

Internal Loan Policy for Capital Construction and Renovation Projects - Capital Lending Program

FIN-TRE-130

About This Policy

Effective Dates:

06-01-2006

Last Updated:

08-21-2020

Responsible University Administrator:

Vice President and Chief Financial Officer

Policy Contact:

Gail Bourkland

Managing Director, Capital Finance

Scope

All university departments and operating units.

Policy Statement

This policy describes the procedures for authorizing, granting and administering the Capital Lending Program, where such loans are made from the university's internal cash liquidity resources or commercial paper, for qualifying projects. Qualifying projects include capital construction or renovation projects including, but not limited to, capital projects for which statutory authorization for external financing is not available and emergency repair and rehabilitation ("R & R") projects. Additionally, Treasury will offer internal loans for equipment costing \$75k or more based upon the Standard Operating Procedure: Procuring Equipment – Determining the Funding Source which would be handled through a Procurement Contract Manager and an application that applies to equipment purchases.

Reason For Policy

This policy governs the extension of internal loans from the university's working capital for the purpose of financing capital construction or renovation projects. Equipment loans have standard terms and do not follow this process. The only items listed here with regard to equipment loans are that they are allowable and the interest rate (see "Interest Charges.") As of the effective policy date, all financed capital projects will be subject to this policy, whether the project will be ultimately externally financed or not. All existing internal loans as of the policy date will be grandfathered and the terms of those loans will not be altered.

The objectives of the Capital Lending Program include the following:

- a. Provide a source of funding when campuses, schools, or departments cannot self-fund projects.
- b. Provide an alternate source of funding when the timing of receipt of gifts and grants would impede the progress of a strategic initiative.
- c. Promote efficient working capital management by generating a higher rate of return on university liquidity balances.
- d. Provide a source of funds for emergency R & R projects when state funding is not available.
- e. Ensure that internal loans will not be authorized without the borrowing unit and any campus guarantor submitting a fiscally responsible and achievable business plan in support of a timely repayment plan.
- f. Eliminate inequities in the cost of capital between university schools, units, and departments.

- g. Reduce interest rate risk taken on by schools, units, and departments.

Procedure

A. Loan Agreement

Treasury will produce a loan agreement ("Loan Agreement") for all approved loan requests. This Loan Agreement will include a high-level summary of the business plan, the terms of the loan (including loan repayment guarantees), and any other pertinent information relative to the project financing. The Loan Agreement will be executed by senior executives of both the Campus and University Administration.

B. Internal Loan Application Requests

Loan requests should be directed to the Office of the Treasurer and should be approved by the Campus Vice Chancellor/Vice Provost for Administration and Finance before submission. Formal requests will include the Loan Application (see Form below).

C. Maximum Amount Eligible for Internal Loans

The total amount of internal loans outstanding at any time shall not exceed 7% of the trailing twelve-month average balance of the university's operating fund investment pool. Any variance from this guideline requires approval of the Treasurer.

D. Individual Loan Amount

Capital loans over two years in duration must be at least \$750,000. Capital loans less than two years in duration should be for at least \$250,000. Equipment loans must be at least \$75,000 and come through Procurement. These minimums are based on the total loan and not the individual item amounts, if applicable.

E. Maximum Loan Term

The maximum loan term is 25 years. All interest and principal must be paid back within this timeframe. Borrowers will repay loan principal and interest over a predetermined period of time through regular and recurring fixed charges to the borrower's operating account. Each project will be analyzed to determine the most appropriate loan structure and term. The loan repayment term will not exceed the anticipated useful life of the asset being financed.

F. Interest Charges

Interest will be calculated on the loan balance beginning on the date on which the funds are deposited into the appropriate construction/project fund general ledger account. Interest will be calculated monthly during construction (if applicable) or annually based on the appropriate weighted average outstanding loan balance.

- Capital project loan 2 years or less: Variable Rate + 100 basis points*
- Capital project loan 0-10 years: 3.50%#
- Equipment loan: 3.75% #
- Capital project loan over 10 years: 4.00%#

*Variable Rate will be based on Office of the Treasurer cost of borrowing at time of execution of the loan.

#Fixed interest rate. Once a loan is finalized, the rate on the loan will not change for the life of the loan.

The interest rate schedule for new loans will be evaluated for changes as changes in the external debt markets deem appropriate.

G. Debt Service Reserve

The borrower will maintain a Debt Service Reserve to 25% of maximum annual debt service (MADS) over the term of the loan. The Office of the Treasurer will also maintain liquidity balances so that the Capital Lending Program has a total Debt Service Reserve of at least 100% of MADS.

H. Loan Application Process

Loan requests will be made via the [Capital Loan Application form](#).

I. Limitations on Use of Gifts and Grants

When a capital project will require the use of gift and/or grant funding, legally enforceable gift or grant agreements maturing in five years or less must be in hand prior to the approval and authorization of the project and related

external financing or internal loans. Bequests or other deferred gift instruments, for which the receipt of gifts funds by the university are predicated on the occurrence of future events for which the dates of occurrence are uncertain or subject to change, cannot be counted toward the project financing cash flow requirements for the project being financed.

J. Early Repayment

Loans may be prepaid at any time without penalty.

K. Status Reports

The Fiscal Officer or Account Manager on CLP accounts will produce separate financial statements to report of the overall financial condition of the CLP on an annual basis to the Treasurer.

L. Capital Lending Program

An overview of the Capital Lending Program will be maintained and will be updated as needed. The paper includes more detail as to the mechanics and strategy of the Capital Lending Program.

Additional Contacts

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Policy Compliance	Beth Hoffman	812-855-7522	branigi@indiana.edu

History

This policy was established on June 1, 2006 and updated in March 2016.

This policy was updated in January 2019 and October 2019.

Related Information

[Institutional Capital Financing Credit Guidelines](#)
FIN-TRE-VI-140, Capital Financing