

## OSU Internal Bank

### Internal Bank Primary Functions

The Internal Bank integrates the three primary functions of treasury management: (1) cash management, (2) limited term investment management (i.e., management of non-endowment assets), and (3) debt management (both short- and long-term). The Internal Bank manages about \$765M in assets as of June 30, 2018<sup>1</sup> from a combination of activities involving operating cash, bond proceeds, and loan payments.

The internal bank utilizes external consultants to assist with the management of the investment and debt portfolio. University Shared Services Enterprise (USSE) provides services related to limited term investment management for the administration of the Public University Fund (PUF). The PUF is invested by Oregon State Treasury into the Oregon Short Term Fund and the PUF Core Bond Fund. PFM Financial Advisors provides consulting services for debt management to OSU.

OSU borrows money principally to support capital projects—that borrowing requires managing debt. Debt management includes maintaining and understanding impacts to OSU's Aa3 credit rating with Moody's Investors Service, determining the types of debt recommended to fund projects per the Debt Policy<sup>2</sup>, issuing approved debt, identifying internal bank fund sources to support capital projects and strategic initiatives, and monitor/advise/report on post issuance compliance usage of tax-exempt funded spaces.

### Internal Bank Loans

The internal bank distributes funds for capital projects and strategic initiatives through the Central Loan Program. Funds available for lending include the following:

1. Proceeds from new debt issuance.
2. Proceeds from repayment of internal loans via the Central Loan Program.
3. Internal Bank liquidity, to be provided through University cash or external borrowing, after considering:
  - i. Anticipated external debt service requirements
  - ii. Operating cash flow needs
  - iii. Operating costs of the Internal Bank
  - iv. Adequacy of Internal Bank reserves, such as an interest rate reserve (The internal bank may build and maintain an Interest Rate Reserve to hedge future volatility in debt and investment markets.)

The Central Loan Program can provide lending to departments or units for:

- Interim/bridge financing in anticipation of philanthropy or other external sources of funds.
- Financing options for projects with an identified internal/operations repayment source accompanied by an amortization schedule consistent with the useful life of the project.

There are two types of loans funded through the Internal Bank - temporary and permanent.

1. Temporary loans are used to provide funding on an as-needed basis during project construction. Temporary loans pay monthly interest on the total balance outstanding plus any current negative balance. Internal Bank funds are advanced, up to the maximum loan amount, as the project requires. Principal payments are typically not made on temporary loans with the exception of gift funded loans where principal amounts may be paid during the construction process as gift funds are received.
2. Permanent loans are used for asset purchases or when a construction project is substantially complete. Debt service payments on permanent loans to amortize the project's cost over the stated loan term are made on a semi-annual basis.

<sup>1</sup> Internal Bank Annual Report

[https://leadership.oregonstate.edu/sites/leadership.oregonstate.edu/files/tab\\_h\\_fy2018\\_internal\\_bank\\_annual\\_report.pdf](https://leadership.oregonstate.edu/sites/leadership.oregonstate.edu/files/tab_h_fy2018_internal_bank_annual_report.pdf)

<sup>2</sup> Debt Policy [https://leadership.oregonstate.edu/sites/leadership.oregonstate.edu/files/trustees/Policies/141017\\_adopted\\_debt\\_policy.pdf](https://leadership.oregonstate.edu/sites/leadership.oregonstate.edu/files/trustees/Policies/141017_adopted_debt_policy.pdf)

<sup>3</sup> Investment Policy [https://leadership.oregonstate.edu/sites/leadership.oregonstate.edu/files/190118\\_adopted\\_investment\\_policy\\_amendment.pdf](https://leadership.oregonstate.edu/sites/leadership.oregonstate.edu/files/190118_adopted_investment_policy_amendment.pdf)

Loan rates vary by term of loan. Factors affecting length of term include projected payback timing and useful life of asset being financed.

Current Rates as of February 2019 (reviewed annually per policy<sup>2</sup>)

Term	Annual Rate
Construction/Gifts *	3.50%
Term < 10 Years	3.50%
> 10 Years Taxable**	6.25%
> 10 Years Tax-Exempt**	5.25%

\* Monthly interest charge on loan balance

\*\* Tax-exempt/taxable rate charges are determined by project funding eligibility

#### Key Documents –

- Project Agreement - Capital Planning and Development creates a Project Agreement (PA). The PA documents the scope of work, the project costs and source of funding commitments. The PA that includes reference to utilization of a central loan from the Internal Bank must document the repayment source to the Internal Bank. Bank staff will be required to sign-off on the PA confirming analysis and approval for use of Internal Bank funds.
- Loan Agreement - All loans begin with a loan agreement. The loan agreement specifies the borrower, loan amount, interest rate and annual payment amount. Permanent loans also include an amortization schedule. Loan agreements are signed by the responsible parties of the debt paying entity and those who have delegated oversight over the internal bank.
- Amortization Schedule - The amortization schedule documents the periodic interest and principal payments over the life of the permanent loan.

Until more formal guidance is issued, this information is intended to provide a general understanding of how the Internal Bank's limited resources are deployed.

- Capital projects over \$5 million must be within the university 10-year forecast and approved by the Board of Trustees.
- Projects between \$1 million and \$5 million requires joint approval from the Provost and Executive Vice President (Provost) and the Vice President for Finance and Administration/CFO (VPFA) based on alignment with university priorities.
- The Bank does not typically consider projects under \$1 million. Exceptions would include projects clearly demonstrating cost savings to the university and time-sensitive projects funded with secured pledges.
- Note: sponsored project proposals that include capital project/facility improvements involving a university match (thus potential internal bank loan) require written joint approval of Provost and VPFA **PRIOR TO** proposal submission.

The Internal Bank's capacity for lending is limited. The Bank has to maintain sufficient liquidity and reserves for university operations which is a challenge in the current and forecasted environment.

#### Internal Bank Initiatives –

- Cash management initiative: a global banking initiative includes cross-functional teams working to review and improve current banking structures and practices.
- Limited term investment management and debt management initiative: an investment strategy for the balance of unspent bond proceeds<sup>3</sup>. Furthermore, an RFP will soon be issued for investment management services of these funds. USSE will be involved in the ongoing monitoring and coordination of cash balances needed to support project payments.

<sup>1</sup> Internal Bank Annual Report

[https://leadership.oregonstate.edu/sites/leadership.oregonstate.edu/files/tab\\_h\\_fy2018\\_internal\\_bank\\_annual\\_report.pdf](https://leadership.oregonstate.edu/sites/leadership.oregonstate.edu/files/tab_h_fy2018_internal_bank_annual_report.pdf)

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