Debt burden ratio — annual debt service (principal + interest) / total operating expenses, with a guideline maximum debt burden ratio of 7 percent, as established by the Board

In addition to presenting the actual ratios computed for the prior three fiscal years, the university will be responsible for calculating pro-forma ratios to incorporate additional debt allocated during the current fiscal year as well as for other future proposed projects and to analyze this information together to determine financial viability.

The ratios and limits are intended to help the System universities maintain a competitive financial profile, funding for facilities needs and reserves, and compliance with System debt service to budget guidelines.
The Debt Policy is shared with external credit analysts and other parties in order to provide them with background on the System's philosophy on debt and management's assessment of debt capacity and affordability.

VI. **Real Property Financed by Third Parties**

In computing financial ratios, universities need to identify and incorporate information related to real property financed by third parties when by written agreement the university is obligated to provide payments toward the property financing or to take over the financial obligation at a specified future date. Examples include agreements with an affiliated foundation and long-term capital leases. In determining whether long-term leases should be included when computing financial ratios, the institution must distinguish between capital and operating leases. Capital leases are considered debt, and must therefore be included in the ratios. Operating leases are not considered debt, and are therefore excluded from the ratio calculations.

Third-party financings may not include annual appropriation pledges of the State’s general fund, and long-term leases must comply with DAS administrative rules. In addition, third-party financings may not use the State’s credit or view the State as the underlying guarantor.

VII. **Financing Sources**

There are numerous types of financing structures and funding sources available, 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 and System’s objectives. Regardless of what financing structure(s) is utilized, due-diligence review must be performed for each transaction, including (i) quantification of potential risks and benefits, and (ii) analysis of the impact on System creditworthiness and institution debt affordability and capacity.

**Tax-Exempt Debt**

Tax-exempt debt is a significant component of the System’s capitalization due in part to its substantial cost benefits; therefore, tax-exempt debt is managed as a portfolio of obligations designed to meet long-term financial objectives rather than as a series of discrete financings tied to specific projects. The System manages the debt portfolio to maximize its utilization of tax-exempt debt relative to taxable debt whenever possible, keeping in mind potential issues related to the restrictions on the use of facilities financed with tax-exempt debt and the potential future uses of the facility(ies) being financed by the debt. In all circumstances, however, individual projects continue to be identified and tracked to ensure compliance with all tax and reimbursement regulations.

For tax-exempt debt, the System will consider maximizing the external maturity of any tax-exempt bond issue, subject to prevailing market conditions and opportunities and other considerations, including the useful life of financed facilities, future debt capacity of the
System, applicable regulations, and the State Treasurer’s statewide debt portfolio management goals and policies.

**Taxable Debt**
In instances where certain of the System’s capital projects do not qualify for tax-exempt debt, the use of taxable debt may be considered. The taxable debt market offers certain advantages in terms of liquidity, marketing efficiency, and flexibility in the use of proceeds; such advantages will be considered when evaluating the costs and benefits of a taxable debt issuance.

**Build America Bond Program**
The American Recovery and Reinvestment Act (ARRA) of 2009 included provisions authorizing state governments to issue taxable bonds and receive an interest rate rebate in the amount of 35 percent of the interest paid from the Federal government (Build America Bond Program or BAB). This program opens up the taxable debt market to the System, which may prove to reduce borrowing costs. Bonds issued under this program must be treated in the same manner as tax-exempt debt with respect to the use of the bond proceeds (must be used for exempt purposes and follow the same private use rules as tax-exempt bond proceeds) and with respect to arbitrage rules. Accordingly, the System will manage debt issued under the BAB program as a part of the tax-exempt debt portfolio.

**Commercial Paper**
Commercial paper provides interim financing for projects in anticipation of philanthropy, planned issuance of long-term debt or from other sources of funds. The use of commercial paper also provides greater flexibility on the timing and structuring of individual bond transactions. This flexibility may also make commercial paper appropriate for financing equipment and as a tool to help manage the System’s short-term liquidity position. The amount of commercial paper is limited by the Debt Policy ratios, the System’s variable-rate debt allocation limit, and the System’s available liquidity support.

**System-issued vs. Other State-issued Debt**
In determining the most cost effective means of issuing debt, the System evaluates the merits of issuing debt “directly” (e.g., under Articles XI-G or XI-F(1) of the Oregon Constitution) vs. “issuing” debt through or a State-issuing entity (e.g., The Oregon Lottery, Certificates of Participation, or the State Energy Loan Program.)

When “issuing” debt through a State-issuing entity, the Legislature may appropriate funds to the System to repay the debt, or may appropriate funds to the State-issuing entity to repay the debt. Debt issued through a State-issuing entity will not be managed as a part of the debt portfolio, but will be managed discretely. Debt issued through a State-issuing entity is normally only available if authorized by the Legislature and is not available as an option unless so authorized.

System issued debt under Article XI-G of the Oregon Constitution is repaid by Legislative appropriation to OUS and is not managed as a part of the debt portfolio, but will be managed discretely.
In the case of debt that will be repaid by System-generated revenues, the System performs a cost benefit analysis between this financing option and others available and takes into consideration the comparative funding costs and the flexibility in market timing of each alternative. The System also takes into consideration the future administrative flexibility and financial options of each issue, such as the ability to call and/or refund issues at a later date, as well as the administrative flexibility to structure and manage the debt in a manner that the System believes to be appropriate.

**Derivative Products**

Derivative products may enable more opportunistic and flexible management of the debt portfolio. Derivative products, including interest rate swaps and locks, may be employed primarily to manage or hedge the System’s interest rate exposure. The System, in consultation with the State Treasurer and in compliance with the State’s Interest Rate Swap Policy, utilizes a framework to evaluate potential derivative instruments by considering (i) its current variable-rate debt allocation, (ii) existing market and interest rate conditions, (iii) the impact on future financing flexibility, and (iv) the compensation for assuming risks or the costs for eliminating certain risks and exposure. Risks include, but are not limited to, tax risk, interest rate risk, liquidity risk, counterparty credit risk, basis risk, and any other potential risks either imposed or removed through the execution of any transaction.

The System analyzes and quantifies the cost/benefit of any derivative instrument relative to achieving desirable long-term capital structure objectives. Under no circumstances will a derivative transaction be utilized that is not understood fully by management or that imposes inappropriate risk on the System. In addition, management discloses the impact of any derivative product on the System’s financial statements per GASB (Governmental Accounting Standards Board) requirements and includes their effects in calculating the Debt Policy ratios.

**Other Financing Sources**

Given limited debt capacity and substantial capital needs, opportunities for alternative and non-traditional transaction structures may be considered, including off-balance sheet financings. The System recognizes these types of transactions often can be more expensive than traditional debt structures; therefore, the benefits of any potential transaction must outweigh any potential costs.

All structures can be considered only when the economic benefit and the likely impact on the System’s debt capacity and credit have been determined. Specifically, for any third-party or developer-based financing, management ensures the full credit impact of the structure is evaluated and quantified.
VIII. Compliance with IRS Regulations

When tax-exempt governmental-purpose bonds are issued, the System 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 bonds’ tax-exempt status.

IX. Portfolio Management of Debt

For purposes of this section, the System’s debt portfolio is defined as debt issued under Article XI-F(1) of the Oregon Constitution (XI-F debt). The System considers its debt portfolio holistically, that is, it optimizes the portfolio of debt for the entire System rather than on a project-by-project basis while taking into account the System’s cash and investment portfolio. Therefore, management makes decisions regarding project prioritization, debt portfolio optimization, and financing structures within the context of the overall needs and circumstances of the universities of the System.

Variable-Rate Debt

Exposure to variable interest rates within the System’s debt portfolio may be desirable in order to:

a) take advantage of repayment/restructuring flexibility;
b) benefit from historically lower average interest costs;
c) reduce financial interest rate risk by providing a “match” between debt service requirements and the projected cash flows from the System’s assets; and
d) diversify its pool of potential investors and gain additional access to the capital markets.

Management monitors overall interest rate exposure, analyzes and quantifies potential risks, including interest rate, liquidity and rollover risks, and coordinates appropriate fixed/variable allocation strategies. The portfolio allocation to variable-rate debt may be managed or adjusted through (i) the issuance or redemption of debt in the conventional debt market (e.g., new issues and refundings) and (ii) the use of interest rate derivative products including swaps.

The amount of variable-rate debt outstanding (adjusted for any derivatives) shall not exceed 20 percent of the System’s outstanding XI-F debt. This limit is based on the System’s desire to: (i) limit annual variances in its interest payments, (ii) provide sufficient structuring flexibility to management, (iii) keep the System’s variable-rate allocation within acceptable external parameters, and (iv) utilize variable-rate debt (including derivatives) to optimize debt portfolio allocation and minimize costs.

VARIABLE-RATE DEBT (INCLUDING SYNTHETIC) <= 20%
TOTAL XI-F DEBT OUTSTANDING
Refinancing Outstanding Debt

The System monitors its debt portfolio on a continual basis to assure portfolio management objectives are being met and to identify opportunities to lower its cost of funding, primarily through refinancing outstanding debt.

The System monitors the prices and yields of its outstanding debt and attempts to identify potential refunding candidates by examining refunding rates and calculating the net present value of any refunding savings after taking into account all transaction costs. The System may choose to pursue refundings for economic and/or legal reasons. The System currently adheres to the State of Oregon’s refunding thresholds. Net Present Value (NPV) savings of 3 percent or otherwise as permitted by the State Treasurer.

Liquidity Requirements

The System’s portfolio of variable-rate debt and commercial paper require liquidity support in the event of variable rate demand bonds being put back to the System or the Commercial Paper maturing without new investors. Generally, the System can purchase liquidity support externally from a bank in the form of a standby bond purchase agreement or line of credit. In addition, the System can also use its own capital or the capital available to the State Treasurer (if approved) in lieu of or to supplement external facilities. Alternatively, it can utilize variable-rate structures that do not require liquidity support (e.g., resetting variable rate term loans).

Just as the System manages its debt on a portfolio basis, it also manages its liquidity needs by considering its entire asset and debt portfolio, rather than managing liquidity solely on an issue-specific basis. This approach permits Systemwide evaluation of desired liquidity exposure, provides administrative flexibility, and reduces total liquidity costs.

A balanced approach is used to provide liquidity support to enhance credit for variable-rate debt, through a combination of external bank liquidity, self-liquidity, and other financial tools. Using a variety of approaches limits dependence on an individual type or source of credit; it also increases access to different types of investors. The System must balance liquidity requirements with its investment objectives and its cost and renewal risk of third-party liquidity providers and internal capacity.

Further, a portfolio-approach to liquidity can enhance investment flexibility, reduce administrative requirements, lower total interest costs, and reduce the need for external bank liquidity.

Overall Exposure

The System may be exposed to interest rate, third-party credit, tax (the risk that the tax code may change in future periods and impact the cost or financial result of certain debt instruments), and other potential risks in areas other than direct System debt (e.g., off-balance sheet transactions, counterparty exposure in the investment portfolio, etc.) and, therefore, exposure will be measured and monitored on a comprehensive Systemwide basis.
The chart below attempts to visually display the interplay of risks that may be present depending on the types of debt instruments employed. For instance, when using variable rate debt, interest rate risk increases for obvious reasons. For less obvious reasons, if the System utilizes third-party liquidity to support its variable rate debt, the risk of the credit-worthiness of the liquidity provider comes into play. Additionally, income tax risk is interjected when variable rate bonds are remarketed as the tax laws may change and impact the cost of carrying the variable rate debt. If the System were to convert that variable rate debt to fixed via an interest rate swap agreement, the interest rate risks would be mitigated, but the risk of the credit-worthiness of the third-party liquidity provider would not.

X. Central Loan Program Management

For purposes of this policy section, the central loan program pertains only to proceeds of XI-F debt or internal liquidity.

Each institution is responsible for the repayment of all funds borrowed from the central loan program, plus interest and any fees established in the System’s internal lending policies, regardless of the internal or external source of funds.

Loan structures with standard financial terms are offered to institutional borrowers. The System may provide for flexible financing terms in order to accommodate individual institutional needs if it is determined to be in the university’s and System’s best interest. The Vice Chancellor for Finance and Administration will clearly articulate the policies and procedures for the assumption and repayment of debt to all borrowers. The Director of Treasury Operations is the System’s loan officer for institutional borrowers.
De-linking External and Internal Debt Structures

The System has adopted a central loan program under which it provides funding for projects across all institutions under the guidance of the Vice Chancellor for Finance and Administration. In this regard, the System has established a pool of financing resources, including debt, for a central source of capital.

The benefits of this program include:

a) Enabling the structuring of transactions in the best economic interests of the System that might not be possible on a project-specific basis,
b) providing continual access to capital for borrowers,
c) permitting the System to fund capital needs on a portfolio basis rather than on a project-specific basis,
d) funding specific projects with predictable financial terms,
e) achieving a consistently low average internal borrowing costs while minimizing volatility in interest rates,
f) permitting prepayment of internal loans without penalty, and

g) achieving equity among borrowers through a blended rate.

The diagram below outlines the relationship between the System’s internal borrowers, the central loan program, and the external debt market for debt that is repaid via system-generated revenues:

The central loan program can access funds from a variety of sources to originate loans to institutions. The System manages its funding sources on a portfolio basis, and therefore payments from institutions are not tied directly to a particular source of funds. (Note: due to federal tax and reimbursement requirements, actual bond debt service for certain projects still must be tracked.)
**Blended Interest Rate**

The System charges a blended interest rate to its institutions based on its cost of funding. In some instances, at the discretion of the Vice Chancellor for Finance and Administration, the type and useful life of the project being financed may affect the appropriate term and interest rate of any loan.

This blended interest rate may change periodically to reflect changes in the System's average aggregate expected long-term cost of borrowing. The blended interest rate may also include a reserve for interest rate stabilization purposes.

In addition to charging borrowers interest, the central loan program collects amounts to pay for costs of administering the debt portfolio. These costs are clearly articulated to institutions, and are passed on to borrowers in the form of a rate surcharge and an upfront fee for loan origination. These charges may be reviewed and adjusted from time-to-time.

**XI. Approval Process**

The System, through the Oregon State Treasury, issues debt under Articles XI-F(1) and XI-G of the Oregon Constitution. The System may also enter into other financing agreements (e.g., capital leases) with external entities for amounts in excess of $100,000 with the approval of the State Treasurer and the Director of the Oregon Department of Administrative Services (DAS). Should the System be granted authority in the future to establish a revenue bond program, it is anticipated that such debt would be issued through the Oregon State Treasury as well.

All debt issued by the System must be authorized through a board resolution (or the Finance and Administration Committee as authorized by the board). When the System issues debt under Article XI-F(1) of the Oregon Constitution, the board’s authorizing resolution must include its finding, based on the analysis of debt affordability and capacity delineated in section IV above, that the XI-F(1) debt financed projects are both self-liquidating and self-supporting.

The Board delegates the authority to approve the pricing of System-issued debt to the Vice Chancellor for Finance and Administration.

Other State-issued debt is approved as follows:
- DAS issues Certificates of Participation on behalf of the System.
- The Oregon Lottery issues Lottery bonds on behalf of the System.
- The Oregon Department of Energy loans money to System institutions for energy savings projects.

When the System participates in debt programs that are administered by other State agencies, such bonds are issued by the State Treasurer who also possesses the authority to price such bonds.

**XII. Policy Conflicts**
The provisions of this policy will supersede conflicting policy provisions in other Internal Management Directives, board policies, and/or other fiscal policies.
ATTACHMENT C

OREGON UNIVERSITY SYSTEM

SECTION: Section 6 – Finance and Business Affairs: Investment Management
TITLE: Interest Rate Risk Management
NUMBER: 6.XXX
EFFECTIVE DATE: March 5, 2010

POLICY/PURPOSE:

I. Overview

The Oregon University System (System) maintains a Debt Policy which sets forth guidelines on the authorization and management of debt. The System manages its debt issued under Article XI-F(1) of the Oregon Constitution (XI-F debt) on a consolidated, portfolio basis and makes debt management decisions to achieve the lowest cost of debt capital and maximize its portfolio objectives. The nature of managing debt as a portfolio implies that there may be a mismatch of the specific terms on either side of the balance sheet. These mismatches may include maturity, payment schedule, interest rate, etc. These mismatches cause interest rate risk that may affect cash flow or the value of the underlying debt and corresponding loan. The use of derivatives can play a key role in managing the interest rate risk associated with the System's debt portfolio and other managed portfolios.

In certain circumstances, derivatives are an effective way for the System to adjust its mix of fixed- and floating-rate debt and manage interest rate exposures. Derivatives may also be an effective way to manage liquidity risks. The System's philosophy is to use derivatives strategically to achieve asset and liability portfolio objectives and hedge existing exposures. Derivatives will not be used to create leverage or to speculate on the movement of interest rates.

II. Scope

The Interest Rate Risk Management Policy applies to any derivatives used for the purpose of hedging interest rate exposures. This policy does not apply to derivatives used by the State Treasurer's office in its management of the System's endowment and assets of any System university-related foundations.

Additionally, any decisions made regarding the use of derivatives must take into consideration the resulting impact under the System's Debt Policy.
III. **Objectives**

This policy is intended to:

(i) Outline the System’s philosophy on derivatives  
(ii) Provide guidelines on the use of derivatives  
(iii) Identify approved derivative instruments  
(iv) Establish a control framework related to the use of derivatives

The System views derivatives as a tool to achieve its asset and liability management objectives. As a result, it is the System's philosophy to use derivatives strategically in support of this cause. It is also the System's philosophy to not use derivatives to create leverage or speculate on interest rate movements. The System recognizes that the prudent and selective use of derivatives may help it to lower its cost of debt capital and manage its interest rate exposure.

This policy provides guidelines on the use of derivatives including the circumstances under which they may be used and the factors that are considered in deciding whether to use them. Derivatives may be used to achieve the following objectives:

(i) Reduce the cost for debt financing when compared to conventional debt structures  
(ii) Manage interest rate volatility  
(iii) Manage fixed- and variable-rate debt mix  
(iv) Help match the cash flows from assets with those from liabilities  
(v) Hedge future debt issues or synthetically advance refund bonds

The policy also outlines a control framework to ensure that an appropriate discipline is in place regarding the use of derivatives. Controls exist to address both operational risks and exposure risks.

IV. **Oversight**

The Vice Chancellor for Finance and Administration (VCFA) is responsible for coordination with Oregon State Treasury in implementing this policy and for all interest rate risk management activities of the System. The policy and any subsequent, material changes to the policy are approved by the Board’s Finance and Administration Committee (F&A Committee).

The VCFA provides oversight and monitors all derivative transactions. The Director of Treasury Operations reports on all derivative transaction, at least quarterly, to the Internal Bank Oversight Committee (Oversight Committee) and at least annually to the Chancellor and the F&A Committee on the System's outstanding derivatives.
V. Derivative Use Guidelines

The System may use derivatives to achieve a lower cost of debt funding, manage its exposure to interest rate volatility, and/or match the timing and nature of cash flows associated with its assets and liabilities. The System may accomplish this by hedging the interest rate volatility of projected debt issuances or by using derivatives to adjust its exposure to variable interest rates.

To determine its portfolio exposure, the System looks at the composition of its outstanding assets and liabilities (adjusted for any hedges) and the change in this composition over a predetermined planning horizon. Taking into account the potential for future uncertainty, the System determines what, if any, action should be taken to keep its portfolio exposures at desirable levels over this period.

In determining when to hedge, the System monitors its interest rate exposure, the capital markets, and its future funding and liquidity requirements. Special attention is paid to the relative level of interest rates, the shape of the yield curve, and signals of interest rate increases or decreases from the Federal Reserve.

The System analyzes and quantifies the cost/benefit of any derivative instrument relative to achieving desirable long-term capital structure objectives. Before entering into a derivative, the System evaluates its risks including, but not limited to: tax risk, interest rate risk, liquidity risk, credit risk, basis risk, rollover risk, termination risk, counterparty risk, and amortization risk.

