STRENGTHENING BONDS

A Buckeye plan to build higher education bucks

Michael Papadakis just borrowed half a billion dollars, and will pay it back in a hundred years. Everybody involved, including the lenders, thinks this makes absolute sense. It particularly appeals to his employers, The Ohio State University and the people of Ohio.

"A lot of the growth in the state of Ohio," explains Papadakis, treasurer of OSU, "is likely to come at Ohio State University, through research and producing graduates."

"Ohio State's borrowing approach is intriguing. But more direct is Ohio's conclusion that borrowing to invest in its university system — at a time when interest rates are lower than they're likely to be any time in the century before the bond is paid off — is a promising path through an uncertain economy."

The Buckeye strategy is particularly relevant to Oregon at this moment, when both University of Oregon President Richard Lariviere and state Treasurer Ted Wheeler are advocating state bond issues to benefit higher education. Lariviere wants a measure to provide an endowment for the U of O — which probably won't work out quite that way — and Wheeler seeks to set up an access fund to provide financial aid and limit tuition increases throughout the Oregon University System.

At the same time, Senate Bill 242, the overhaul of the higher education system passed by the legislature last session, gives state universities the ability to issue their own bonds subject to state approval — instead of depending on the state's debt capacity.

It all adds up to a reason why Oregon, and Oregon's universities, should be looking at Ohio's bold example, to contemplate borrowing to build universities to meet the future, rather than just hoping things get better.

With the new $500 million bond issue, Ohio State's debt is now $2.4 billion, guaranteed by the university's revenues. The university's Board of Trustees — each Ohio state university has its own — has set a limit that debt service not go above 5 percent of revenues. Ohio State is spending that money on expanding its medical center, new academic buildings and new student dormitories, moving toward requiring just about all sophomores, as well as just about all freshmen, to be in residence.

For the new issue, the "century bonds," it will pay only interest, at 4.8 percent, until 2111, when it will repay the capital. To do that, Ohio State is setting aside $10 million, which it anticipates, with projected growth, will cover the $500 million due in 100 years.

When OSU offered the bonds, they sold almost immediately; in fact, bids totalled $1.6 billion. That availability, said Papadakis, actually moved Ohio State to increase its sale from an original $300 million to $500 million.

"It's really hard to argue with doing something," he points out, "when you can lock in an interest rate under 5 percent."

To avoid paying 100 years from now for a facility that only lasted 40 years — already a long time for a science facility — Ohio State follows a policy of "internal banking," the university extending the money to different operations and expecting to be paid back. The $500 million, by this calculation, should turn over several times by 2111.


Wheeler has been advocating a bond issue to improve university access, funds to be matched by state universities' own fund-raisers. But as he noted last week, access needs to be matched with capacity, especially if the state intends to meet its goal of 40 percent of adults with four-year degrees.

"From my perspective, I believe the universities need to be nimble," while not endangering the state's own debt exposure, says Wheeler. "This is a once-in-a-lifetime opportunity to lock in these rates."

No state's, or university's, strategy is going to precisely fit a different one. But what fits any state — especially one that's trade- and technology-dependent, with an official policy of raising the education level of its population — is a need to bolster its higher education system, and to look closely at other states' strategies.

"There's a finite number of universities with the brand name to do this," says Ohio State's Papadakis, "and I would think the University of Oregon would be in that group."

So would Oregon State. Oregon State has provided lessons in football. It could also provide lessons in funding. 

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