RESOLUTION APPROVING INTERNAL FINANCINGS FOR CERTAIN CAPITAL CONSTRUCTION PROJECTS

Approved by the Executive and Audit Committee
On Behalf of the Board of Trustees
February 24, 2017

BACKGROUND

A. Internal financings are short-term loans of University funds for use on a particular project. Internal financing is often used by Portland State University (the “University”) to provide matching funds necessary for issuance of Article XI-G bonds by the State of Oregon and/or to pay construction-related costs on approved capital projects prior to actual receipt of pledged philanthropic contributions. The Debt Management Policy adopted by the Board on December 11, 2014 (the “Debt Policy”) provides that the maximum term of any single internal financing is three years and also provides that the total value of internal financings are not to exceed 10% of the core cash balance of the University’s general operating bank account, as projected annually, unless otherwise approved by the Board. Ten percent of the University’s FY2017 core cash balance is $12,287,701.

B. The 2015-2017 Bond Bill authorized the issuance of State general obligation bonds for the Neuberger Hall Renovation and Deferred Maintenance project as follows: $10,220,000 of Article XI-G bonds and $50,359,300 of Article XI-Q bonds. The Oregon Constitution requires that the amount of indebtedness incurred under Article IX-G be matched by an amount that is at least equal to the amount of the indebtedness.

C. On December 10, 2015, the Board approved issuance of Article XI-G and Article XI-Q bonds for the Neuberger Hall project. The Board stated that moneys available to the University have been and will be used on project costs to satisfy this match requirement. The Board also stated that internal financings may be used to satisfy the matching requirements in anticipation of receipt of philanthropic gifts towards the project.

D. For the Neuberger project, the State anticipates certification of the University’s matching requirement on March 7, 2017 in order to issue the bonds in May 2017. The University currently anticipates receipt of pledged philanthropic gifts over a ten-year period adequate to satisfy the University’s matching requirement. In order to satisfy the matching requirement prior to bond issuance, the University needs to use internal financing. Internal financing for a ten-year period requires Board approval.

E. In addition, current projected project costs and philanthropic pledge schedules for the Stott Center/Viking Pavilion Project and the Karl Miller Center (SBA) Project indicate that the University will need to use short-term internal financings in FY 2017-18 in order to pay project-related costs for those projects prior to receipt of pledged and anticipated philanthropic gifts. Fundraising efforts for both projects are ongoing. Such internal financings, when added to the internal financing necessary to satisfy the matching requirement for the Neuberger project, are projected to cause the total value of internal financing to exceed 10% of the core cash balance.
of the University’s general operating bank account by approximately $1.7 million over the next two to three years. Exceeding 10% of the University’s core cash balance requires Board approval.

F. Completion of the Neuberger project is clearly in the best interests of the University. Neuberger Hall, a five-story structure on the South Park Blocks built in phases in the 1960s, is the center for most student services and one of the most heavily used general pool classroom buildings on campus. Currently, the 227,234 square foot building is home to eight academic departments within the College of Liberal Arts and Sciences, the School of Art+Design, 36 general pool classrooms, and several critical student services departments (such as Admissions, Financial Aid, Student Financial Services, and the Registrar). Neuberger Hall faces numerous and widespread deficiencies and deferred maintenance, and requires seismic and systems upgrades. The building’s deficiencies include the presence of asbestos and other hazardous building materials, a leaking roof, a deteriorating plumbing system, poor ventilation and air circulation, an aging HVAC system, lack of ADA accessibility in the mezzanine levels, and overloaded elevators. The loaning of approximately $10 million of University funds to the project over a ten-year period, in anticipation of receipt of philanthropic gifts, allows the University to receive over $60 million in State funds for the project, with the State paying all debt service on such funds.

RESOLUTION

Now, therefore, be it Resolved by the Board of Trustees, that:

1. Internal Financing. In order to provide evidence of qualified matching funds necessary for the issuance of the full amount of Article XI-G bonds authorized for the Neuberger Project on the date required by the State and to pay project-related costs for the Neuberger, Viking Pavilion/Stott Center and Karl Miller (SBA) projects when due, the total amount of internal financings may exceed 10% of the University’s core cash balance, up to an amount not to exceed $16 million, if necessary, notwithstanding the limitations of Section V of the Debt Policy. In addition, the University may use internal financing for these purposes for a term that exceeds three years, as necessary, notwithstanding the limitations of Section V of the Debt Policy. The University is expected to repay internal financing amounts in excess of the otherwise applicable Debt Policy limit as soon as practicable with appropriate philanthropic contributions.

2. Reporting. For any fiscal year quarter in which the total amount of internal financings exceeded 10% of the University’s core cash balance, the University shall report such details to the Finance and Administration Committee during the subsequent fiscal year quarter.
3. **Effective Date.** This resolution shall take effect immediately upon adoption by the Executive and Audit Committee, acting on behalf of the Board of Trustees, and shall be reported to the Board at the next regular Board meeting.

APPROVED BY THE EXECUTIVE AND AUDIT COMMITTEE ON BEHALF OF THE BOARD OF TRUSTEES
FEBRUARY 24, 2017

[Signature]

Secretary to the Board