When evaluating its hedging options, the System generally prefers the lowest cost, most liquid, and most flexible hedging strategy available. In instances where no one hedging strategy meets all these needs, the System prioritizes these requirements to decide on an optimal strategy.

At their inception, derivatives are chosen to closely match the exposures being hedged. As time passes, the System's debt management objectives may change and any decisions will be made with the best information available at that time regardless of hedges that may be in place. For instance, the System may use derivatives to hedge future interest rates associated with a fixed-rate bond issuance. If at the time of issuance it is deemed more beneficial to issue floating-rate bonds, then the System will not let its past hedging decisions constrain its current bond issuance decisions.

In addition, management discloses the impact of all derivatives on the System’s financial statements per GASB requirements and includes their effects in calculating the financial ratios identified in the System's Debt Policy.

The Oversight Committee will set acceptable risk tolerances for each portfolio, which will determine whether adequate hedging has occurred.
VI. **Allowable Derivative Instruments**

The System recognizes that there are numerous derivatives of varying degrees of complexity. The System attempts to avoid structural complexity in its use of derivatives and believes the following instruments, used alone or in combination with each other, allow for sufficient flexibility to help the System meet its interest rate risk management objectives.

**Interest Rate Swaps** – Swaps are contracts to exchange payments based on different interest rate indices, generally with one such index based on interest rates that are fixed at a specific rate for the term of the contract and the other based on interest rates that are to be adjusted from time to time throughout the term of the contract. The System may utilize these contracts to change its mix of fixed rates and floating rates to achieve optimal asset-liability balance. They may also be used as a means to hedge future variable rate financings.

**Interest Rate Call or Put Options** – An option gives the holder a right, but not an obligation, to buy or sell a security at or by a specified date(s) at an agreed upon price in exchange for the payment of a premium. Interest rate options, typically in the form of interest rate caps and/or floors, are designed to provide protection against interest rates being above a certain cap rate or below a certain floor rate. Options may be used when the purchaser faces an asymmetrical risk profile, for instance, the risk that interest rates may rise prior to a new debt issuance. Options to enter into swaps, or swaptions, give the buyer the right to enter into a swap as a fixed-rate or floating-rate payer depending on the buyer’s interest rate exposure.

The System will not sell options, except to the extent they are sold to better hedge an underlying exposure that contains an offsetting option position. For example, a bond with a call option held by the System may be hedged better by entering into a derivative with an offsetting sold call option.

**Interest Rate Locks** – A rate lock is a forward contract that represents a sale of a specific benchmark security (e.g., U.S. Treasuries, LIBOR, or tax-exempt indices) or other appropriate benchmark security at an agreed price or interest rate. The System may utilize these contracts to help lock in a future financing rate.

Before entering into any derivative transaction, the System first gains a full understanding of the transaction and performs appropriate due diligence, such as (i) a quantification of potential risks and benefits, and (ii) an analysis of the impact on the System’s debt portfolio. The duration of each derivative may be different from the duration of the risk being offset.

VII. **Policy Controls**

The System has established both operating and exposure controls to address program risks.
**Operating Controls**

When utilizing derivatives, it is important for operating controls to be in place to provide for adequate segregation of duties and management oversight. The System has controls addressing trade initiation, approval, confirmation, and accounting.

Appendix A to this Policy lists the individuals who may enter into derivatives on behalf of the System. These individuals may not approve their own transactions, unless explicitly stated in Appendix A. Initiators may not confirm transactions with counterparties and may not enter the accounting related to a trade. These controls are in place to assure trades are fully disclosed, accounted for, and approved by appropriate parties.

Appendix A also contains a list of individuals with authority to approve transactions. In all instances, unless provided for in Appendix A, an approver may not also be the initiator for a specific transaction.

Confirmations serve the purpose of confirming the details of a trade as understood by the System and its counterparty. Trade confirmations are done by an individual who does not have authority to either initiate or approve transactions.

Transactions are recorded for accounting purposes by an individual who is neither the initiator nor the approver. This segregation helps to assure that trades are accounted for correctly and are recorded and valued correctly on an ongoing basis.

**Exposure Controls**

The System manages its derivatives exposure by looking at its derivatives portfolio independently and also in the context of its overall asset and liability portfolios. Prior to entering into a derivative transaction, the System will examine the impact of such trade independently and on the asset and liability portfolios as a whole. The System will also coordinate this review with the financial advisor contracted by the State Treasurer pursuant ORS 286A.132(a).

All derivatives will be monitored by the State Treasurer’s financial advisor to provide valuations of the derivatives and monitor compliance with the terms and conditions of the derivative contract.

Appendix B to the policy establishes limits related to counterparty credit ratings, and the maximum allowable percentage of floating rate debt.

Exposure controls are in place to limit the System’s exposure to the various market risks associated with derivatives.
Appendix A

OPERATING CONTROLS

Authorized Initiators — The individuals holding the following positions are hereby authorized to initiate interest rate derivative transactions on behalf of the System:

- Chancellor
- Vice Chancellor for Finance and Administration
- Associate Vice Chancellor for Finance and Administration and Controller
- Director of Treasury Operations

Approval — All interest rate derivative transactions on behalf of the System must be approved by both:

- The Board’s Finance and Administration Committee, and
- The Director of Debt Management, Oregon State Treasury

Appendix B

EXPOSURE CONTROLS

Maximum Percentage of Floating Rate Debt — The System’s outstanding debt portfolio will have no more than 20 percent of the principal amount in floating rate debt, as described in its Debt Policy. This percentage is calculated to factor in the effects of interest rate derivatives.

Counterparty Credit Exposure — All derivative counterparties will be rated A3 or better by Moody’s and A- or better by Standard & Poors. The maximum allowable credit exposure, determined by the net mark-to-market of all trades with a single counterparty, will be $25 million for counterparties rated Aa2/AA or better and $10 million for counterparties rated less than Aa2/AA.

The System may take steps to reduce its exposure to a counterparty by either (i) requiring the counterparty to post collateral in the full amount of the exposure (all the while abiding by the terms of any Credit Support Annex between the System and the counterparty), (ii) terminating all or a portion of its outstanding contract(s) with the counterparty, or (iii) requiring the counterparty to obtain swap insurance or provide another form of third-party security agreeable to the System.

The System will also strive to limit counterparty exposure to no more than $100 million per notional amount with the strategy of diversifying the use of counterparties. In
determining counterparty credit exposure, the System will also consider the counterparty’s credit exposure to other System related organizations (e.g., related university foundations.)

Measuring Exposure – The internal bank will compute the overall interest rate risk exposure faced by the internal bank within 90 days after each debt issuance and no less frequently than once per year. The internal bank may use its own computational models to compute this risk or contract with a third party to supply this information.
OUS, Residence Hall Emergency Reserve Fund

BACKGROUND
Prior to 1997, the mechanism used to finance dormitory construction and renovation was the Consolidated Dormitory Debt Pool (Pool). Debt service on the debt within the Pool was shared by all campuses based on their respective occupancy rates. This mechanism served as a hedge against occupancy (enrollment) declines, made it possible for regional campuses to more readily afford new facilities, and ensured comparable housing rates across OUS (ensuring consistent tuition, housing, and fee rates at all OUS campuses was a major operating principle of the Board to avoid cost driving the educational decisions of our students).

In 1997, the OUS Housing Directors proposed that the then current debt service amounts from the Pool be “frozen” in place and that the Pool be discontinued as the mechanism to fund housing construction/renovation projects. This was requested in order to simplify decision-making with respect to major housing projects, provide for tighter accountability with respect to the business sense of these decisions, and remove hindrances to entrepreneurial actions that might be taken by campuses.

In order to provide the hedge against occupancy declines that the Pool afforded, the Housing Directors proposed, and the Administrative Council, Chancellor’s Staff, and the OUS Board approved what was ultimately called the “Residence Hall Emergency Reserve Fund” (Reserve), which was codified in IMD 6.316 (see Attachment A). The Reserve was to protect each institution, and ultimately the Board who is responsible for all debt obligations of OUS, against unanticipated financial emergencies in residence hall operations that could otherwise affect the ability of a single institution to pay its debt service obligations. Provisions of the policy require the repayment of any funds used from the Reserve.

This policy required each institution to pay into the Reserve $20 per occupant, per year, beginning in the 1999-00 fiscal year, for a period of eight years. The $20 amount was established in order to grow the balance of the fund to approximately $1.5 million, which would be sufficient to pay 50 percent of the current debt load for one year for all institutions participating in the consolidated debt pool. The Reserve was to accrue interest during this eight-year period.

Subsequent to the establishment of this policy, new information was received from bond counsel relating to IRS regulations and statutory provisions governing the Sinking Fund at Treasury. Based on this information, it was determined that OUS could not earn interest on these funds. Thus, the Reserve funds are being held in our general suspense account at the State Treasury, which is not interest bearing to OUS. Therefore, no interest has accrued to this fund.
CURRENT STATUS
The balance in the Reserve as of June 30, 2009 is shown in the table below:

<table>
<thead>
<tr>
<th></th>
<th>EOU</th>
<th>OIT</th>
<th>OSU</th>
<th>SOU</th>
<th>UO</th>
<th>WOU</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$61,240</td>
<td>$63,000</td>
<td>$477,440</td>
<td>$143,120</td>
<td>$480,720</td>
<td>$177,460</td>
<td>$1,402,980</td>
</tr>
</tbody>
</table>

As of June 30, 2009, there remains some $20 million in outstanding Article XI-F(1) debt relating to the Consolidated Dormitory Debt Pool. In addition, as of June 30, 2009, there is an additional $176 million in outstanding XI-F(1) debt relating to housing operations at OUS campuses that has been issued since the elimination of the Pool.

ISSUE
It has been requested that the Reserve be eliminated to better utilize these funds within the housing operations on campus. In order to evaluate this request, the reasons for establishing the Reserve are reiterated/restated below based on today’s environment:

REASONS FOR ESTABLISHMENT OF THE RESERVE:
- The Board remains ultimately responsible for the debt service on this debt.
- Regional campuses continue to be more challenged financially than the larger campuses.
- Occupancy declines, while not anticipated in the near future, may, nevertheless occur over the period for which debt related to housing is outstanding (normally 30-year debt).
- Environmental factors, such as the declining General Fund revenues, lend support to retaining the Reserve.

OPTIONS FOR CONSIDERATION
1. **Eliminate the Reserve and Distribute to Respective Campus Housing Operations**
   The moneys in the Reserve would be refunded to the campus housing auxiliary enterprise operations. This would result in a one-time benefit to campus housing, providing needed additional resources to these critical student-focused operations.

2. **Maintain the Reserve, with a Modified Purpose**
   The Reserve would be transferred to the Internal Bank and its purpose be modified to allow for the Reserve to be temporarily used to supplement the Interest Rate Reserve of the Internal Bank should the need arise. Any use of the Reserve for interest rate support would be repaid by future positive interest rate spreads. This would maintain the Reserve as currently designed for future housing needs and help improve the financial strength of the Internal Bank.
3. Eliminate the Reserve and Transfer the Proceeds to the Internal Bank’s Interest Rate Reserve

The Reserve would be eliminated and the proceeds would be transferred to the Interest Rate Reserve in the Internal Bank. This would bolster the financial position of the Internal Bank and help ensure stable internal borrowing rates into the future.

DISCUSSION

Staff discussed the three options noted above with the Vice Presidents for Finance and Administration at each university. While there was not a consensus recommendation, the clear majority of responses supported Option 1, where the reserve is eliminated and the moneys are rebated to the respective campus housing operations. It was the contention of the campuses in support of Option 1 that the moneys were paid into the reserve by the campus housing operations for the particular, limited-term purpose as stated in the policy in order to secure the Board’s approval to eliminate the Consolidated Dormitory Debt Pool. Therefore, if the funds are not needed in the future for that particular purpose, the best choice is to rebate those moneys to the respective campuses.

The Internal Bank implementation is an important and strategic undertaking for OUS that will be beneficial to all auxiliary enterprise operations, including housing. The goal of the Internal Bank is to provide a more stable cost of borrowing into the future. Building the Interest Rate Reserve in the Internal Bank more rapidly will accelerate our ability to achieve our optimal allocation to variable rate debt, thereby improving the System’s ability to lower the cost of borrowing over the long-term. From a purely financial point of view, a case can be made that building the reserves of the Internal Bank, while providing an unspecific, long-term benefit in the form of lower borrowing rates in the future, will ultimately result in a much greater financial benefit than rebating the moneys to the campuses. A particular housing operation that must incur a higher long-term borrowing rate will likely pay a larger financial penalty than the amount that might be rebated from this reserve.

Given that the reasons for the establishment of the Reserve remain and given the complimentary goal of building the reserves of the Internal Bank, it would be most appropriate to transfer the Reserve to the Internal Bank and modify its purpose to allow for the Reserve to be temporarily used to supplement the Interest Rate Reserve (Option 2 above).

Staff Recommendation to the Committee and Board:

Staff recommends that IMD 6.316, Residence Hall Emergency Reserve Fund be transferred to the Internal Bank and be amended, as shown in Attachment A, to allow for the Reserve to be temporarily used to supplement the Interest Rate Reserve of the Internal Bank, should the need arise, and to reflect other changes made subsequent to the adoption of the policy. Any use of the Reserve for interest rate support would be repaid by future positive interest rate spreads.

(Committee and Board action required.)
6.316 RESIDENCE HALL EMERGENCY RESERVE FUND

The purpose of the Residence Hall Emergency Reserve Fund (Reserve) is to provide for unanticipated financial emergencies in the residence hall operations, which could otherwise affect the ability of a single institution to support the payment of its debt service obligations. The Reserve may also be used to supplement the Interest Rate Reserve of the Internal Bank. The Reserve shall not be a supplemental source of funds that may be considered or relied upon when planning for the financing of construction, renovation, or repair/upgrade of projects. Each institution must have a business plan in place addressing current and future needs of its student housing operations and how it intends to fund those needs through institutionally-initiated efforts. The provisions of this policy, described in sections 1 through 4, shall apply to residence hall operations at residence and dining facilities other than at Portland State University referenced in section 6.300(1)(a) above. The provisions in section 4 will apply to the Internal Bank when requesting temporary use of the Reserve to supplement its Interest Rate Reserve.

(1) Specific Provisions:

a. The Reserve will be funded by an institutional payment equivalent to twenty dollars ($20) per occupant, per year, based on the number of students living in the residence halls referenced in section 6.300(1)(a).

b. The number of students for purposes of (a) shall be determined by the prior year three-term average residence hall occupancy as of the fourth week of each term. (An "occupant" is any student living in a residence hall who is not a residence hall director.)

c. Institutional payments to the Reserve will be made by May of each year beginning in fiscal year 1999-00. All payments to the Reserve will be monitored by the Chancellor's Office with a record kept of payments made by each institution.

(2) Institutional payments to the Reserve will be made for eight (8) fiscal years, 1999-00 through 2006-07. In 2006, the Board will review the provisions and status of the Reserve.

(3) Interest earnings of the Reserve, if any, through June 30, 2007, will accrue to the Reserve. Distribution of interest earnings thereafter will be determined by the Board.

(4) Authorization for use of funds from the Reserve shall require a written application and comprehensive business plan from the requesting institution or the Internal Bank. The application and business plan shall be submitted to the Vice Chancellor for Finance and Administration for approval.
ATTACHMENT A

6.316 RESIDENCE HALL EMERGENCY RESERVE FUND
The purpose of the Residence Hall Emergency Reserve Fund (Reserve) is to provide for unanticipated financial emergencies in the residence hall operations, which could otherwise affect the ability of a single institution to support the payment of its debt service obligations. The Reserve may also be used to supplement the Interest Rate Reserve of the Internal Bank. The Reserve shall not be a supplemental source of funds that may be considered or relied upon when planning for the financing of construction, renovation, or repair/upgrade of projects. Each institution must have a business plan in place addressing current and future needs of its student housing operations and how it intends to fund those needs through institutionally-initiated efforts. The provisions of this policy, described in sections 1 through 4, shall apply to residence hall operations at residence and dining facilities other than at Portland State University. The provisions in section 4 will apply to the Internal Bank when requesting temporary use of the Reserve to supplement its Interest Rate Reserve.

(5) Specific Provisions:

a. The Reserve will be funded by an institutional payment equivalent to twenty dollars ($20) per occupant, per year, based on the number of students living in the residence halls referenced in section 6.300(1)(a).

b. The number of students for purposes of (a) shall be determined by the prior year three-term average residence hall occupancy as of the fourth week of each term. (An "occupant" is any student living in a residence hall who is not a residence hall director.)

c. Institutional payments to the Reserve will be made by May of each year beginning in fiscal year 1999-00. All payments to the Reserve will be monitored by the Chancellor’s Office with a record kept of payments made by each institution.

(6) Institutional payments to the Reserve will be made for eight (8) fiscal years, 1999-00 through 2006-07

(7) Interest earnings of the Reserve, if any, will accrue to the Reserve. Distribution of interest earnings will be determined by the Board.

(8) Authorization for use of funds from the Reserve shall require a written application and comprehensive business plan from the requesting institution or the Internal Bank. The application and business plan shall be submitted to the Vice Chancellor for Finance and Administration for approval.
OUS, Resolution for the Sale of Articles XI-F(1) and XI-G Bonds

<table>
<thead>
<tr>
<th>2010 Spring Bond Sale for Capital Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five Campuses Served with 22 Individual Projects</td>
</tr>
<tr>
<td>A Total of $236,842,157 Recommended for Sale, plus issuance costs</td>
</tr>
</tbody>
</table>

**SUMMARY**

The staff recommends the Board approve a request to the State Treasurer to issue $188,085,657 of bonds under the authority of Article XI-F(1) of the Oregon Constitution and $48,756,500 of bonds for construction projects under the authority of Article XI-G of the Oregon Constitution. This sale is currently scheduled to be held in April 2010. The total sale requested is for $236,842,157, plus issuance costs. All projects included in this sale have received or will have received both Board and Legislative approval.

**STAFF REPORT TO THE BOARD**

*Background:*

The 2009 Legislative Assembly has authorized the State Board of Higher Education to issue general obligation bonds, with the proceeds to be used to finance capital construction and facilities repair and renovation projects in higher education. These bonds were authorized under two sections of the Oregon Constitution, Articles XI-F(1) and XI-G.

Article XI-F(1) bonds are issued to construct and repair facilities that are self-supporting and self-liquidating as determined by the Board. Bonds of this type have been issued to cover projects for the construction and renovation of auxiliary enterprises space (such as parking facilities or student housing) where the source of debt service is from auxiliary funds. Bonds have also been approved for projects in student facilities (such as student unions, student health facilities, or student recreation facilities) where the debt service is repaid from the student building fee. The preponderance of bonds sold for capital construction in higher education has been under Article XI-F(1).

Article XI-G bonds are issued to construct and repair facilities classified as Education and General (E&G) use, including classroom facilities, libraries, teaching laboratories, and general administrative space. These bonds are matched by an appropriation from the state General Fund and the debt service is paid from the General Fund. The legislature established a mechanism whereby the General Fund match may be generated through gifts and/or federal and local governmental funds. These are first deposited to special project accounts in the Treasury and then treated as General Fund moneys for purposes of the match.

As approved by the 2009 Legislative Assembly, Senate Bill 5505 authorizes a maximum issuance of $488,401,244 of Article XI-F(1) bonds and a maximum issuance of $144,900,479 of Article XI-G bonds in 2009-2011. (Senate Bill 5563, if approved in the 2010 Special Session, will reduce this amount from $144,900,479 to $143,900,479.)
OUS institutions are now seeking authorization from the Board to issue a total of $236,842,157 in Articles XI-F(1) and XI-G bonds plus estimated issuance costs as part of a sale currently planned by the State Treasurer for April 2010.

Of this amount, a total of $188,085,657 is requested in Article XI-F(1) bond authorization, and a total of $48,756,500 is requested in Article XI-G bond authorization plus issuance costs.

Prior to sale, the Board’s bond counsel may designate a portion of the sale as taxable due to space utilization by private entities in the projects to be financed under this sale.

Two tables are provided as part of the bond sale resolution:

- Table A identifies the Article XI-F(1) projects recommended for the April 2010 Bond Sale.
- Table B identifies the Article XI-G projects recommended for the April 2010 Bond Sale.

Two tables are provided after the resolution to display debt information:

- Table C displays the amount of Article XI-F(1) bonds to be sold as well as the estimated annual debt service requirements associated with the projects proposed to be included in the April 2010 bond sale.
- Table D displays net revenues associated with the amount of Article XI-F(1) bonds to be sold and the estimated annual debt service requirements associated with the projects proposed to be included in the April 2010 bond sale.

Resolution for the Sale of Bonds for Capital Projects:
The resolution now before the Board authorizes staff to pursue the sale of bonds for all projects currently identified in Tables A and B as needing bond financing consistent with the overall bond limitation imposed by the legislature for the period 2009-2011.

Staff Recommendation to the Committee and Board:
Staff recommends that the Committee and Board adopt the following resolution: (1) finding that the projects for which Article XI-F(1) bonds are proposed meet the self-liquidating and self-supporting requirements of Article XI-F(1), Section 2, of the Oregon Constitution and authorizing the sale of Article XI-F(1) bonds; and, (2) authorizing the sale of Article XI-G bonds.

(Board action required.)
RESOLUTION FOR THE SALE OF BONDS FOR CAPITAL PROJECTS

WHEREAS, ORS 286A.005, ORS 286A.025 and ORS 351.350 provides that the State Treasurer may structure, sell and issue bonds, including current refunding bonds, and advance refunding bonds authorized by Articles XI-F(1) and XI-G of the Oregon Constitution if the State Board of Higher Education requests the State Treasurer to do so; and

WHEREAS, Chapter 904, Oregon Law 2009, Chapter 2, Oregon Law 2009, Chapter 761, Oregon Laws 2007 and Chapter 787, Oregon Laws 2005, and Chapter 725, Oregon Laws, 2003 lists those projects that may be financed pursuant to Articles XI-F(1) and XI-G of the Oregon Constitution; and

WHEREAS, it is appropriate for this Board to authorize the State Treasurer to issue bonds for projects authorized by previous Legislation and pending bills, once adopted by the legislature and signed into law by the Governor, and in amounts not greater than authorized by the bond bill and for other projects as may be provided by law and as otherwise required by law for the 2009-2011 biennium without requiring further action of this Board;

NOW, THEREFORE, be it resolved by the State Board of Higher Education of the State of Oregon as follows:

Section 1: Article XI-F(1) Projects. Pursuant to Section 2 of Article XI-F(1) of the Oregon Constitution, the Board hereby finds that the projects listed below in Table A conservatively appear to the Board to be wholly self-liquidating and self-supporting from revenues, gifts, grants, or building fees. Bonds are authorized to be sold under Article XI-F(1) to provide funds to pay these projects and costs of issuance of these bonds.

Table A - Article XI-F(1) Projects Recommended for April 2010 Bond Sale

<table>
<thead>
<tr>
<th>Article XI-F(1) Projects</th>
<th>Estimated Bond Proceeds</th>
<th>Maximum Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>OIT: Geothermal Renewable Energy Demonstration</td>
<td>$2,000,000</td>
<td>20 years</td>
</tr>
<tr>
<td>OSU: International Residence Hall(^{(1)})</td>
<td>$52,000,000</td>
<td>30 years</td>
</tr>
<tr>
<td>OSU: UHDS, Cauthorn/Poling Hall Remodel</td>
<td>$3,000,000</td>
<td>20 years</td>
</tr>
<tr>
<td>OSU: UHDS, Arnold Dining Center Renovation</td>
<td>$4,500,000</td>
<td>20 years</td>
</tr>
<tr>
<td>OSU: New Steam Plant/Utility Switch</td>
<td>$5,000,000</td>
<td>30 years</td>
</tr>
<tr>
<td>OSU: Recreational Sports Field and Field House Renovation(^{(2)})</td>
<td>$10,700,000</td>
<td>20 years</td>
</tr>
<tr>
<td>OSU: Parking</td>
<td>$500,000</td>
<td>20 years</td>
</tr>
<tr>
<td>PSU: Land Acquisition(^{(3)})</td>
<td>$8,000,000</td>
<td>30 years</td>
</tr>
<tr>
<td>PSU: PCAT Redevelopment(^{(3)})</td>
<td>$7,100,657</td>
<td>30 years</td>
</tr>
<tr>
<td>UO: Power Station Phase II</td>
<td>$29,150,000</td>
<td>30 years</td>
</tr>
<tr>
<td>UO: Alumni Center</td>
<td>$9,975,000</td>
<td>30 years</td>
</tr>
<tr>
<td>UO: EMU-Partial Renovation</td>
<td>$2,260,000</td>
<td>20 years</td>
</tr>
<tr>
<td>Article XI-F(1) Projects</td>
<td>Estimated Bond Proceeds</td>
<td>Maximum Term</td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>-------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>UO: New Student Housing&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>$35,000,000</td>
<td>30 years</td>
</tr>
<tr>
<td>UO: Underground Parking</td>
<td>$400,000</td>
<td>20 years</td>
</tr>
<tr>
<td>WOU: Residence Hall</td>
<td>$10,000,000</td>
<td>30 years</td>
</tr>
<tr>
<td>WOU: Health &amp; Wellness Center</td>
<td>$8,500,000</td>
<td>30 years</td>
</tr>
<tr>
<td><strong>TOTAL XI-F(1) Projects</strong></td>
<td><strong>$188,085,657</strong></td>
<td>N/A</td>
</tr>
</tbody>
</table>

<sup>(1)</sup> Part or all of the bonds for this project will be sold as taxable bonds.

<sup>(2)</sup> Pending Legislative approval. Bonds will not be sold unless the legislature approves the project for bond funding.

In accordance with past practice, approximately 2 percent issuance cost for Article XI-F(1) bonds will be added to the total project cost at the time of issuance to cover underwriting and other costs associated with the sale.

Section 2: Article XI-G Projects. Bonds are authorized to be sold under Article XI-G to provide funds for the projects described below in Table B.

**Table B - Article XI-G Projects Recommended for April 2010 Bond Sale**

<table>
<thead>
<tr>
<th>Article XI-G Projects</th>
<th>Estimated Bond Proceeds, excluding issuance costs</th>
<th>Maximum Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>OSU: Animal Science Research Pavilion</td>
<td>$4,000,000</td>
<td>30 years</td>
</tr>
<tr>
<td>OSU: National Wave Energy Research Center&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>$1,500,000</td>
<td>20 years</td>
</tr>
<tr>
<td>OSU: Nash Hall Def Maintenance&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>$3,776,000</td>
<td>20 years</td>
</tr>
<tr>
<td>PSU: Science Research &amp; Teaching Center/Hazardous Waste Facility</td>
<td>$7,000,000</td>
<td>30 years</td>
</tr>
<tr>
<td>UO: Integrative Science Complex Phase 2&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>$30,000,000</td>
<td>30 years</td>
</tr>
<tr>
<td>UO: Fenton Hall Deferred Maintenance/Seismic Tier 1</td>
<td>$2,480,500</td>
<td>20 years</td>
</tr>
<tr>
<td><strong>TOTAL XI-G Projects</strong></td>
<td><strong>$48,756,500</strong></td>
<td>N/A</td>
</tr>
</tbody>
</table>

<sup>(1)</sup> Part or all of the bonds for this project will be sold as taxable bonds.

<sup>(2)</sup> Pending Legislative approval. Bonds will not be sold unless the legislature approves the project for bond funding.

Section 3: Terms, Sale and Issuance. The bonds authorized by this resolution (the "Bonds"), shall be issued in such series and principal amounts as the State Treasurer, after consultation with the Chancellor of the Oregon University System, the Chancellor’s designee (the “Designee”), or the Associate Vice Chancellor for Finance and Administration and Controller shall determine are required to fund the projects described in Sections 1 and 2 of this resolution. The Bonds shall mature, bear interest and otherwise be structured, sold and issued...
as the State Treasurer determines after consultation with the Chancellor, the Designee, or the Associate Vice Chancellor for Finance and Administration and Controller. The maximum net effective interest rate for the Bonds shall not exceed 8 percent per annum.

Section 4: Maintenance of Tax-Exempt Status. The Chancellor, the Designee, or the Associate Vice Chancellor for Finance and Administration and Controller of the Oregon University System are hereby authorized to covenant, on behalf of the Board, to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), that are required for interest on tax-exempt Bonds to be excluded from gross income for federal income taxation purposes.

Section 5: Other Action. The State Treasurer, the Chancellor, or Designee, or the Associate Vice Chancellor for Finance and Administration and Controller of the Oregon University System are each hereby authorized, on behalf of the Board, to take any action that may be required to issue, sell, and deliver the Bonds in accordance with this resolution.

Additional Information on Debt and Debt Service

**Table C – April 2010 Bond Sale for Article XI-F(1) Bonds: Amount of Bonds to be Sold and Associated Annual Debt Service**

<table>
<thead>
<tr>
<th>Campus</th>
<th>Bonds Outstanding as of 12/31/09(^{(1)})</th>
<th>Annual Debt Svc as of 12/31/09(^{(1)})</th>
<th>April 2010 Bond Sale</th>
<th>April 2010 Average Annual Debt Svc</th>
<th>Debt Burden Ratio (Includes Debt on Bonds in April Sale)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Systemwide</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>EOU</td>
<td>$21,226,309</td>
<td>$2,321,103</td>
<td>N/A</td>
<td>N/A</td>
<td>5.7%</td>
</tr>
<tr>
<td>OIT</td>
<td>$32,837,013</td>
<td>$2,445,071</td>
<td>$2,000,000</td>
<td>$167,359</td>
<td>5.8%</td>
</tr>
<tr>
<td>OSU</td>
<td>$188,199,172</td>
<td>$16,046,414</td>
<td>$75,700,000</td>
<td>$5,757,828</td>
<td>3.7%</td>
</tr>
<tr>
<td>PSU</td>
<td>$148,041,289</td>
<td>$12,837,803</td>
<td>$15,100,657</td>
<td>$1,216,854</td>
<td>4.5%</td>
</tr>
<tr>
<td>SOU</td>
<td>$22,945,178</td>
<td>$2,429,559</td>
<td>N/A</td>
<td>N/A</td>
<td>3.5%</td>
</tr>
<tr>
<td>UO(^{(2)})</td>
<td>$398,443,237</td>
<td>$28,671,138</td>
<td>$76,785,000</td>
<td>$5,322,787</td>
<td>6.7%</td>
</tr>
<tr>
<td>WOU(^{(2)})</td>
<td>$34,343,452</td>
<td>$2,989,530</td>
<td>$18,500,000</td>
<td>$1,272,900</td>
<td>5.4%</td>
</tr>
<tr>
<td><strong>Total Debt Outstanding</strong></td>
<td><strong>$846,035,650</strong></td>
<td><strong>$67,740,618</strong></td>
<td><strong>$188,085,657</strong></td>
<td><strong>$13,737,728</strong></td>
<td></td>
</tr>
</tbody>
</table>

\(^{(1)}\) Excludes OHSU debt outstanding, which is paid by OHSU per OUS/OHSU Debt Service Agreement. Excludes accreted interest, bond premiums and discounts, and gain or loss on refunding.

\(^{(2)}\) Funding for a project at this institution will be split between this sale and a future sale. The Debt Burden Ratio includes the debt for the entire project.
## Table D – April 2010 Bond Sale for Article XI-F(1) Bonds:
Net Revenues with Bonds to be Sold and Associated Annual Debt Service

<table>
<thead>
<tr>
<th>Project/s</th>
<th>Revenues(3)</th>
<th>Operating Expenses(3)</th>
<th>Net Revenues</th>
<th>April Bond Sale</th>
<th>Average Annual Debt Service on April Sale(4)</th>
<th>Source of Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>OIT: Geothermal Renewable Energy Demonstration</td>
<td>$443,503</td>
<td>$252,438</td>
<td>$191,065</td>
<td>$2,000,000</td>
<td>$167,359</td>
<td>Energy Savings &amp; Power Sales</td>
</tr>
<tr>
<td>OSU: International Residence Halls(2)(3)</td>
<td>$5,100,680</td>
<td>$1,153,473</td>
<td>$3,947,207</td>
<td>$52,000,000</td>
<td>$3,849,000</td>
<td>User Fees</td>
</tr>
<tr>
<td>OSU: UHDS, Cauthorn/Poling Remodel</td>
<td>$1,361,659</td>
<td>$567,052</td>
<td>$794,607</td>
<td>$3,000,000</td>
<td>$251,035</td>
<td>Residence &amp; Dining Fees</td>
</tr>
<tr>
<td>OSU: UHDS Arnold Dining Center Renovation</td>
<td>$1,487,267</td>
<td>$985,459</td>
<td>$501,808</td>
<td>$4,500,000</td>
<td>$376,557</td>
<td>Residence &amp; Dining Fees</td>
</tr>
<tr>
<td>OSU: New Steam Plant/Utility Switch</td>
<td>$344,027</td>
<td>$0.00</td>
<td>$344,027</td>
<td>$5,000,000</td>
<td>$344,027</td>
<td>Energy Savings</td>
</tr>
<tr>
<td>OSU: Recreational Sports Field and Field House Renovation(1)</td>
<td>$895,369</td>
<td>$0.00</td>
<td>$895,369</td>
<td>$10,700,000</td>
<td>$895,369</td>
<td>Special Student Fee</td>
</tr>
<tr>
<td>OSU: Parking</td>
<td>$269,330</td>
<td>$227,490</td>
<td>$41,840</td>
<td>$500,000</td>
<td>$41,840</td>
<td>Parking Fees</td>
</tr>
<tr>
<td>PSU: Land Acquisition(2)</td>
<td>$682,271</td>
<td>$0.00</td>
<td>$682,271</td>
<td>$8,000,000</td>
<td>$644,691</td>
<td>Lease Payments</td>
</tr>
<tr>
<td>PSU: PCAT Redevelopment(2)</td>
<td>$8,221,915</td>
<td>$7,320,633</td>
<td>$901,282</td>
<td>$7,100,657</td>
<td>$572,163</td>
<td>Lease Payments, User Fees</td>
</tr>
<tr>
<td>UO: Power Station Phase 2</td>
<td>$16,694,618</td>
<td>$14,688,941</td>
<td>$2,005,677</td>
<td>$29,150,000</td>
<td>$2,005,677</td>
<td>User Fees</td>
</tr>
<tr>
<td>UO: Alumni Center</td>
<td>$743,562</td>
<td>$53,562</td>
<td>$690,000</td>
<td>$9,975,000</td>
<td>$686,334</td>
<td>Lease Payments</td>
</tr>
<tr>
<td>UO: EMU Partial Renovation</td>
<td>$189,534</td>
<td>$0.00</td>
<td>$189,534</td>
<td>$2,260,000</td>
<td>$189,115</td>
<td>Student Building Fees</td>
</tr>
<tr>
<td>UO: New Student Housing(3)</td>
<td>$5,690,293</td>
<td>$1,235,293</td>
<td>$4,455,000</td>
<td>$35,000,000</td>
<td>$2,408,189</td>
<td>Residence &amp; Dining Fees</td>
</tr>
<tr>
<td>UO: Underground Parking</td>
<td>$1,758,907</td>
<td>$671,017</td>
<td>$1,087,890</td>
<td>$400,000</td>
<td>$33,472</td>
<td>Parking Fees</td>
</tr>
<tr>
<td>WOU: Residence Hall</td>
<td>$7,193,062</td>
<td>$4,363,101</td>
<td>$2,829,961</td>
<td>$10,000,000</td>
<td>$688,054</td>
<td>User Fees</td>
</tr>
<tr>
<td>WOU: Health &amp; Wellness Center</td>
<td>$769,354</td>
<td>$0.00</td>
<td>$769,354</td>
<td>$8,500,000</td>
<td>$584,846</td>
<td>Student Fees</td>
</tr>
</tbody>
</table>

(1) Pending Legislative approval. Bonding for this project will not be sold without Legislative approval.
(2) Part or all of the bonds for this project will be sold as taxable bonds.
(3) Revenues and Operating Expenses are based upon a ten year average.
(4) Tax-exempt bond rate of 5.5 percent and taxable rate of 7.0 percent was used in the calculation of debt service. A blended rate was used if the project funding is a combination of taxable and tax-exempt.
(5) Bond proceeds will be used to pay the debt service (interest only) on the first two years of the project.
OUS, Fiscal Status of Intercollegiate Athletics as of June 30, 2009

The purpose of this report is to provide a brief review and update of the fiscal status of Intercollegiate Athletics as of June 30, 2009. This report includes a review of compliance with the Board’s directives relating to deficits, specifically working capital, and a brief analytical analysis of each institution’s Intercollegiate Athletics Department (Athletics).

BOARD’S DIRECTIVES
The intercollegiate athletics programs within OUS have been operating under and held accountable to the following financial principles and policies:

1. The working capital balance (current assets minus current liabilities) of the intercollegiate athletics department (all funds except unexpended plant funds) is to be positive at fiscal year end.
2. The use of institutional funds (tuition and fees) to support the athletics budget is permissible, but should be minimized.
3. The use of State General Fund dollars in support of intercollegiate athletics is limited to the purposes outlined in Internal Management Directives (IMD) Section 8 as follows:
   (1) Major Revenue-Producing Athletic Activities
   Major revenue-producing athletic activities are those that, by definition, are estimated to be self-supporting from gate receipts, television and radio income, conference income, contributions, and other revenues generated through the operation of those activities. Any incidental fees used to support major revenue producing athletic activities will be deemed to be for the purpose of financing student admissions. No state tax funds, appropriated for education and general purposes, are to be used either for operating or capital expenditures, except as provided in (3) below. "Operating expenses" include both salaries and applicable physical plant costs.
   (2) Other Athletic Activities
   Other athletic activities are to be financed from student incidental fees, gate receipts, and contributions. State funds appropriated for Education and General purposes may be used only to fund the salaries of coaches at the regional universities and Oregon Institute of Technology.
   (3) Proportionate Financing of Joint Use Facilities
   State funds are used and may continue to be used for physical plant and other operating costs applicable to spaces within athletic facilities that are utilized for Educational and General purposes, such as lectures, convocations, physical education activity classes, concerts, and commencement exercises.
ATHLETICS’ FISCAL YEAR 2009 FINANCIAL STATEMENTS
The financial statements that provide the basis for this analysis include all material revenues and expenses related to Athletics. Unexpended plant funds relating to Athletics’ capital assets activities are not included in this report. However, renewal and replacement reserve funds relating to Athletics are included in this report. Note that all funds in Athletics are interest bearing accounts with surplus balances receiving interest income and deficits charged interest expense.

The attached Summary Statement of Net Assets and Summary Statement of Revenues, Expenses and Other Changes in Net Assets present the financial condition and operating results of Athletics at each OUS institution. The following analysis is based on these statements.
### Eastern Oregon University

#### Eastern Oregon University Intercollegiate Athletics
**Fiscal Year-to-Date June 30, 2006 - 2009**

#### SUMMARY STATEMENT OF NET ASSETS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Investments</td>
<td>$27,901</td>
<td>$55,914</td>
<td>$79,535</td>
<td>$153,043</td>
</tr>
<tr>
<td>Cash - Restricted</td>
<td>$4,312</td>
<td>$3,126</td>
<td>$1,527</td>
<td>$1,009</td>
</tr>
<tr>
<td>Receivables (net), Inventories, and Prepaid Expense</td>
<td>$31,212</td>
<td>$33,477</td>
<td>$1,527</td>
<td>$1,009</td>
</tr>
<tr>
<td>Due From Other Funds and OUS Institutions</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>$3,311</td>
<td>$(18,125)</td>
<td>81,488</td>
<td>154,268</td>
</tr>
<tr>
<td><strong>Noncurrent Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Assets, Net</td>
<td>$14,966</td>
<td>193,284</td>
<td>206,290</td>
<td>222,605</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td>$18,277</td>
<td>175,159</td>
<td>287,778</td>
<td>376,873</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Payables</td>
<td>$5,384</td>
<td>$6,543</td>
<td>$13,272</td>
<td>$10,821</td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td>$7,040</td>
<td>$5,000</td>
<td>$3,123</td>
<td>$3,123</td>
</tr>
<tr>
<td>Due to Other Funds</td>
<td>$65,000</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>$70,384</td>
<td>$13,583</td>
<td>$18,272</td>
<td>$13,944</td>
</tr>
<tr>
<td><strong>Noncurrent Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>XI-F Long-Term Bonds Payable</td>
<td>$-</td>
<td>$92,634</td>
<td>$87,651</td>
<td>$82,472</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$70,384</td>
<td>$106,217</td>
<td>$105,923</td>
<td>$96,416</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td>$(52,107)</td>
<td>68,942</td>
<td>181,855</td>
<td>280,457</td>
</tr>
</tbody>
</table>

#### WORKING CAPITAL

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td>$3,311</td>
<td>$(18,125)</td>
<td>81,488</td>
<td>154,268</td>
</tr>
<tr>
<td>Less: Current Liabilities</td>
<td>70,384</td>
<td>13,583</td>
<td>18,272</td>
<td>13,944</td>
</tr>
<tr>
<td><strong>Working Capital at End of Period</strong></td>
<td>$(67,073)</td>
<td>$(31,708)</td>
<td>63,216</td>
<td>140,324</td>
</tr>
</tbody>
</table>

#### BUDGETARY CASH FLOW & Direct Institutional Support

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Income(Loss) from Operations before Direct</strong></td>
<td>$(1,052,703)</td>
<td>$(866,226)</td>
<td>$(698,344)</td>
<td>$(877,365)</td>
</tr>
<tr>
<td>Institutional Support and Depreciation</td>
<td>$(4,788)</td>
<td>$(4,983)</td>
<td>$(5,179)</td>
<td>$(5,179)</td>
</tr>
<tr>
<td><strong>Budgetary Cash Flow</strong></td>
<td>$(1,052,703)</td>
<td>$(871,014)</td>
<td>$(703,327)</td>
<td>$(882,544)</td>
</tr>
<tr>
<td><strong>Direct Institutional Support</strong></td>
<td>$1,004,955</td>
<td>$895,777</td>
<td>$798,251</td>
<td>$959,653</td>
</tr>
<tr>
<td><strong>Net</strong></td>
<td>$(47,748)</td>
<td>$24,763</td>
<td>$94,924</td>
<td>$77,109</td>
</tr>
</tbody>
</table>

#### DEPARTMENTAL DEBT BURDEN RATIO

- **Departmental Debt Burden Ratio**: 0.0% 0.5% 0.5% 0.5%
- **Debt Service**: $- $7,206 $9,048 $9,048
- **Adjusted Expenses: Total Expenses excluding Depreciation**: $1,841,322 $1,596,571 $1,734,912 $1,976,686

**UNAUDITED** - For management purposes only
### Eastern Oregon University Intercollegiate Athletics
**Fiscal Year-to-Date June 30, 2006 - 2009**

#### SUMMARY OF REVENUES, EXPENSES, AND OTHER CHANGES

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenues</td>
<td>155,510$</td>
<td>126,267$</td>
<td>143,721$</td>
<td>154,681$</td>
</tr>
<tr>
<td>Student Fees</td>
<td>455,000</td>
<td>435,054</td>
<td>455,342</td>
<td>449,400</td>
</tr>
<tr>
<td>Lottery Proceeds</td>
<td>50,079</td>
<td>107,728</td>
<td>368,347</td>
<td>439,426</td>
</tr>
<tr>
<td>Gifts, Grants, and Booster Receipts</td>
<td>118,609</td>
<td>53,013</td>
<td>63,091</td>
<td>46,972</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>9,421</td>
<td>3,495</td>
<td>1,084</td>
<td>1,663</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>788,619</td>
<td>725,557</td>
<td>1,031,585</td>
<td>1,094,142</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>1,801,685</td>
<td>1,450,705</td>
<td>1,541,605</td>
<td>1,683,798</td>
</tr>
<tr>
<td>Scholarships</td>
<td>103,655</td>
<td>162,910</td>
<td>205,335</td>
<td>315,141</td>
</tr>
<tr>
<td>Bond Interest Expense</td>
<td>-</td>
<td>2,418</td>
<td>4,065</td>
<td>3,869</td>
</tr>
<tr>
<td>Net Transfers (In)/Out</td>
<td>(64,018)</td>
<td>(24,250)</td>
<td>(21,076)</td>
<td>(31,301)</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>1,841,322</td>
<td>1,591,783</td>
<td>1,729,929</td>
<td>1,971,507</td>
</tr>
<tr>
<td><strong>Net Income(Loss)</strong></td>
<td>(1,052,703)</td>
<td>(866,226)</td>
<td>(698,344)</td>
<td>(877,365)</td>
</tr>
</tbody>
</table>

#### Direct Institutional Support and Depreciation

- **Fee Remissions**
- **Other Direct Institutional Support** 1,004,955 | 895,777 | 798,251 | 959,653

#### Net Income(Loss) from Operations before Direct Institutional Support and Depreciation

- **Net Income(Loss)** from Operations before Depreciation (47,748) | 23,551 | 99,907 | 82,288

#### Net Income(Loss)

- **Beginning Net Assets** (406) | (52,107) | 68,942 | 181,855
- **Depreciation Expense** (3,953) | (1,493) | (1,993) | (11,493)

- **Ending Net Assets** (51,701) | 28,058 | 97,934 | 70,795

#### Education and General Revenues(1)

- **Beginning Net Assets** 28,210,345 | 28,343,421 | 31,017,595 | 30,354,644

#### Other Revenues

- **Direct Institutional Support as a Percent of E&G Revenue** 3.6% | 3.2% | 2.6% | 3.2%

- **Direct Institutional Support Contribution to Total Athletics Expenses** 54.6% | 56.3% | 46.1% | 48.7%

- **Student Incidental Fee (SIF) Allocation to Total Athletics Expenses** 24.7% | 27.3% | 26.3% | 22.8%

- **Direct Institutional Support and SIF to Total Athletics Expenses** 79.3% | 83.6% | 72.5% | 71.5%

---

(1) Source: Total Revenue from Fund Type 11 - Budgeted Operations
Summary
EOU Athletics working capital, as of June 30, 2009, was $140,000, an increase of $77,000 from prior year. EOU Athletics ended FY 2009 with positive working capital and is in compliance with the Board’s directives relating to deficits.

EOU athletics received $960,000 in FY 2009 of direct institutional support compared to $798,000 in prior year, a 20 percent increase.
## Oregon Institute of Technology

### SUMMARY STATEMENT OF NET ASSETS

**Oregon Institute of Technology Intercollegiate Athletics**  
**Fiscal Year-to-Date June 30, 2006 - 2009**

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Investments</td>
<td>$83,049</td>
<td>$119,733</td>
<td>$180,749</td>
<td>$160,311</td>
</tr>
<tr>
<td>Cash - Restricted</td>
<td>10,859</td>
<td>13,801</td>
<td>16,660</td>
<td>16,988</td>
</tr>
<tr>
<td>Receivables (net), Inventories, and Prepaid Expense</td>
<td>5,698</td>
<td>4,935</td>
<td>7,272</td>
<td>5,970</td>
</tr>
<tr>
<td>Due From Other Funds and OUS Institutions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>$99,606</td>
<td>$138,469</td>
<td>$204,681</td>
<td>$183,269</td>
</tr>
<tr>
<td><strong>Noncurrent Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Assets, Net</td>
<td>$425,182</td>
<td>$416,862</td>
<td>$417,997</td>
<td>$402,852</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$524,788</td>
<td>$555,331</td>
<td>$622,678</td>
<td>$586,121</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Payables</td>
<td>$707</td>
<td>$2,582</td>
<td>$8,702</td>
<td>$11,384</td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>345</td>
</tr>
<tr>
<td>Due to Other Funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>$707</td>
<td>$2,582</td>
<td>$8,702</td>
<td>$11,729</td>
</tr>
<tr>
<td><strong>Noncurrent Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>XI-F Long-Term Bonds Payable</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$707</td>
<td>$2,582</td>
<td>$8,702</td>
<td>$11,729</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td>$524,081</td>
<td>$552,749</td>
<td>$613,976</td>
<td>$574,392</td>
</tr>
</tbody>
</table>

### WORKING CAPITAL

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Current Liabilities</td>
<td>707</td>
<td>2,582</td>
<td>8,702</td>
<td>11,729</td>
</tr>
<tr>
<td>Working Capital at End of Period</td>
<td>$98,899</td>
<td>$135,887</td>
<td>$195,979</td>
<td>$171,540</td>
</tr>
</tbody>
</table>

### BUDGETARY CASH FLOW & Direct Institutional Support

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income(Loss) from Operations before Direct Institutional Support and Depreciation</td>
<td>$(-686,928)</td>
<td>$(-656,982)</td>
<td>$(652,993)</td>
<td>$(-777,398)</td>
</tr>
<tr>
<td>Less: Debt Principal Payments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Budgetary Cash Flow</td>
<td>$(686,928)</td>
<td>$(656,982)</td>
<td>$(652,993)</td>
<td>$(777,398)</td>
</tr>
<tr>
<td>Direct Institutional Support</td>
<td>656,587</td>
<td>696,306</td>
<td>726,382</td>
<td>752,958</td>
</tr>
<tr>
<td>Net</td>
<td>$(30,341)</td>
<td>$(39,234)</td>
<td>$(75,981)</td>
<td>$(24,440)</td>
</tr>
</tbody>
</table>

### DEPARTMENTAL DEBT BURDEN RATIO

<table>
<thead>
<tr>
<th></th>
<th>0.0%</th>
<th>0.0%</th>
<th>0.0%</th>
<th>0.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Service</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Adjusted Expenses: Total Expenses excluding Depreciation</td>
<td>$1,375,962</td>
<td>$1,470,636</td>
<td>$1,821,840</td>
<td>$1,979,051</td>
</tr>
<tr>
<td>Expense plus Debt Principal Payments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**UNAUDITED** - For management purposes only
### SUMMARY OF REVENUES, EXPENSES, AND OTHER CHANGES


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenues</td>
<td>$226,606</td>
<td>$243,972</td>
<td>$252,860</td>
<td>$321,336</td>
</tr>
<tr>
<td>Student Fees</td>
<td>274,174</td>
<td>328,758</td>
<td>323,878</td>
<td>345,278</td>
</tr>
<tr>
<td>Lottery Proceeds</td>
<td>50,079</td>
<td>107,728</td>
<td>365,664</td>
<td>439,426</td>
</tr>
<tr>
<td>Gifts, Grants, and Booster Receipts</td>
<td>135,002</td>
<td>132,172</td>
<td>225,101</td>
<td>87,275</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>3,173</td>
<td>4,024</td>
<td>1,384</td>
<td>8,338</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$689,034</td>
<td>$813,654</td>
<td>$1,168,847</td>
<td>$1,201,653</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>1,075,401</td>
<td>1,163,699</td>
<td>1,503,654</td>
<td>1,697,701</td>
</tr>
<tr>
<td>Scholarships</td>
<td>294,361</td>
<td>299,286</td>
<td>311,986</td>
<td>275,150</td>
</tr>
<tr>
<td>Bond Interest Expense</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net Transfers (In)/Out</td>
<td>6,200</td>
<td>7,651</td>
<td>6,200</td>
<td>6,200</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>1,375,962</td>
<td>1,470,636</td>
<td>1,821,840</td>
<td>1,979,051</td>
</tr>
<tr>
<td><strong>Net Income(Loss) from Operations before Direct Institutional Support and Depreciation</strong></td>
<td>(686,928)</td>
<td>(656,982)</td>
<td>(652,993)</td>
<td>(777,398)</td>
</tr>
<tr>
<td>Direct Institutional Support</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fee Remissions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Direct Institutional Support</td>
<td>656,587</td>
<td>696,306</td>
<td>726,382</td>
<td>752,958</td>
</tr>
<tr>
<td><strong>Total Direct Institutional Support</strong></td>
<td>656,587</td>
<td>696,306</td>
<td>726,382</td>
<td>752,958</td>
</tr>
<tr>
<td><strong>Depreciation Expense</strong></td>
<td>(3,450)</td>
<td>(13,374)</td>
<td>(14,909)</td>
<td>(15,144)</td>
</tr>
<tr>
<td><strong>Net Income(Loss)</strong></td>
<td>(33,791)</td>
<td>39,324</td>
<td>73,389</td>
<td>(24,440)</td>
</tr>
<tr>
<td><strong>Beginning Net Assets</strong></td>
<td>543,268</td>
<td>524,081</td>
<td>552,749</td>
<td>613,976</td>
</tr>
<tr>
<td>Beginning Balance Adjustments</td>
<td>(2,336)</td>
<td>(2,747)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fund Additions - NIP Change in Fixed Assets</td>
<td>16,799</td>
<td>7,363</td>
<td>2,117</td>
<td>-</td>
</tr>
<tr>
<td>Fund Deductions</td>
<td>(2,195)</td>
<td>(2,309)</td>
<td>(2,117)</td>
<td>-</td>
</tr>
<tr>
<td>Bond Debt Principal/Sinking Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Ending Net Assets</strong></td>
<td>$524,081</td>
<td>$552,749</td>
<td>$613,976</td>
<td>$574,392</td>
</tr>
</tbody>
</table>

UNAUDITED - For management purposes only

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and General Revenues(1)</td>
<td>28,474,738</td>
<td>29,652,881</td>
<td>35,366,539</td>
<td>34,666,033</td>
</tr>
</tbody>
</table>

**Direct Institutional Support as a Percent of E&G Revenue**

- 2.3% 2.3% 2.1% 2.2%

**Direct Institutional Support Contribution to Total Athletics Expenses**

- 47.7% 47.3% 39.9% 38.0%

**Student Incidental Fee (SIF) Allocation to Total Athletics Expenses**

- 19.9% 22.2% 17.8% 17.4%

**Direct Institutional Support and SIF to Total Athletics Expenses**

- 67.6% 69.5% 57.6% 55.5%

(1) Source: Total Revenue from Fund Type 11 - Budgeted Operations
**Summary**

OIT Athletics working capital, as of June 30, 2009, was $172,000, a decrease of $24,000 from prior year. OIT Athletics ended FY 2009 with positive working capital and is in compliance with the Board’s directive relating to deficits.

OIT Athletics received $753,000 in FY 2009 of direct institutional support compared to $726,000 in prior year, a 4 percent increase.
Oregon State University

Oregon State University Intercollegiate Athletics
Fiscal Year-to-Date June 30, 2006 - 2009

**SUMMARY STATEMENT OF NET ASSETS**

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Investments</td>
<td>$4,975,841</td>
<td>$(6,923,228)</td>
<td>$(5,660,054)</td>
<td>$(5,495,339)</td>
</tr>
<tr>
<td>Cash - Restricted</td>
<td>640,222</td>
<td>936,927</td>
<td>738,315</td>
<td>531,136</td>
</tr>
<tr>
<td>Receivables (net), Inventories, and Prepaid Expense</td>
<td>1,454,818</td>
<td>9,547,602</td>
<td>8,646,420</td>
<td>5,385,345</td>
</tr>
<tr>
<td>Due From Other Funds and OUS Institutions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>$7,070,881</td>
<td>$3,561,301</td>
<td>$3,724,681</td>
<td>$421,142</td>
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<tr>
<td>Noncurrent Assets</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Fixed Assets, Net</td>
<td>$93,532,163</td>
<td>106,605,693</td>
<td>117,505,417</td>
<td>123,589,339</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$100,603,044</td>
<td>$110,166,994</td>
<td>$121,230,098</td>
<td>$124,010,481</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
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<tr>
<td>Current Liabilities</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Current Payables</td>
<td>$1,371,286</td>
<td>$1,589,214</td>
<td>$1,668,909</td>
<td>$1,386,005</td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td>5,575,009</td>
<td>4,655,963</td>
<td>5,857,031</td>
<td>4,949,475</td>
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<tr>
<td>Due to Other Funds</td>
<td>1,250,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>$6,946,295</td>
<td>$7,495,177</td>
<td>$7,525,940</td>
<td>$6,335,480</td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>XI-F Long-Term Bonds Payable</td>
<td>$58,896,182</td>
<td>84,318,346</td>
<td>83,091,098</td>
<td>88,244,377</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$66,842,477</td>
<td>$91,813,523</td>
<td>$90,617,038</td>
<td>$94,579,857</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td>$33,760,567</td>
<td>$18,353,471</td>
<td>$30,613,060</td>
<td>$29,430,624</td>
</tr>
</tbody>
</table>

**WORKING CAPITAL**

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Current Liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Working Capital at End of Period</strong></td>
<td>$124,586</td>
<td>$(3,933,876)</td>
<td>$(3,801,259)</td>
<td>$(5,914,338)</td>
</tr>
</tbody>
</table>

**BUDGETARY CASH FLOW & Direct Institutional Support**

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Net Income(Loss) from Operations before Direct Institutional Support and Depreciation</td>
<td>$(3,091,412)</td>
<td>$(4,049,103)</td>
<td>$262,067</td>
<td>$(3,066,386)</td>
</tr>
<tr>
<td>Less: Debt Principal Payments</td>
<td>(1,421,920)</td>
<td>(1,784,131)</td>
<td>(1,938,154)</td>
<td>(2,476,765)</td>
</tr>
<tr>
<td>Budgetary Cash Flow</td>
<td>(4,513,332)</td>
<td>(5,833,234)</td>
<td>(1,676,087)</td>
<td>(5,543,151)</td>
</tr>
<tr>
<td>Direct Institutional Support</td>
<td>3,665,669</td>
<td>2,568,270</td>
<td>2,134,934</td>
<td>3,615,834</td>
</tr>
<tr>
<td><strong>Net</strong></td>
<td>$(847,663)</td>
<td>$(1,264,964)</td>
<td>$458,847</td>
<td>$(1,927,317)</td>
</tr>
</tbody>
</table>

**DEPARTMENTAL DEBT BURDEN RATIO**

<table>
<thead>
<tr>
<th></th>
<th>11.5%</th>
<th>11.3%</th>
<th>11.9%</th>
<th>13.2%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Service</td>
<td>$4,559,359</td>
<td>$5,343,740</td>
<td>$5,570,083</td>
<td>$6,706,060</td>
</tr>
<tr>
<td>Adjusted Expenses: Total Expenses excluding Depreciation and Expense plus Debt Principal Payments</td>
<td>$39,752,286</td>
<td>$47,167,536</td>
<td>$46,726,981</td>
<td>$50,705,471</td>
</tr>
</tbody>
</table>

UNAUDITED - For management purposes only
## SUMMARY OF REVENUES, EXPENSES, AND OTHER CHANGES


#### Revenues

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td>$21,073,468</td>
<td>$23,118,773</td>
<td>$25,327,469</td>
<td>$29,211,768</td>
</tr>
<tr>
<td>Student Fees</td>
<td>1,494,984</td>
<td>1,494,984</td>
<td>1,203,903</td>
<td>2,113,218</td>
</tr>
<tr>
<td>Lottery Proceeds</td>
<td>301,877</td>
<td>649,382</td>
<td>1,170,659</td>
<td>1,345,316</td>
</tr>
<tr>
<td>Gifts, Grants, and Booster Receipts</td>
<td>12,368,625</td>
<td>15,652,413</td>
<td>16,614,610</td>
<td>11,629,544</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>418,750</td>
<td>734,253</td>
<td>662,474</td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td><strong>35,238,954</strong></td>
<td><strong>41,334,302</strong></td>
<td><strong>45,050,894</strong></td>
<td><strong>45,162,320</strong></td>
</tr>
</tbody>
</table>

#### Expenses

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Expenses</td>
<td>28,830,111</td>
<td>35,223,138</td>
<td>33,508,270</td>
<td>36,061,297</td>
</tr>
<tr>
<td>Scholarships</td>
<td>6,362,816</td>
<td>6,600,658</td>
<td>7,361,929</td>
<td>7,626,316</td>
</tr>
<tr>
<td>Bond Interest Expense</td>
<td>3,137,439</td>
<td>3,559,609</td>
<td>3,631,929</td>
<td>4,229,295</td>
</tr>
<tr>
<td>Net Transfers (In)/Out</td>
<td>-</td>
<td>-</td>
<td>288,178</td>
<td>311,798</td>
</tr>
<tr>
<td>Total Expenses</td>
<td><strong>38,330,366</strong></td>
<td><strong>45,383,405</strong></td>
<td><strong>44,788,827</strong></td>
<td><strong>48,228,706</strong></td>
</tr>
</tbody>
</table>

#### Net Income/(Loss) from Operations before Depreciation

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Fee Remissions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Direct Institutional Support</td>
<td>3,665,669</td>
<td>2,568,270</td>
<td>2,134,934</td>
<td>3,615,834</td>
</tr>
<tr>
<td>Total Direct Institutional Support</td>
<td><strong>3,665,669</strong></td>
<td><strong>2,568,270</strong></td>
<td><strong>2,134,934</strong></td>
<td><strong>3,615,834</strong></td>
</tr>
</tbody>
</table>

#### Net Income/(Loss) from Operations before Depreciation

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Depreciation Expense</td>
<td>(4,584,081)</td>
<td>(4,921,678)</td>
<td>(5,659,512)</td>
<td>(4,364,735)</td>
</tr>
<tr>
<td>Net Income/(Loss)</td>
<td>(4,009,824)</td>
<td>(6,402,551)</td>
<td>(3,922,511)</td>
<td>(3,815,287)</td>
</tr>
</tbody>
</table>

#### Net Income/(Loss)

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance Adjustments</td>
<td>(13,123)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fund Additions - NIP Change in Fixed Assets</td>
<td>15,965,919</td>
<td>17,330,284</td>
<td>18,332,652</td>
<td>10,262,895</td>
</tr>
<tr>
<td>Fund Deductions</td>
<td>(3,384,136)</td>
<td>(24,537,615)</td>
<td>(842,398)</td>
<td>(5,153,279)</td>
</tr>
<tr>
<td>Bond Debt Principal/Sinking Fund</td>
<td>(1,421,520)</td>
<td>(1,784,131)</td>
<td>(1,938,154)</td>
<td>(2,476,765)</td>
</tr>
<tr>
<td>Ending Net Assets</td>
<td><strong>33,760,567</strong></td>
<td><strong>18,353,471</strong></td>
<td><strong>30,613,060</strong></td>
<td><strong>29,430,624</strong></td>
</tr>
</tbody>
</table>

### UNAUDITED - For management purposes only

#### Education and General Revenues(1)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Direct Institutional Support as a Percent of E&amp;G Revenue</td>
<td>1.5%</td>
<td>1.0%</td>
<td>0.8%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Direct Institutional Support Contribution to Total Athletics Expenses</td>
<td>9.6%</td>
<td>5.7%</td>
<td>4.8%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Student Incidental Fee (SIF) Allocation to Total Athletics Expenses</td>
<td>3.9%</td>
<td>3.3%</td>
<td>2.7%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Direct Institutional Support and SIF to Total Athletics Expenses</td>
<td>13.5%</td>
<td>9.0%</td>
<td>7.5%</td>
<td>11.9%</td>
</tr>
</tbody>
</table>

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(1) Source: Total Revenue from Fund Type 11 - Budgeted Operations, less Fund Type 11 Revenue of Statewide Public Services
Summary
OSU Athletics working capital, as of June 30, 2009, was a negative $5.9 million, a decrease of $2.1 million from prior year. OSU Athletics ended FY 2009 with negative working capital and is not in compliance with the Board’s directives relating to deficits. OSU Athletics continues to work to address the working capital issues to ensure compliance with Board policy.

As noted in the following table, the negative working capital balance is primarily the result of operating losses.

<table>
<thead>
<tr>
<th>Oregon State University Intercollegiate Athletics</th>
<th>FY 2009</th>
<th>FY 2008</th>
<th>FY 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income(LOSS) from Operations before Direct institutional support and Depreciation</td>
<td>$ (3,066,385)</td>
<td>$ 262,065</td>
<td>$ (4,049,102)</td>
</tr>
<tr>
<td>Debt Principal Payments</td>
<td>(2,476,765)</td>
<td>(1,938,154)</td>
<td>(1,784,131)</td>
</tr>
<tr>
<td>Budgetary Cash Flow</td>
<td>(5,543,150)</td>
<td>(1,676,089)</td>
<td>(5,833,233)</td>
</tr>
<tr>
<td>Direct institutional support</td>
<td>3,615,834</td>
<td>2,134,934</td>
<td>2,568,270</td>
</tr>
<tr>
<td>Net</td>
<td>$ (1,927,316)</td>
<td>$ 458,845</td>
<td>$ (3,264,964)</td>
</tr>
<tr>
<td>Working Capital (Deficit)</td>
<td>$ (5,914,337)</td>
<td>$ (3,801,259)</td>
<td>$ (3,933,875)</td>
</tr>
</tbody>
</table>
As a result of the FY 2007 Athletics financial reports presented to the Board in October 2007, OSU Athletics developed a four-year plan for eliminating the working capital deficit by June 30, 2011. Their FY 2008 actual net working capital results were in accordance with the plan but FY 2009 actual results deviated from the plan.

OSU Athletics’ departmental debt burden ratio for FY 2009 is 13.2 percent. This ratio measures the entity’s dependence on borrowed funds as a source of financing its mission and the relative cost of borrowing to overall expenditures. Although this ratio is typically used on an institution-wide basis, it provides a picture of the overall flexibility of Athletics if it needs to make budgetary tradeoffs in order to finance additional capital expenditures or adjust to declining revenues. Because debt service represents required payments from the operating budget, a higher ratio indicates that the entity has less flexibility to manage the remaining portion of the budget. At 13.2 percent, OSU Athletics debt burden ratio is above the generally accepted threshold of 7 percent for the institution as a whole. While a debt burden ratio in excess of the generally accepted threshold does not necessarily indicate an unhealthy financial measure, sustaining a higher level of debt service expenditure reduces the entity’s flexibility to manage the remaining portion of the budget and to fund other strategic initiatives.

**OSU ATHLETICS RESPONSE TO JUNE 30, 2009, WORKING CAPITAL DEFICIT**

Despite the best efforts of the Athletic Department to implement the existing deficit reduction plan, the working capital deficit at the end of FY 2009 had increased to a final total of $5,914,337. A major factor contributing to this deficit in FY 2009 was a shortfall in fundraising due to the worst economic recession in 80 years. In addition, the usual funding from the Foundation was limited by $1.9 million due to other uses of Foundation resources.

Factors that will eliminate the working capital deficit include 1) $1.9 million shortfall caught up in FY 2010, 2) new fund raising program, 3) various expense control and cost savings measures and 4) a potential new television deal for the Pac-10. The latest plan is to maintain the current working capital deficit until funding from the Pac-10 television package becomes available in a couple of years.
Portland State University

Portland State University Intercollegiate Athletics
Fiscal Year-to-Date June 30, 2006 - 2009

SUMMARY STATEMENT OF NET ASSETS

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<tr>
<td><strong>Current Assets</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Investments</td>
<td>$87,398</td>
<td>$351,819</td>
<td>$288,704</td>
<td>$227,008</td>
</tr>
<tr>
<td>Cash - Restricted</td>
<td>$44,940</td>
<td>$47,546</td>
<td>$49,889</td>
<td>$51,032</td>
</tr>
<tr>
<td>Receivables (net), Inventories, and Prepaid Expense</td>
<td>$60,102</td>
<td>$63,708</td>
<td>$35,149</td>
<td>$106,767</td>
</tr>
<tr>
<td>Due From Other Funds and OUS Institutions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>$232,440</td>
<td>$463,073</td>
<td>$373,742</td>
<td>$384,807</td>
</tr>
<tr>
<td><strong>Noncurrent Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Assets, Net</td>
<td>$63,271</td>
<td>$47,895</td>
<td>$31,183</td>
<td>$20,956</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$295,711</td>
<td>$510,968</td>
<td>$404,925</td>
<td>$405,763</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Payables</td>
<td>$170,864</td>
<td>$114,624</td>
<td>$180,953</td>
<td>$203,942</td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td>$36,950</td>
<td>$126,451</td>
<td>$124,500</td>
<td>$89,155</td>
</tr>
<tr>
<td>Due to Other Funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>$207,814</td>
<td>$241,075</td>
<td>$305,453</td>
<td>$293,097</td>
</tr>
<tr>
<td><strong>Noncurrent Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>XI-F Long-Term Bonds Payable</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$207,814</td>
<td>$241,075</td>
<td>$305,453</td>
<td>$293,097</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td>$87,897</td>
<td>$269,893</td>
<td>$99,472</td>
<td>$112,666</td>
</tr>
</tbody>
</table>

**WORKING CAPITAL**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Current Liabilities</td>
<td>$207,814</td>
<td>$241,075</td>
<td>$305,453</td>
<td>$293,097</td>
</tr>
<tr>
<td><strong>Working Capital at End of Period</strong></td>
<td>$24,626</td>
<td>$221,998</td>
<td>$68,289</td>
<td>$91,710</td>
</tr>
</tbody>
</table>

**BUDGETARY CASH FLOW & Direct Institutional Support**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Net Income(Loss) from Operations before Direct Institutional Support and Depreciation</td>
<td>($3,491,437)</td>
<td>($2,720,839)</td>
<td>($3,189,341)</td>
<td>($3,238,119)</td>
</tr>
<tr>
<td>Less: Debt Principal Payments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Budgetary Cash Flow</strong></td>
<td>($3,491,437)</td>
<td>($2,720,839)</td>
<td>($3,189,341)</td>
<td>($3,238,119)</td>
</tr>
<tr>
<td><strong>Direct Institutional Support</strong></td>
<td>$3,570,225</td>
<td>$2,918,164</td>
<td>$3,032,248</td>
<td>$3,261,539</td>
</tr>
<tr>
<td><strong>Net</strong></td>
<td>$78,788</td>
<td>$197,325</td>
<td>($157,093)</td>
<td>$23,420</td>
</tr>
</tbody>
</table>

**DEPARTMENTAL DEBT BURDEN RATIO**

- 0.0%

**UNAUDITED** - For management purposes only
### Portland State University Intercollegiate Athletics
#### Fiscal Year-to-Date June 30, 2006 - 2009

#### SUMMARY OF REVENUES, EXPENSES, AND OTHER CHANGES

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenues</td>
<td>$1,005,240</td>
<td>$2,259,605</td>
<td>$1,665,918</td>
<td>$1,759,086</td>
</tr>
<tr>
<td>Student Fees</td>
<td>2,537,259</td>
<td>2,591,591</td>
<td>2,836,954</td>
<td>3,116,382</td>
</tr>
<tr>
<td>Lottery Proceeds</td>
<td>186,996</td>
<td>402,987</td>
<td>900,918</td>
<td>1,083,152</td>
</tr>
<tr>
<td>Gifts, Grants, and Booster Receipts</td>
<td>337,056</td>
<td>583,562</td>
<td>712,143</td>
<td>562,822</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>117,606</td>
<td>32,036</td>
<td>45,827</td>
<td>42,337</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>4,184,237</td>
<td>5,869,781</td>
<td>6,161,760</td>
<td>6,563,779</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Operating Expenses</td>
<td>5,220,026</td>
<td>5,972,779</td>
<td>6,726,751</td>
<td>6,936,635</td>
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<tr>
<td>Scholarships</td>
<td>2,455,648</td>
<td>2,612,841</td>
<td>2,724,350</td>
<td>2,925,263</td>
</tr>
<tr>
<td>Bond Interest Expense</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net Transfers (In)/Out</td>
<td>-</td>
<td>5,000</td>
<td>(100,000)</td>
<td>(60,000)</td>
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<tr>
<td><strong>Total Expenses</strong></td>
<td>7,675,674</td>
<td>8,590,620</td>
<td>9,351,101</td>
<td>9,801,898</td>
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**Net Income(Loss) from Operations before Direct Institutional Support and Depreciation**

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Fee Remissions</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Other Direct Institutional Support</td>
<td>3,570,225</td>
<td>2,918,164</td>
<td>3,032,248</td>
<td>3,261,539</td>
</tr>
<tr>
<td><strong>Total Direct Institutional Support</strong></td>
<td>3,570,225</td>
<td>2,918,164</td>
<td>3,032,248</td>
<td>3,261,539</td>
</tr>
</tbody>
</table>

**Net Income(Loss) from Operations before Depreciation**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation Expense</td>
<td>(18,461)</td>
<td>(15,375)</td>
<td>(13,328)</td>
<td>(10,226)</td>
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</table>

**Net Income(Loss)**

<table>
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<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Net Assets</td>
<td>60,327</td>
<td>181,958</td>
<td>(170,421)</td>
<td>13,194</td>
</tr>
<tr>
<td>Beginning Balance Adjustments</td>
<td>22,092</td>
<td>87,897</td>
<td>269,893</td>
<td>99,472</td>
</tr>
<tr>
<td>Fund Additions - NIP Change in Fixed Assets</td>
<td>5,478</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fund Deductions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bond Debt Principal/Sinking Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Ending Net Assets</strong></td>
<td>$87,897</td>
<td>$269,893</td>
<td>$99,472</td>
<td>$112,666</td>
</tr>
</tbody>
</table>

**UNAUDITED** - For management purposes only

**Education and General Revenues**(1)

|                      | 180,332,791 | 194,663,116 | 213,624,068 | 229,703,408 |

**Direct Institutional Support as a Percent of E&G Revenue**

|                      | 2.0%        | 1.5%        | 1.4%        | 1.4%        |

**Direct Institutional Support Contribution to Total Athletics Expenses**

|                      | 46.5%       | 34.0%       | 32.4%       | 33.3%       |

**Student Incidental Fee (SIF) Allocation to Total Athletics Expenses**

|                      | 33.1%       | 30.2%       | 30.3%       | 31.8%       |

**Direct Institutional Support and SIF to Total Athletics Expenses**

|                      | 79.6%       | 64.1%       | 62.8%       | 65.1%       |

(1) Source: Total Revenue from Fund Type 11 - Budgeted Operations

**Oregon State Board of Higher Education**
Finance & Administration Committee   Page 88   ACTION ITEMS
Summary

PSU Athletics working capital, as of June 30, 2009, was $92,000, an increase of $24,000 from prior year. PSU Athletics ended FY 2009 with positive working capital and is in compliance with the Board’s directives relating to deficits.

Total revenue, total expenses, and direct institutional support all increased by approximately 5 percent to 8 percent from the year before. PSU received $3.3 million in FY 2009 of direct institutional support.
## Southern Oregon University Intercollegiate Athletics
### Fiscal Year-to-Date June 30, 2006 - 2009

### SUMMARY STATEMENT OF NET ASSETS

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Investments</td>
<td>$ 1,743</td>
<td>$ 64,272</td>
<td>$ 79,439</td>
<td>$ 72,320</td>
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<tr>
<td>Cash - Restricted</td>
<td>15,162</td>
<td>61,295</td>
<td>64,315</td>
<td>72,470</td>
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<tr>
<td>Receivables (net), Inventories, and Prepaid Expense</td>
<td>9,934</td>
<td>26,528</td>
<td>19,713</td>
<td>43,307</td>
<td></td>
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<tr>
<td>Due From Other Funds and OUS Institutions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>26,839</td>
<td>152,095</td>
<td>163,467</td>
<td>188,097</td>
<td></td>
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<tr>
<td><strong>Noncurrent Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Assets, Net</td>
<td>24,612</td>
<td>19,870</td>
<td>11,960</td>
<td>9,488</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td>$ 51,451</td>
<td>$ 171,965</td>
<td>$ 175,427</td>
<td>$ 197,585</td>
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<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Payables</td>
<td>$ 13,529</td>
<td>$ 35,935</td>
<td>$ 35,456</td>
<td>$ 52,990</td>
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<tr>
<td>Deferred Revenue</td>
<td>8,095</td>
<td>9,559</td>
<td>17,705</td>
<td>44,959</td>
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<tr>
<td>Due to Other Funds</td>
<td>35,988</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>57,612</td>
<td>45,494</td>
<td>53,161</td>
<td>97,949</td>
<td></td>
</tr>
<tr>
<td><strong>Noncurrent Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>XI-F Long-Term Bonds Payable</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$ 57,612</td>
<td>$ 45,494</td>
<td>$ 53,161</td>
<td>$ 97,949</td>
<td></td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td>($ 6,161)</td>
<td>$ 126,471</td>
<td>$ 122,266</td>
<td>$ 99,636</td>
<td></td>
</tr>
</tbody>
</table>

### WORKING CAPITAL

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ 26,839</td>
<td>$ 152,095</td>
<td>$ 163,467</td>
<td>$ 188,097</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Less: Current Liabilities</strong></td>
<td>$ 57,612</td>
<td>$ 45,494</td>
<td>$ 53,161</td>
<td>$ 97,949</td>
<td></td>
</tr>
<tr>
<td><strong>Working Capital at End of Period</strong></td>
<td>($ 30,773)</td>
<td>$ 106,401</td>
<td>$ 110,306</td>
<td>$ 90,148</td>
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### BUDGETARY CASH FLOW & Direct Institutional Support

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<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Income(Loss) from Operations before Direct Institutional Support and Depreciation</strong></td>
<td>$(196,993)</td>
<td>$(277,010)</td>
<td>$(277,700)</td>
<td>$(280,704)</td>
<td></td>
</tr>
<tr>
<td><strong>Less: Debt Principal Payments</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Budgetary Cash Flow</strong></td>
<td>$(196,993)</td>
<td>$(277,010)</td>
<td>$(277,700)</td>
<td>$(280,704)</td>
<td></td>
</tr>
<tr>
<td><strong>Direct Institutional Support</strong></td>
<td>250,677</td>
<td>403,359</td>
<td>281,405</td>
<td>260,545</td>
<td></td>
</tr>
<tr>
<td><strong>Net</strong></td>
<td>$ 53,684</td>
<td>$ 126,471</td>
<td>$ 21,705</td>
<td>$(20,159)</td>
<td></td>
</tr>
</tbody>
</table>

### DEPARTMENTAL DEBT BURDEN RATIO

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>0.0%</th>
<th>0.0%</th>
<th>0.0%</th>
<th>0.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Debt Service</strong></td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td><strong>Adjusted Expenses: Total Expenses excluding Depreciation</strong></td>
<td>$ 1,459,881</td>
<td>$ 1,953,220</td>
<td>$ 2,125,510</td>
<td>$ 2,367,887</td>
<td></td>
</tr>
</tbody>
</table>

### UNAUDITED - For management purposes only
### Southern Oregon University Intercollegiate Athletics
**Fiscal Year-to-Date June 30, 2006 - 2009**

**SUMMARY OF REVENUES, EXPENSES, AND OTHER CHANGES**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenues</td>
<td>$157,051</td>
<td>$365,974</td>
<td>$226,478</td>
<td>$269,269</td>
</tr>
<tr>
<td>Student Fees</td>
<td>824,703</td>
<td>933,721</td>
<td>959,174</td>
<td>1,089,841</td>
</tr>
<tr>
<td>Lottery Proceeds</td>
<td>50,079</td>
<td>135,018</td>
<td>362,916</td>
<td>438,426</td>
</tr>
<tr>
<td>Gifts, Grants, and Booster Receipts</td>
<td>227,747</td>
<td>234,836</td>
<td>292,622</td>
<td>284,610</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>3,308</td>
<td>6,661</td>
<td>6,620</td>
<td>4,037</td>
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<tr>
<td><strong>Total Revenue</strong></td>
<td>1,262,888</td>
<td>1,676,210</td>
<td>1,847,810</td>
<td>2,087,183</td>
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<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>1,230,726</td>
<td>1,733,914</td>
<td>1,928,251</td>
<td>2,167,203</td>
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<td>Scholarships</td>
<td>237,672</td>
<td>186,667</td>
<td>190,028</td>
<td>201,816</td>
</tr>
<tr>
<td>Bond Interest Expense</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net Transfers (In)/Out</td>
<td>(8,517)</td>
<td>32,639</td>
<td>7,231</td>
<td>(1,132)</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>1,459,881</td>
<td>1,953,220</td>
<td>2,125,510</td>
<td>2,367,887</td>
</tr>
<tr>
<td><strong>Net Income(Loss) from Operations before Depreciation</strong></td>
<td>$53,684</td>
<td>126,349</td>
<td>3,705</td>
<td>(20,159)</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>(8,777)</td>
<td>(9,741)</td>
<td>(7,910)</td>
<td>(2,472)</td>
</tr>
<tr>
<td><strong>Net Income(Loss)</strong></td>
<td>44,907</td>
<td>116,608</td>
<td>(4,205)</td>
<td>(22,631)</td>
</tr>
<tr>
<td><strong>Beginning Net Assets</strong></td>
<td>(51,068)</td>
<td>(6,161)</td>
<td>126,471</td>
<td>122,266</td>
</tr>
<tr>
<td>Beginning Balance Adjustments</td>
<td>16,024</td>
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<td>-</td>
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<tr>
<td>Fund Additions - NIP Change in Fixed Assets</td>
<td>-</td>
<td>40,000</td>
<td>-</td>
<td>6,668</td>
</tr>
<tr>
<td>Fund Deductions</td>
<td>(40,000)</td>
<td>-</td>
<td>-</td>
<td>(6,667)</td>
</tr>
<tr>
<td>Bond Debt Principal/Sinking Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Ending Net Assets</strong></td>
<td>$18,161</td>
<td>$126,471</td>
<td>$122,266</td>
<td>$99,636</td>
</tr>
<tr>
<td><strong>UNAUDITED</strong></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>- For management purposes only</td>
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</tr>
</tbody>
</table>

**Direct Institutional Support as a Percent of E&G Revenue**

- 0.7%
- 1.0%
- 0.6%
- 0.6%

**Direct Institutional Support Contribution to Total Athletics Expenses**

- 17.2%
- 20.7%
- 13.2%
- 11.0%

**Student Incidental Fee (SIF) Allocation to Total Athletics Expenses**

- 56.5%
- 47.8%
- 45.1%
- 46.0%

**Direct Institutional Support and SIF to Total Athletics Expenses**

- 73.7%
- 68.5%
- 58.4%
- 57.0%

(1) Source: Total Revenue from Fund Type 11 - Budgeted Operations
Summary
SOU Athletics working capital, as of June 30, 2009, was $90,000, a decrease of $20,000 from prior year. SOU Athletics ended FY 2009 with positive working capital and is in compliance with the Board’s directive relating to deficits.

SOU Athletics received $261,000 in FY 2009 of direct institutional support compared to $281,000 in prior year, a 7 percent decrease.
**University of Oregon Intercollegiate Athletics**

**Fiscal Year-to-Date June 30, 2006 - 2009**

### SUMMARY STATEMENT OF NET ASSETS

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Investments</td>
<td>$ 9,886,278</td>
<td>$ 12,125,292</td>
<td>$ 12,825,493</td>
<td>$ 11,738,484</td>
</tr>
<tr>
<td>Cash - Restricted</td>
<td>$617,565</td>
<td>$870,102</td>
<td>$463,265</td>
<td>$275,634</td>
</tr>
<tr>
<td>Receivables (net), Inventories, and Prepaid Expense</td>
<td>$1,367,790</td>
<td>$1,262,541</td>
<td>$1,982,851</td>
<td>$4,458,805</td>
</tr>
<tr>
<td>Due From Other Funds and OUS Institutions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>$12,071,633</td>
<td>$14,257,935</td>
<td>$15,271,609</td>
<td>$16,472,923</td>
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<tr>
<td>Noncurrent Assets</td>
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<td></td>
</tr>
<tr>
<td>Fixed Assets, Net</td>
<td>$103,185,974</td>
<td>$102,978,515</td>
<td>$104,471,448</td>
<td>$145,141,349</td>
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<td><strong>Total Assets</strong></td>
<td>$115,257,607</td>
<td>$117,236,450</td>
<td>$119,743,057</td>
<td>$161,614,272</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Payables</td>
<td>$1,485,174</td>
<td>$1,656,841</td>
<td>$2,034,148</td>
<td>$2,049,273</td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td>$9,785,750</td>
<td>$11,100,127</td>
<td>$12,464,790</td>
<td>$15,065,834</td>
</tr>
<tr>
<td>Due to Other Funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>$11,270,924</td>
<td>$12,756,968</td>
<td>$14,498,938</td>
<td>$17,115,107</td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>XI-F Long-Term Bonds Payable</td>
<td>$37,122,714</td>
<td>$36,150,601</td>
<td>$234,888,902</td>
<td>$233,916,859</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$48,393,638</td>
<td>$48,907,569</td>
<td>$249,387,840</td>
<td>$251,031,966</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td>$66,863,969</td>
<td>$68,328,881</td>
<td>$(129,644,783)</td>
<td>$(89,417,694)</td>
</tr>
</tbody>
</table>

### WORKING CAPITAL

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>$12,071,633</td>
<td>$14,257,935</td>
<td>$15,271,609</td>
<td>$16,472,923</td>
</tr>
<tr>
<td>Less: Current Liabilities</td>
<td>$11,270,924</td>
<td>$12,756,968</td>
<td>$14,498,938</td>
<td>$17,115,107</td>
</tr>
<tr>
<td>Working Capital at End of Period</td>
<td>$800,709</td>
<td>$1,500,967</td>
<td>$772,671</td>
<td>$(642,184)</td>
</tr>
</tbody>
</table>

### BUDGETARY CASH FLOW & Direct Institutional Support

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income(Loss) from Operations before Direct Institutional Support and Depreciation</td>
<td>$1,692,063</td>
<td>$2,300,591</td>
<td>$723,886</td>
<td>$(60,167)</td>
</tr>
<tr>
<td>Less: Debt Principal Payments</td>
<td>$(1,205,898)</td>
<td>$(1,340,118)</td>
<td>$(1,196,805)</td>
<td>$(1,138,784)</td>
</tr>
<tr>
<td>Budgetary Cash Flow</td>
<td>$486,165</td>
<td>$960,473</td>
<td>$(472,919)</td>
<td>$(1,198,951)</td>
</tr>
<tr>
<td>Direct Institutional Support</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net</strong></td>
<td>$486,165</td>
<td>$960,473</td>
<td>$(472,919)</td>
<td>$(1,198,951)</td>
</tr>
</tbody>
</table>

### DEPARTMENTAL DEBT BURDEN RATIO

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Adjusted Expenses: Total Expenses excluding Depreciation</strong></td>
<td>$44,625,089</td>
<td>$49,495,861</td>
<td>$56,965,596</td>
<td>$60,128,445</td>
</tr>
<tr>
<td><strong>UNAUDITED - For management purposes only</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Oregon State Board of Higher Education**

Finance & Administration Committee Page 93 ACTION ITEMS
### University of Oregon Intercollegiate Athletics
### Fiscal Year-to-Date June 30, 2006 - 2009

**SUMMARY OF REVENUES, EXPENSES, AND OTHER CHANGES**


<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td>$31,180,244</td>
<td>$36,827,007</td>
<td>$36,095,987</td>
<td>$39,605,317</td>
</tr>
<tr>
<td>Student Fees</td>
<td>1,327,252</td>
<td>1,373,440</td>
<td>1,414,643</td>
<td>1,399,352</td>
</tr>
<tr>
<td>Lottery Proceeds</td>
<td>321,181</td>
<td>670,283</td>
<td>1,168,411</td>
<td>1,398,093</td>
</tr>
<tr>
<td>Gifts, Grants, and Booster Receipts</td>
<td>12,138,941</td>
<td>11,069,813</td>
<td>17,350,007</td>
<td>16,224,649</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>142,636</td>
<td>515,791</td>
<td>463,629</td>
<td>302,083</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$45,111,254</td>
<td>$50,456,334</td>
<td>$56,492,677</td>
<td>$58,929,494</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Expenses</td>
<td>$36,380,348</td>
<td>$36,985,574</td>
<td>$46,072,486</td>
<td>$48,304,215</td>
</tr>
<tr>
<td>Scholarships</td>
<td>5,797,954</td>
<td>6,594,993</td>
<td>6,929,652</td>
<td>7,753,855</td>
</tr>
<tr>
<td>Bond Interest Expense</td>
<td>1,969,412</td>
<td>1,847,364</td>
<td>1,976,949</td>
<td>1,888,961</td>
</tr>
<tr>
<td>Net Transfers (In)/Out</td>
<td>(728,523)</td>
<td>2,727,812</td>
<td>789,704</td>
<td>1,042,630</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$43,419,191</td>
<td>$48,155,743</td>
<td>$55,768,791</td>
<td>$58,989,661</td>
</tr>
</tbody>
</table>

Direct Institutional Support
Fee Remissions
Other Direct Institutional Support
**Total Direct Institutional Support**

Net Income(Loss) from Operations before Depreciation

<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
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<tr>
<td>Operating Expenses</td>
<td>$36,380,348</td>
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<td>$48,155,743</td>
<td>$55,768,791</td>
<td>$58,989,661</td>
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Net Income(Loss) from Operations before Depreciation

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income(Loss)</td>
<td>(2,656,669)</td>
<td>(2,114,278)</td>
<td>(3,542,401)</td>
<td>(4,987,926)</td>
</tr>
</tbody>
</table>

Net Income(Loss)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund Additions - MIP Change in Fixed Assets</td>
<td>1,908,902</td>
<td>5,168,968</td>
<td>5,885,762</td>
<td>46,502,769</td>
</tr>
<tr>
<td>Fund Deductions</td>
<td>(250,000)</td>
<td>(199,120,220)</td>
<td>(148,970)</td>
<td>(1,138,784)</td>
</tr>
<tr>
<td>Bond Debt Principal/Sinking Fund</td>
<td>(1,205,898)</td>
<td>(1,340,118)</td>
<td>(1,196,805)</td>
<td>(1,398,854)</td>
</tr>
<tr>
<td><strong>Total Net Income</strong></td>
<td>$66,863,969</td>
<td>$68,328,891</td>
<td>$(129,644,783)</td>
<td>$(89,417,694)</td>
</tr>
</tbody>
</table>

**UNAUDITED** - For management purposes only

Education and General Revenues (1)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Direct Institutional Support as a Percent of E&amp;G Revenue</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Direct Institutional Support Contribution to Total Athletics Expenses</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Student Incidental Fee (SIF) Allocation to Total Athletics Expenses</td>
<td>3.1%</td>
<td>2.9%</td>
<td>2.5%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Direct Institutional Support and SIF to Total Athletics Expenses</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

---

(1) Source: Total Revenue from Fund Type 11 - Budgeted Operations
Summary
The UO Athletics working capital, as of June 30, 2009, was a negative $642,000, a decrease of $1.4 million from prior year. The UO Athletics ended FY 2009 with negative working capital and is not in compliance with the Board’s directives relating to deficits. The deficit reflects a cash flow issue. The UO Athletics is addressing this issue and ensures compliance with Board policy.

The UO Athletics continues to operate without any direct institutional support.

The UO Athletics departmental debt burden for FY 2009 is 5 percent. Although this ratio is typically used on an institution-wide basis, a higher debt service ratio indicates that an entity has less flexibility to manage the remaining portion of the budget and to fund other strategic initiatives. The UO’s 5 percent debt burden ratio for FY 2009 is lower than the generally accepted threshold of 7 percent for an institution, as a whole. It is noted when the arena project full debt payment begins in FY 2012, the debt burden ratio will be approximately 25 percent.

UO ATHLETICS RESPONSE TO FY 2009 WORKING CAPITAL DEFICIT
As with nearly all sectors of private and public industry, the UO Athletics was negatively affected by the recent and ongoing downturn in the national economy. The Net Operating Loss...
shown on these financial statements is reflective of that. At June 30, 2009, nearly $2.2 million in pledges made to the Duck Athletic Fund, a component of the UO Foundation, remained outstanding. In prior years, these pledges were realized in a timelier manner and the cash transferred to UO Athletics prior to year-end. Due to the weakened economy, the cash for all of the pledges had not been received prior to year end, but was in-hand at the UO Foundation prior to August 31, 2009, and was transferred to UO Athletics in October 2009. This timing difference related to pledge fulfillment was both unprecedented and unanticipated. It also reflects a misunderstanding between UO and OUS about how pledges to be paid to the UO Foundation could be reflected on the UO Athletics books.
Western Oregon University Intercollegiate Athletics  
Fiscal Year-to-Date June 30, 2006 - 2009

SUMMARY STATEMENT OF NET ASSETS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Investments</td>
<td>$49,056</td>
<td>$7,738</td>
<td>$19,047</td>
<td>$33,181</td>
</tr>
<tr>
<td>Cash - Restricted</td>
<td>$ -</td>
<td>$72,979</td>
<td>$77,088</td>
<td>$81,686</td>
</tr>
<tr>
<td>Receivables (net), Inventories, and Prepaid Expense</td>
<td>259,152</td>
<td>262,826</td>
<td>341,107</td>
<td>307,424</td>
</tr>
<tr>
<td>Due From Other Funds and OUS Institutions</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>$308,208</td>
<td>$343,543</td>
<td>$437,242</td>
<td>$422,291</td>
</tr>
</tbody>
</table>

| Noncurrent Assets | $312,012 | $345,212 | $452,537 | $482,022 |

| Liabilities    | $283,717 | $334,756 | $374,630 | $428,215 |

WORKING CAPITAL

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>WORKING CAPITAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td>$308,208</td>
<td>$343,543</td>
<td>$437,242</td>
<td>$422,291</td>
</tr>
<tr>
<td>Less: Current Liabilities</td>
<td>$28,295</td>
<td>$10,456</td>
<td>$28,939</td>
<td>$13,904</td>
</tr>
<tr>
<td>Working Capital at End of Period</td>
<td>$279,913</td>
<td>$333,087</td>
<td>$359,335</td>
<td>$368,484</td>
</tr>
</tbody>
</table>

BUDGETARY CASH FLOW & Direct Institutional Support

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income(Loss) from Operations before Direct Institutional Support and Depreciation</td>
<td>$(888,795)</td>
<td>$(1,292,705)</td>
<td>$(1,560,111)</td>
<td>$(2,148,367)</td>
</tr>
<tr>
<td>Less: Debt Principal Payments</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Budgetary Cash Flow</td>
<td>$(888,795)</td>
<td>$(1,292,705)</td>
<td>$(1,560,111)</td>
<td>$(2,148,367)</td>
</tr>
<tr>
<td>Direct Institutional Support</td>
<td>$891,197</td>
<td>$1,277,133</td>
<td>$1,604,220</td>
<td>$2,157,516</td>
</tr>
<tr>
<td>Net</td>
<td>$ 2,402</td>
<td>$(15,572)</td>
<td>$44,109</td>
<td>$9,149</td>
</tr>
</tbody>
</table>

DEPARTMENTAL DEBT BURDEN RATIO

<table>
<thead>
<tr>
<th></th>
<th>0.0%</th>
<th>0.0%</th>
<th>0.0%</th>
<th>0.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Service</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Adjusted Expenses: Total Expenses excluding Depreciation</td>
<td>$1,884,565</td>
<td>$2,793,072</td>
<td>$3,700,430</td>
<td>$4,060,372</td>
</tr>
<tr>
<td>Expense plus Debt Principal Payments</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
</tbody>
</table>

UNAUDITED - For management purposes only
### Western Oregon University Intercollegiate Athletics
Fiscal Year-to-Date June 30, 2006 - 2009

**SUMMARY OF REVENUES, EXPENSES, AND OTHER CHANGES**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenues</td>
<td>$316,047</td>
<td>$205,624</td>
<td>$397,046</td>
<td>$309,106</td>
</tr>
<tr>
<td>Student Fees</td>
<td>625,046</td>
<td>656,423</td>
<td>806,421</td>
<td>875,787</td>
</tr>
<tr>
<td>Lottery Proceeds</td>
<td>50,079</td>
<td>104,528</td>
<td>461,345</td>
<td>556,982</td>
</tr>
<tr>
<td>Gifts, Grants, and Booster Receipts</td>
<td>4,598</td>
<td>509,015</td>
<td>428,006</td>
<td>158,409</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>24,777</td>
<td>47,501</td>
<td>11,721</td>
<td></td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>995,770</td>
<td>1,500,367</td>
<td>2,140,319</td>
<td>1,912,005</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>1,817,407</td>
<td>2,510,077</td>
<td>3,199,595</td>
<td>3,382,413</td>
</tr>
<tr>
<td>Scholarships</td>
<td>65,608</td>
<td>280,945</td>
<td>498,135</td>
<td>675,859</td>
</tr>
<tr>
<td>Bond Interest Expense</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net Transfers (In)/Out</td>
<td>1,550</td>
<td>2,050</td>
<td>2,700</td>
<td>2,100</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>1,884,565</td>
<td>2,793,072</td>
<td>3,700,430</td>
<td>4,060,372</td>
</tr>
<tr>
<td>(888,795)</td>
<td>(1,292,705)</td>
<td>(1,560,111)</td>
<td>(2,148,367)</td>
<td></td>
</tr>
<tr>
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<td>1,277,133</td>
<td>1,604,220</td>
<td>2,157,516</td>
</tr>
<tr>
<td>Fee Remissions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
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<td>2,157,516</td>
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<td>1,277,133</td>
<td>1,604,220</td>
<td>2,157,516</td>
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<tr>
<td><strong>Net Income(Loss) from Operations before Direct Institutional Support and Depreciation</strong></td>
<td>2,402</td>
<td>(15,572)</td>
<td>44,109</td>
<td>1,334</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>(888)</td>
<td>(2,136)</td>
<td>(2,235)</td>
<td>(7,815)</td>
</tr>
<tr>
<td><strong>Net Income(Loss)</strong></td>
<td>1,534</td>
<td>(17,708)</td>
<td>41,874</td>
<td>1,334</td>
</tr>
<tr>
<td><strong>Beginning Net Assets</strong></td>
<td>283,455</td>
<td>283,717</td>
<td>334,756</td>
<td>374,630</td>
</tr>
<tr>
<td>Beginning Balance Adjustments</td>
<td>-</td>
<td>68,747</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fund Additions - NIP Change in Fixed Assets</td>
<td>-</td>
<td>598</td>
<td>(1,501)</td>
<td>55,057</td>
</tr>
<tr>
<td>Fund Deductions</td>
<td>(1,272)</td>
<td>(598)</td>
<td>(499)</td>
<td>(2,806)</td>
</tr>
<tr>
<td>Bond Debt Principal/Sinking Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Ending Net Assets</strong></td>
<td>283,717</td>
<td>334,756</td>
<td>374,630</td>
<td>428,215</td>
</tr>
</tbody>
</table>

**UNAUDITIED** - For management purposes only

| Education and General Revenues(1) | 35,948,718 | 38,257,295 | 44,689,766 | 47,572,169 |

(1) Source: Total Revenue from Fund Type 11 - Budgeted Operations
Summary
WOU Athletics working capital, as of June 30, 2009, was $368,000, an increase of $9,000 from prior year. WOU Athletics ended FY 2009 with positive working capital and is in compliance with the Board’s directives relating to deficits.

WOU Athletics received $2.2 million in FY 2009 of direct institutional support compared to $1.6 million in prior year, a 38 percent increase.

WOU ATHLETICS RESPONSE TO TREND OF INCREASED DIRECT INSTITUTIONAL SUPPORT
WOU changed its athletic affiliation from NAIA to NCAA Division II almost a decade ago. The coaching model, employment of assistant coaches, and travel requirements for NCAA Division II athletics is significantly different as compared to NAIA. WOU measures itself against other Division II and Greater Northwest Conference schools. While we have made progress in closing the gap in key areas, our athletic programs remain underfunded as compared to conference competitors in the following areas - student scholarships funded by institutions in Washington, California, Alaska and Idaho, and salaries paid to assistant coaches. WOU has made significant progress in becoming more competitive in key areas, but we have now halted funding increases from university general fund sources. All new increases in intercollegiate athletics spending will be from private funding sources.
Staff Recommendation to the Committee:
Staff recommends that the Finance and Administration Committee accept the report on the Fiscal Status of Intercollegiate Athletics as of June 30, 2009, and to direct OSU to develop a plan to bring their Athletic Department into compliance with Board policies for review by the Committee in May 2010.

(Committee action required.)
OSU, Resolution Regarding Classified Information for the U.S. Department of Defense

The Industrial Security Manual issued by the U.S. Department of Defense requires that owners, officers, and executive personnel of corporations and regents or trustees of colleges and universities whose employees have access to classified materials in the course of working with Department of Defense contracts delegate to others the authority for fulfilling the requirements of the Industrial Security Manual and exclude themselves from access to classified information.

The resolution recommended for adoption is that which is required by the Manual and is, except for changes in the date and names of Board members, identical to that which has been previously adopted by the Board.

**Staff Recommendation to the Board:**
Staff recommends that the Board adopt the following resolution regarding access to classified information related to the Department of Defense material.

(Boar action required.)

RESOLUTION
That those persons occupying the following positions for Oregon State University shall be known as the Managerial Group as described in the Industrial Security Manual for Safeguarding Classified Information:

President
Vice President for Research
Vice President for Finance and Administration
Facilities Security Officer
Alternate Facilities Security Officer

That the chief executive and the members of the Managerial Group have been processed or will be processed for a personnel clearance for access to classified information to the level of the facility clearance granted to this institution as provided for in the aforementioned Industrial Security Manual.

That said Managerial Group is hereby delegated all of the Board’s duties and responsibilities pertaining to the protection of classified information under classified contracts of the Department of Defense or User Agencies of its Industrial Security Program awarded to Oregon State University.

That the following named officers and members of the Oregon State Board of Higher Education shall not require, shall not have, and can be effectively excluded from access to all classified information in the possession of Oregon State University and do not occupy positions that would enable them to affect adversely the policies and practices of Oregon State University in
the performance of classified contracts for the Department of Defense or User Agencies for its Industrial Security Program awarded to Oregon State University.

**Officers and Board Members**

Paul J. Kelly, Jr., President
James L. Francesconi, Vice President
Matthew W. Donegan
Jill W. Eiland
Hannah R. Fisher-Arfer
Allyn C. Ford
Brian J. Fox
Dalton Miller-Jones
Rosemary F. Powers
Preston Pulliams
Kirk E. Schueler
David V. Yaden
Authorization to Award Honorary Degrees, OSU and SOU

SUMMARY
The State Board of Higher Education policy permits institutions, with the concurrence of their faculty, to award honorary degrees. Each institution proposing the award of honorary degrees has received the Chancellor’s approval of criteria and procedures for selection that ensure the award honors distinguished achievement and outstanding contributions to the institution, state, or society.

OREGON STATE UNIVERSITY
Oregon State University requests that an honorary doctorate be conferred on Mr. Frits Bolkestein at OSU’s June 2010 Commencement.

With a career spanning more than 50 years and including leadership positions in concerns ranging from Royal Dutch Oil to the Dutch Parliament to the European Commission, Frits Bolkestein is perhaps Oregon State University’s most prominent and successful foreign alumnus.

Born in Amsterdam in 1933, Bolkestein graduated preparatory school in the Netherlands before traveling to the United States in 1951 to enroll as an undergraduate at Oregon State, where he studied mathematics for two years. He returned home in 1953, completing his undergraduate and master’s degrees from the University of Amsterdam.

His business career began in 1960 at Royal Dutch Shell and saw him serve in positions in concerns ranging from Royal Dutch Oil to the Dutch Parliament to the European Commission, Frits Bolkestein is perhaps Oregon State University’s most prominent and successful foreign alumnus.

Bolkestein left Shell in 1978 to become a member of Parliament and, in 1982, was named Minister of International Trade. He served as Minister of Defense, 1988-89, and for the next eight years was the elected party leader of the VVD, the Netherlands’ liberal party. In all, he served in Parliament for 17 years before becoming a European Commissioner in 1999.

Since 2004, he has been a professor at the Dutch universities of Leiden and Delft. Over the course of his career, he has written 13 books and is currently preparing another on the influence of intellectuals in political life. Bolkestein is president of the Telders Foundation, a think-tank connected with the VVD, a member of the supervisory board of the Central Bank of The Netherlands, non-executive director of Air France-KLM and an advisor of PricewaterhouseCoopers.

Bolkestein is married to Femke Boersma, a retired Dutch actress, and has three children.
SOUTHERN OREGON UNIVERSITY
Southern Oregon University requests authorization to award an honorary doctorate to Ms. Ann Curry, co-anchor, “Dateline NBC” and news anchor, “NBC TODAY Show,” at SOU’s 2010 Commencement Ceremony.

Ann Curry’s father was an American of predominantly French and Scots-Irish descent who met her Japanese mother during the U.S. occupation of Japan following World War II. Her childhood followed her father’s military career and she was raised in San Diego and Alameda, California; Japan; Virginia Beach, Virginia; and Ashland, Oregon. She graduated from Ashland High School and, in 1978, received a B.A. from the University of Oregon’s School of Journalism and Communication.

In 1978, Ann Curry took an internship at KTVL in Medford, Oregon, eventually becoming the station's first female news reporter. In 1981, she took a three-year post as a reporter and anchor at KGW in Portland. She then moved to Los Angeles, where she was a reporter for KCBS-TV from 1984 to 1990. While there, she was awarded two Emmys.

In 1990, Ms. Curry signed on with NBC News, first working as the network’s Chicago correspondent and then anchoring NBC News at Sunrise from 1991 to 1996. She also served as a replacement anchor and newscaster for the TODAY show. In 2005, she joined Stone Phillips as co-host of Dateline NBC, while continuing as news anchor at TODAY. She has earned a reputation for her coverage of global humanitarian crises from such hot spots as Baghdad, Sri Lanka, Rwanda, Albania, and Darfur.

Ms. Curry has distinguished herself in global humanitarian reporting. From March 2006 to March 2007, she traveled three times to Sudan to report on the violence and ethnic cleansing taking place in Darfur and Chad. While there, she provided in-depth reports focusing on the victims who have been caught in the deadly conflict in that region and she also conducted exclusive interviews with Sudanese President Omar al-Bashir and Chadian President Idriss Deby. In July 2006, she reported on the Israel-Lebanon war and was one of the only American reporters to file stories on both sides of the conflict from Beirut and Northern Israel.

In the summer of 2005, Ms. Curry traveled with First Lady Laura Bush throughout Africa to discuss issues that plague the continent such as the HIV/AIDS epidemic and women's rights and education. She was the first network news anchor to report from inside the tsunami zone in Southeast Asia, filing live and taped reports from Sri Lanka for Dateline, TODAY, and NBC Nightly News. She was also the first network news anchor to report on the humanitarian refugee crisis caused by the genocide in Kosovo, reporting for NBC News from Albania and Macedonia.

In the first two weeks following the attacks of September 11, Ms. Curry reported live from ground zero every day. When the United States bombed Al Qaeda targets in Afghanistan in November 2001, she reported extensively from the USS Theodore Roosevelt in the Arabian Sea, and landed the first exclusive interview with the war's military commander, General Tommy Franks. She reported from Baghdad in the weeks leading up to the war in Iraq and then from
the USS Constellation as the war began, interviewing fighter pilots who flew the first wave of bombing runs over Iraq. She also filed reports from inside Iraq, from Qatar, and Kuwait during the first weeks of the war.

Ms. Curry’s exclusive interviews include Liberia’s Ellen Johnson-Sirleaf, the first female elected President of an African nation; the first highly sought after interview with Thomas Hamill, the truck driver for Halliburton subsidiary KBR, who escaped captivity in Iraq; the first interview with accused spy Wen Ho Lee after he was cleared of all charges of espionage against the United States; and the first interview with the parents of the McCaughey septuplets. She has also repeatedly landed the first exclusive interview with Lance Armstrong after his Tour de France wins.

Ann Curry has earned two Emmys, four Golden Mikes, several Associated Press Certificates of Excellence, two Gracies, and an award for Excellence in Reporting from the NAACP. She has been awarded by Americares, the Anti-Defamation League as a Woman of Achievement, and the Asian American Journalists Association, receiving its National Journalism Award in 2003. She has also won numerous awards for her charity work, primarily for breast cancer research.

Volunteerism
- Multiple Myeloma Research Foundation
- Susan G. Komen Breast Cancer Foundation
- Americares
- Save the Children
- Médecins Sans Frontières
- Airline Ambassadors

Funded scholarship
- Ann Curry Scholarship for University of Oregon School of Journalism and Communication Broadcasting Students, 2002

**Staff Recommendation to the Board:**
Staff recommends the Board authorize Oregon State University to award an honorary doctorate to Mr. Frits Bolkestein and Southern Oregon University to an award honorary doctorate to Ms. Ann Curry at their June 2010 Commencement ceremonies.

**(Board action required.)**
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OUS, Revised Charge of the OUS Research Council

BACKGROUND
The OUS Research Council, created in November 2005, serves as an advisory council to the Oregon State Board of Higher Education on research issues in Oregon. The Council drafted a revised charge in 2009 in response to the Board’s reorganization. The original charge established the Council directly under the Board’s authority and, as such, subject to the rules and requirements of public meeting laws. In addition, the original charge was overly prescriptive about membership and failed to identify terms of service for council members. The revised charge – approved by the Council in November 2009 – establishes the Council as an advisory group to the Chancellor, removes some of the requirements placed on membership, and clearly identifies term limits for the members. The functions of the Council remain unchanged.

Staff recommendation to the Board:
Staff recommends that the Board adopt the revised OUS Research Council charge thereby rescinding the original charge.

(Board action required.)

CHARGE OF THE OUS RESEARCH COUNCIL
(Submitted for Approval, March 5, 2010)

The Research Council is responsible for making recommendations to the Chancellor of the Oregon University System (OUS) regarding:

- **Collaboration** – Advancing inter-campus and interdisciplinary research collaborations and resulting grants and funding that further leverage state investments in OUS;
- **Infrastructure** – Enhancing the infrastructure within Oregon to facilitate excellence in research and technology transfer, including supporting shared research facilities and supporting faculty efforts in grant proposal development, scholarly communications, and entrepreneurial activities;
- **Innovation** – Cultivating spires of research excellence, including the development of signature research centers (SRCs) under the auspices of the Oregon Innovation Council;
- **Education** – Reinforcing the important synergies between research, teaching, learning, and outreach by working with appropriate councils and stakeholders (e.g., Provosts’ Council, OUS presidents and ETIC) to expand opportunities for student research experiences at all student levels;
- **Communication** – Communicating the research excellence residing within Oregon institutions, especially those that provide economic and societal benefits for the state; and
- **Accountability** – Collaborating with the Chancellor’s Office to identify, develop, and report research metrics, outcomes, and goals for excellence.
The Research Council will consist of at least the Vice Presidents of Research (or equivalents) of Oregon State University (OSU), Portland State University (PSU), University of Oregon (UO), and Oregon Health & Science University (OHSU); a representative of OUS regional institutions; and a representative of Oregon’s private colleges and universities. Council members will elect a chair, as necessary, prior to August 1 of the year of election. The term of office for the chair will be two years, commencing on August 1 of the year of election. The chair, with approval from the Chancellor, may appoint additional members, as necessary, prior to August 1 of each year. The term of office for new members will be two years commencing on August 1 of the year of appointment.

The Research Council will seek ways to work collaboratively regarding state and federal grant opportunities, technological partnerships, and other initiatives that strengthen both the OUS, as a whole, and individual institutions. The Council is responsible for establishing guidelines to govern its operations.

The Council chair with support of Council members will report regularly to the Chancellor and relevant advisory councils to the Oregon State Board of Higher Education, the Governor, and Oregon legislature. Reports should include:

- Progress of Council activities and campus initiatives;
- Barriers to Oregon research, specifically technology transfer and research commercialization barriers; and
- Recommendations to legislators addressing Oregon research issues.

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**CHARGE OF THE OUS RESEARCH COUNCIL**

(Approved by the Oregon State Board of Higher Education in November 2005)

The functions of the Oregon University System (OUS) Research Council include: The Research Council is responsible for making recommendations to the Chancellor of the Oregon University System (OUS) regarding:

1. **Collaboration** – Advancing inter-campus and interdisciplinary research collaborations and resulting grants and funding further leverage state investments in OUS;

2. Documenting “best practices” and driving continuous learning across the State; for instance, capturing best practices in establishing signature research centers such as ONAMI, or capturing best practices in implementing undergraduate research and assuring these lessons are implemented to improve results;

3. **Infrastructure** – Enhancing the infrastructure within Oregon to facilitate excellence in research and technology transfer, including supporting faculty efforts in grant proposal development, scholarly communications, and entrepreneurial activities;
Innovation – Cultivating spires of research excellence, including the development of signature research centers (SRCs) under the auspices of the Oregon Innovation Council.

4. Education – Reinforcing the important synergies between research, teaching, learning, and outreach by working with OUS presidents and chief academic officers to expand opportunities for student research experiences at all student levels;

5. Collaborating with the Chancellor’s Office to identify, develop, and report research metrics, outcomes, and goals for excellence (e.g., indicators on the recent SB853 and OUS performance measures related to research);

6. Communication – Communicating the research excellence residing within Oregon institutions, that may become economic drivers for the state especially those that provide economic and societal benefits for the state; and

7. Accountability – Collaborating with the Chancellor’s Office to identify, develop, and report research metrics, outcomes, and goals for excellence. Informing the Oregon State Board of Higher Education on research issues so that the Board can be a more effective advocate for university research and associated economic development efforts.

The Chair of the Research Council will be from an OUS institution, elected by Council members for a two-year term, and expected to report regularly to the Oregon State Board of Higher Education and relevant advisory councils to the Governor and legislature.

The Research Council will consist of at least the Vice Presidents of Research (or equivalents) of Oregon State University (OSU), Portland State University (PSU), University of Oregon (UO), and Oregon Health & Science University (OHSU); a representative of OUS regional institutions; and a representative of Oregon’s private colleges and universities. Council members will elect a chair, as necessary, prior to August 1 of the year of election. The term of office for the chair will be two years, commencing on August 1 of the year of election. The chair, with approval from the Chancellor, may appoint additional members, as necessary, prior to August 1 of each year. The term of office for new members will be two years commencing on August 1 of the year of appointment.

The Research Council will seek ways to work collaboratively regarding state and federal grant opportunities, technological partnerships, and other initiatives that strengthen both the OUS, as a whole, and individual institutions. The Council is responsible for establishing guidelines to govern its operations.

The Council chair with support of Council members will report regularly to the Chancellor and relevant advisory councils to the Oregon State Board of Higher Education, the Governor, and Oregon legislature. Reports should include:
- Progress of Council activities and campus initiatives;
- Barriers to Oregon research, specifically technology transfer and research commercialization barriers; and
- Recommendations to legislators addressing relevant Oregon research issues.
OUS, Legislative Concept Proposals

As has been discussed, campus officials and staff have been investigating legislative concepts that would give the OUS greater flexibility in operations in order to better manage both revenues and expenditures. Legislative concepts are due to the Department of Administrative Services (DAS) in April 2010.

In filing legislative concepts, OUS has two options:
1. File a complete request containing the full details regarding the proposed change; or
2. File a placeholder request which contains the general notion of the concept for which details will be provided later in the summer.

Given the on-going work of the Board’s Governance and Policy Committee, the Governor’s Reset Committee, and the possibility of an interim Legislative Joint Education Committee that would consider various flexibility proposals, we will probably want to file a placeholder for some type of governance/flexibility change.

The following concepts for legislative changes are presented for OUS Board consideration for submission in the 2011-2013 Legislative process:

1. Placeholder for governance change or other flexibility proposals – this could include changes to give OUS greater control over costs, including the various elements of employee compensation, changes in operating or capital budgeting processes, exemption from certain assessments, broader latitude in procurement, greater flexibility to manage legal affairs, broader authority to diversify revenues or other governance changes or flexibility initiatives.

2. Retain all income from the investment of all OUS cash balances – last session, we obtained the ability to invest our cash balances differently, but not the ability to retain the resultant income on the remaining 39 percent of funds, including tuition, auxiliary income, and other fees income – this change would allow OUS to retain 100 percent of that income. Currently, the investment earnings generated on student tuition and fees and other university operating revenues accrues to the State’s General Fund and not to OUS.

OUS is requesting the authority to retain the investment earnings on all of its funds for the purpose of generating additional revenues to hold down tuition costs and improve services to students. This would require a statute expressly permitting such.

3. Currently, OUS has delegated authority from DAS only to purchase insurance coverage for student-related health insurance and special events (other than for liability) and fine arts coverage. OUS has benefited greatly from developing relationships with brokers and insurers, thus ensuring timely renewals and the best rates available. All other insurance coverage is provided or purchased by the Department of Administrative
Services (DAS) (see ORS 278.405 and 278.415 below). Staff believe that statutory ability to contract for all of its insurance coverage with other insurance agencies or groups created uniquely for universities, such as WICHE, will result in a more efficient, cost-effective system for obtaining insurance coverage. This would include authority to procure insurance/risk management coverage for property, tort, worker’s compensation, athletic, student health, special events, and other types of insurance as needed. There are strong indications that other university systems around the country save substantially by obtaining their insurance through such groups. We are therefore seeking statutory authority to purchase all insurance coverage directly in the marketplace, as opposed to having DAS do this for OUS. This can be done by exempting OUS from the requirements contained in ORS 278.405-415 outlined below.

278.405 Department to manage risk management and insurance programs; rules. The Oregon Department of Administrative Services shall direct and manage all risk management and insurance programs of state government except for employee benefit insurance programs as otherwise provided in ORS chapter 243. Authority granted the department in this section includes but is not limited to the following authority:

1. To provide all insurance coverages including coverage of related legal expenses required by law, requisitioned by individual agencies, or which the department determines necessary or desirable for the efficient operation of state government, including but not limited to casualty insurance, property insurance, workers’ compensation insurance and surety insurance.

2. To purchase insurance policies, develop and administer self-insurance programs, or any combinations thereof, as may be in the best interest of the state in carrying out the authorities granted in subsection (1) of this section.

3. To consolidate and combine state insurance coverages.

4. To purchase such risk management, actuarial and other professional services as may be required.

5. To provide technical services in risk management and insurance to state agencies.

6. To adopt rules and policies governing the administration of the state’s insurance and risk management activities and to carry into full force and effect the provisions of this chapter, ORS 30.260 to 30.290, 278.322 and 655.505 to 655.555. The department, by rule or policy, may determine the Insurance Fund’s contribution to the cost of defense, settlements and judgments in actions or proceedings. The department may condition payment of all or part of any loss covered by the Insurance Fund on compliance with the rules and policies adopted under this chapter. [1985 c.731 §2; 1991 c.566 §6]

278.415 Department authorization of agency insurance purchases; exceptions.

1. A state agency may not purchase insurance except as authorized by the Oregon Department of Administrative Services and in accordance with the terms, conditions and procurement methods as may be established by the department, except for the transaction of workers’ compensation insurance and reinsurance business by the State Accident Insurance Fund Corporation.
(2) This section does not apply to:
(a) Professional liability insurance acquired under ORS 9.080 (2);
(b) Insurance for employee benefits; or
(c) Loan cancellation life insurance procured by the Department of Veterans’ Affairs
under ORS 407.465. [1985 c.731 §3; 2009 c.29 §2]

4. Obtain biennial funding for prospective faculty salary increases/step-increases. Currently, in the Essential Budget Level (EBL) build up process each biennium, OUS receives a one-salary-step (4.75 percent) increase for all classified staff that are not at the top of their respective salary ranges. In addition, any salary increases that were granted to both classified staff and unclassified faculty and staff in the prior biennium are rolled-up for EBL purposes. However, there are no prospective salary increases provided for faculty in the EBL process. Staff believe that this is one of the reasons why faculty salaries have lagged peers in other states and why classified personnel are much closer to their comparators in terms of total compensation than are faculty. Thus, staff are recommending a new statute that would require a “step” increase for all personnel be included in the OUS EBL. We project that this would equate to the following in 2011-2013:

**Oregon University System – Calculation of Faculty Step Increase**

Unclassified Salaries and pay annual base for 2011-2013 $492,000,000
65% not at top step (equivalent to classified staff) $319,800,000

Step Increase = 4.75% - full year $15,190,500
Step increase for one-half year $7,595,250
  Projected OPE Rate = 29.15% $6,642,046
Total Projected Cost of One-step per year $29,427,796

General Fund - Fund Split = 34.2% $10,064,306

5. Obtain biennial funding for enrollment growth. Currently the Essential Budget Level (EBL) does not include any factor for enrollment growth. This forces OUS to submit a policy package request each biennium which has resulted in limited funding for enrollment increases. This is contrasted to K-12 which, as part of its budget build-up process each biennium, receives an allocation to cover the added costs associated with projected enrollment increases for the upcoming biennium.

Requiring enrollment funding based on projected enrollments would place OUS on a basis comparable with K-12 and would generate significant resources to serve these growing enrollments. Based on a projected 2 percent annual enrollment increase this would generate the following:
Average Cost per Student FTE in 2008-09  $11,500
Estimated Cost per FTE in 2011-12  $12,566
Estimated Cost per FTE in 2012-13  $12,943
Projected Fundable Enrollments in 2010-11  65,615

Estimated growth in 2011-2013 (2% per year)
First year  1,312
Second Year  2,651
Total New FTE projected in 2011-2013  3,963

Projected Incremental Costs in 2011-12  $16,490,835
Projected Incremental Costs in 2012-13  $34,306,948
Total Projected Biennial Costs  $50,797,783

State General Fund Share of Projected Costs = 31.4%  $15,950,504

6. Revenue bonding authority – although we have general authority for such under ORS 351.315 (see excerpt below), Bond Counsel believes that we need to add additional statutory language to make it fully operational. Bond Counsel’s suggested legislative changes are outlined in Attachment A.

351.315 Borrowing money and issuing bonds for purchase of real property. In carrying out the power and authority granted by ORS 351.140 or 351.160, the State Board of Higher Education may request the State Treasurer to borrow money and issue bonds, as defined in ORS 286A.001, secured by the pledge of the real property to be acquired and revenues, as provided in ORS 351.140 or 351.160. Such bonds shall be issued in accordance with the provisions of ORS chapter 286A. [Formerly 351.520; 2007 c.783 §144]

7. New Campus Police Authority Statute. This new statute would provide the State Board of Higher Education the ability to authorize one or more of the institutions under its control to employ and retain state certified police officers. These police officers would possess powers and authority given by statute to peace officers (defined at ORS 133.005(3)) and police officers (defined at ORS 181.610(14)) of this state. Such individuals shall be considered employees of the hiring institution and accountable to the President and/or his/her designee. Police officers authorized under this statute shall complete training necessary for certification as police officers at an academy operated or authorized by the Department of Public Safety Standards and Training. Under this statute each university authorized to employ its own police officers would be considered a criminal justice agency for purposes of ORS 181.715, 181.720 and 181.730 and a law enforcement unit within the meaning of ORS 181.610 (12) (a). The State Board would possess the ability to govern certain aspects of police services through administrative rulemaking.
Revise ORS 352.385 “Special Campus Security Officer” Statute. This concept provides modifications to ORS 352.385 (Special campus security officers; authority; training; expense) to enhance the capabilities of “special campus security officers” for those Oregon University System institutions choosing to develop a bifurcated campus safety model (i.e., police and security hybrid, including but not limited to, those institutions that contract with a cognizant law enforcement agency) and/or for those wishing to retain their current non-sworn model.

The proposed modifications to this statute include:
(1) Replace the term “special campus security officers” with “university public safety officers” to distinguish OUS officers from traditional security guards/officers who do not possess similar authorities.
(2) Eliminate statutory restriction on the number of university public safety officers [special campus security officers] that can be employed by the Oregon University System which is currently set at fifty (50).
(3) Classify university public safety officers [special campus security officers] as peace officers as defined in ORS 133.005 to clarify authority to make arrests and related police procedures to include community caretaking.
(4) Include statutory language that permits university public safety officers [special campus security officers] the ability to issue criminal citations (ORS 133.055) and violation citations (ORS 153.005/153.039).
(5) Define university public safety officers [special campus security officers] as enforcement officers and police/peace officers for the purpose of issuing criminal citations and violation citations.
(6) Require the Department of Public Safety Standards and Training (DPSST) to issue DPSST numbers to all commissioned OUS university public safety officers [special campus security officers] and maintain related training records as provided by the employing agency.
(7) Clarify the Department of Public Safety Standards and Training’s responsibility under ORS 352.385(2) to train university public safety officers [special campus security officers] such that an annual basic university public safety officer academy is established and that DPSST will certify those officers upon successful completion of such training.

8. Exempt OUS from power companies first right of refusal for any renewable energy projects and remove the requirement that one-half of savings resulting from such activity accrue to the State’s General Fund. Currently ORS 469.754 requires state agencies who develop renewable energy projects to first seek first right of refusal from local utility providers to jointly develop, finance, operate, and otherwise act together in the development and operation of such projects (see law below). However, when utilities are called informing them of our intent to do so, they seem unaware of such requirements and are disinterested in such. In addition, this statute requires that 50 percent of the net savings from such projects be deposited in the State’s General
Fund. Given that the risk of developing such projects lies with the institutions themselves, we suggest that these sections of ORS 469.754 be repealed.

**469.754 Authority of state agencies to establish projects; use of savings; rules.**

(1) State agencies are authorized to enter into such contractual and other arrangements as may be necessary or convenient to design, develop, operate, and finance projects on-site at state owned or state rented facilities. In developing such projects, state agencies shall offer a right of first refusal of two months for conservation and direct use renewable resources and three months for cogeneration and generating renewable resources to each local utility providing utility service to the agency to jointly develop, finance, operate, and otherwise act together in the development and operation of such projects. The State Department of Energy shall adopt rules to establish the procedure by which the right of first refusal shall be administered. In adopting the rules, the department shall insure that the local utility providing utility service to the state agency is entitled to the first right to negotiate with the state agency and that the utility is entitled to match any offer made by any other entity to participate in the project. The department also shall adopt procedures that insure that the right to first negotiate and the right to match any offer applies to the sale of electrical or steam output from the project.

(2)(a) For as long as a project established under ORS 469.752 to 469.756 produces savings:

(A) A state agency’s budget shall not be cut because of savings due to the project; and

(B) A state agency shall retain 50 percent of the net savings to the state agency after any project debt service.

(b) Savings from a project shall be deposited in a revolving fund administered by the state agency.

(3) A state agency shall spend the savings under subsection (2) of this section to increase productivity through:

(a) Energy efficiency projects;

(b) High-tech improvements, such as the purchase or installation of new desktop or laptop computers or the linkage of computers into systems or networks; or

(c) Infrastructure improvements.

(4) The moneys credited to the revolving fund may be invested and reinvested as provided in ORS 293.701 to 293.790. Notwithstanding ORS 293.105 (3) or any other provision of law, interest or other earnings on moneys in the revolving fund shall be credited to the revolving fund.

(5) The remaining 50 percent of net savings to the state agency after any project debt service shall be deposited in the General Fund.

(6) Nothing in ORS 469.752 to 469.756 authorizes a state agency to sell electricity to an entity other than an investor-owned utility, a publicly-owned utility, an electric cooperative utility, or the Bonneville Power Administration.

(7) Nothing in ORS 469.752 to 469.756 limits the authority of a state agency conferred by any other provision of law, or affects any authority, including the authority of a municipality, to regulate utility service under existing law. [1991 c.487 §2; 1993 c.86 §2]
Note: See note under 469.752.

Staff Recommendation to the Board:
Staff recommend that the Board approve the legislative concepts as outlined above for submission to the Department of Administrative Services and the Governor.

ATTACHMENT A

DRAFT LEGISLATION AUTHORIZING HIGHER EDUCATION REVENUE BONDS

Section 1. Definitions. As used in this Act, unless the context requires otherwise:
(1) “Higher education revenues” means all tuition, building fees and other charges imposed or collected by the Oregon University System and any of its universities from students and other recipients of products or services and users of properties of the Oregon University System or any of its universities. “Higher education revenues” also includes any amounts provided to the Oregon University System or any of its universities by the Oregon legislative assembly, if those amounts may legally be expended to pay higher education revenue bonds.
(2) “Bond-related costs” means:
(a) The costs and expenses of issuing, administering, and maintaining higher education revenue bonds, including but not limited to, costs of paying or redeeming higher education revenue bonds, paying amounts due in connection with credit enhancement devices or agreements for exchange of interest rates, paying the fees, administrative costs, and expenses of the State Treasurer and the Oregon University System, and paying the fees and costs of consultants or advisors retained by the State Treasurer or the Oregon University System for the higher education revenue bonds;
(b) The costs of funding any higher education revenue bond reserves;
(c) Capitalized interest for higher education revenue bonds;
(d) Rebates or penalties due to the United States in connection with higher education revenue bonds; and
(e) Any other costs or expenses that the State Treasurer or the Chancellor of the Oregon University System determines are necessary or desirable in connection with issuing and maintaining the higher education revenue bonds, including payment of amounts due in connection with agreements for exchange of interest rates and credit enhancement devices for higher education revenue bonds.
(3) “Higher education revenue bonds” means revenue bonds issued pursuant to Section 2 of this Act.

Section 2. Issuance of Higher Education Revenue Bonds; Security. (1) The State Treasurer, at the request of the Chancellor of the Oregon University System, may issue higher education revenue bonds from time to time: to finance any [capital] projects that the State Board of Higher Education determines will assist the Oregon University System in carrying out its statutory powers, to refund any obligations issued for such projects, and to pay bond-related
costs. Higher education revenue bonds shall be issued in accordance with the provisions of ORS chapter 286A.

(2) Each higher education revenue bond shall be a special obligation of the State of Oregon that is payable solely from the higher education revenues and other amounts that are pledged or otherwise committed to pay that higher education revenue bond in accordance with this Act. Higher education revenue bonds shall not be general obligations of the State of Oregon or of the Oregon University System and neither the faith and credit of the State of Oregon nor its taxing power shall be pledged or committed to the payment of higher education revenue bonds.

Section 3. Higher education revenue bond sinking fund. (1) The higher education revenue bond sinking fund is established in the State Treasury, separate and distinct from the General Fund. The Oregon University System may instruct the State Treasurer to create separate subfunds in the higher education revenue bond sinking fund to secure higher education revenue bonds and agreements for exchange of interest rates and credit enhancement devices that are obtained in connection with higher education revenue bonds.

(2) Higher education revenues and proceeds of higher education revenue bonds shall be credited to the subfunds of the higher education bond sinking funds in the amounts and at the times specified in the higher education revenue bond covenants that are made pursuant to Section 4 of this Act.

(3) The amounts that the state is obligated to credit to the subfunds of the higher education revenue bond sinking fund by the higher education revenue bond covenants, and the amounts actually credited to those subfunds, are continuously appropriated only for the purpose of: (a) paying, when due, the principal of and the interest and premium, if any, on the higher education revenue bonds that are secured by those subfunds, (b) paying amounts due under agreements for exchange of interest rates and credit enhancement devices for higher education revenue bonds, and (c) paying bond-related costs.

(4) The moneys in each subfund of the higher education revenue bond sinking fund shall be used and applied in accordance with the higher education revenue bond covenants that are made pursuant to Section 4 of this Act.

(5) Earnings on amounts in the higher education revenue bond sinking fund shall be credited to the higher education revenue bond sinking fund and shall be distributed among the subfunds in the higher education revenue bond sinking fund as provided in the higher education revenue bond covenants that are made pursuant to Section 4 of this Act.

Section 4. Commitments of higher education revenues; bond covenants.
The Chancellor of the Oregon University System, with the consent of the State Treasurer, may, on behalf of the State of Oregon:

(1) Identify the higher education revenues that will secure each series of higher education revenue bonds and any agreements for exchange of interest rates and credit enhancement devices obtained in connection with those higher education revenue bonds, pledge the identified higher education revenues to secure those obligations, and specify the status of the lien of each pledge.

(2) Enter into agreements for exchange of interest rates and credit enhancement devices for
higher education revenue bonds in accordance with ORS Chapter 286A and agree to pay amounts due under those agreements and devices, but solely from higher education revenues that the state agrees to credit to the higher education revenue bond sinking fund.

(3) Enter into covenants on behalf of the State of Oregon for the benefit of owners of higher education revenue bonds, any counterparties to agreements for exchange of interest rates and providers of credit enhancement for higher education revenue bonds, to:

(a) Deposit specified portions of the higher education revenues into specified subfunds of the higher education revenue bond sinking fund on specified dates and to maintain balances in those subfunds at specified levels.

(b) Adjust the rates and charges that produce higher education revenues so that higher education revenues equal or exceed specified levels during specified periods.

(c) Comply with the applicable requirements of federal law so that interest on higher education revenue bonds is excludable from gross income under the federal income tax laws or so that higher education revenue bonds qualify for federal interest subsidies.

(d) Only create pledges or liens on higher education revenues that are permitted by the covenants authorized by this section.

(e) Budget and appropriate or otherwise allow higher education revenues to be applied in amounts that, when added to other funds lawfully available for the purpose, will be sufficient:

(i) To pay in full and when due the principal, interest, and premium on all outstanding higher education revenue bonds;

(ii) To maintain the required balance in any reserves established for higher education revenue bonds; and

(iii) To pay amounts due in connection with agreements for exchange of interest rates and credit enhancement devices for higher education revenue bonds.

(f) To own and continue to operate the properties of the Oregon University System in compliance with the higher education revenue bond covenants until all higher education revenue bonds are paid or defeased.

(4) Any covenants made under this section for the benefit of owners of higher education revenue bonds, for any counterparties to agreements for exchange of interest rates, and for providers credit enhancement devices for higher education revenue bonds shall constitute contracts between the State of Oregon and those owners, counterparties, and providers.

(5) The State Treasurer or the Chancellor of the Oregon University System may, on behalf of this state, enter into any other agreements that the State Treasurer or the Chancellor determines are necessary or appropriate to issue and sell higher education revenue bonds and carry out this Act.

Section 5. Higher Education Revenue Bond Project Fund.

(1) The higher education revenue bond project fund is established in the State Treasury, separate and distinct from the General Fund. Proceeds of higher education revenue bonds shall be credited to the higher education revenue bond fund until they are disbursed in accordance with subsection 2 of this section. The Oregon University System may instruct the State Treasurer to create separate subfunds in the higher education revenue bond project fund to assist in accounting for proceeds of different series of higher education revenue bonds.

(2) The proceeds of higher education revenue bonds that are credited to the higher education revenue bond project fund shall be used for the purpose of paying in full and when due the principal, interest, and premium on all outstanding higher education revenue bonds.
revenue bond project fund are continuously appropriated for the purposes described in Section 2(1) of this Act.

CONFORMING AMENDMENTS

ORS 351.315 is repealed.

Section 3. ORS 351.460 is amended to read as follows:
(1) The State Board of Higher Education shall maintain with the State Treasurer a Higher Education General Obligation Bond Sinking Fund, separate and distinct from the General Fund. The Higher Education General Obligation Bond Sinking Fund shall comprise three separate subfunds to provide for the payment of the principal of and the interest upon general obligation bonds issued under authority of Article XI-F(1) of the Oregon Constitution and ORS 351.350, and under authority of Article XI-G of the Oregon Constitution and ORS 351.345, and amounts due under financial agreements entered into under ORS 351.356 in connection with general obligation bonds issued under authority of Article XI-F(1) of the Oregon Constitution and ORS 351.350. The moneys in the sinking fund are continuously appropriated to the Board for such purposes. The fund may be invested by the State Treasurer and the earnings from such investments shall be credited to the appropriate subfunds of the fund.

(2) The Higher Education General Obligation Bond Sinking Fund shall consist of all moneys received from ad valorem taxes levied pursuant to ORS 291.445, all moneys that the Legislative Assembly may provide in lieu of such taxes, all of the net revenues received from the projects or undertakings for the financing of which the general obligation bonds were issued, including gifts, grants and building fees, such unpledged revenues of buildings and projects of like character as shall be allocated by the Board, all moneys received as accrued interest upon such general obligation bonds sold, all earnings from investments of the fund, all proceeds of the sale of refunding general obligation bonds, and all moneys that the State of Oregon has agreed to hold in the Higher Education General Obligation Bond Sinking Fund to pay amounts due under financial agreements entered into under ORS 351.356. Moneys credited to the Higher Education General Obligation Bond Sinking Fund shall be credited to the appropriate subfunds of the fund.

(3) The Board may credit the Higher Education General Obligation Bond Sinking Fund with moneys received from either a sale or interfund transfer of land, buildings, and facilities. When the land, buildings, or facilties are sold, or the use thereof is rededicated so that a transfer from one subfund to the other is appropriate, the moneys received shall be credited to the appropriate subfund. [Is this section still useful? It might only have been needed in connection with revenue bonds authorized ORS 351.315.]

(4) The Board shall apply student building fees, revenues, gifts, and grants for the payment of the principal of and the interest upon the bonds issued under authority of Article XI-F(1) of the Oregon Constitution and upon revenue bonds authorized by ORS 351.315 until such time as the proper subfund of the sinking fund and investments thereof, as supplemented by expected future income will, in the judgment of the Board, be sufficient to meet in full the principal of and the interest upon all such outstanding bonds. Except for student building fees, income not
thus required for the sinking fund shall be transferred to such other fund and account as the Board shall designate. Student building fees for buildings constructed from the proceeds of bonds issued under Article XI-F(1) of the Oregon Constitution or ORS 351.315 shall be applied only to those bonds authorized under Article XI-F(1) of the Oregon Constitution or ORS 351.315.

(5) The Board may create a subfund in the Higher Education General Obligation Bond Sinking Fund to pay amounts due under financial agreements entered into under ORS 351.356 and may credit to that subfund any moneys that the State of Oregon is obligated to use to pay those amounts due.

(6)(a) The Board may not use the sinking fund for any purpose other than the purposes for which the fund was created.

(b) Notwithstanding paragraph (a) of this subsection, the Board may transfer any surplus in the sinking fund to other funds designated by the Board if a balance remains in the sinking fund from sources other than student building fees for buildings constructed from the proceeds of bonds issued under Article XI-F(1) of the Oregon Constitution and:

(A) The purposes for which the fund was created have been fulfilled; or

(B) A reserve sufficient to meet all existing and future obligations and liabilities of the fund has been set aside.