About This Policy

Effective Dates:
06-01-2006

Last Updated:
06-02-2023

Responsible University Administrator:
Executive Vice President for Finance and Administration

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 may not be available. Additionally, Treasury will offer internal loans for equipment costing $75,000 or more based upon the Office of Procurement standard operating procedure on procuring equipment 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 objectives of the Capital Lending Program include the following:

a. Continue to reduce the university's overall cost of capital.

b. Eliminate inequities in the cost of capital between university schools, units, and departments.

c. 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/or 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 Capital Loan Application Form).

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 University 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 through regular and recurring fixed charges to the borrower’s 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. Variable Rate will be based on Office of the Treasurer cost of borrowing at time of execution of the loan. 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. Please email the Policy Contact for current applicable interest rates.

G. Debt Service Reserve
The interest rate schedule for new loans will be evaluated for changes as changes in the external debt markets deem appropriate. While interest rate markets can experience bouts of significant volatility, the CLP program will aim to maintain borrowing rates steady over longer periods of time. While CLP borrowing rates will be evaluated annually, it is anticipated CLP rates will remain steady for periods of three years or more. To the extent possible, if changes are made to the rate schedule, they will occur in concert with the University budget construction cycle. The borrower will maintain a Debt Service Reserve to 25% of maximum annual debt service over the term of the loan.

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. Any exceptions must be approved by the University Treasurer and the Executive Vice President for Finance and Administration.

J. Early Repayment
Loans may be prepaid at any time without penalty. However, since loan activity may correspond to external financing, early repayment must be discussed with the University Treasurer at least 90 days in advance.

K. Status Reports
The Fiscal Officer on CLP accounts will produce separate financial statements to report of the overall financial condition of the CLP on an annual basis to the University Treasurer.

Additional Contacts

<table>
<thead>
<tr>
<th>Policy Interpretation</th>
<th>Donald Lukes</th>
<th>812-855-4206</th>
<th><a href="mailto:dlukes@iu.edu">dlukes@iu.edu</a></th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy Compliance</td>
<td>Gail Bourkland</td>
<td>812-855-0700</td>
<td><a href="mailto:gbourkl@iu.edu">gbourkl@iu.edu</a></td>
</tr>
<tr>
<td>Policy Compliance</td>
<td>Brooke Pashley</td>
<td>812-855-7522</td>
<td><a href="mailto:lpashley@iu.edu">lpashley@iu.edu</a></td>
</tr>
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History

This policy was established on June 1, 2006 and was updated in March 2016 and August 2021. Non-substantive updates were made in January 2019, October 2019, September 2022, April 2023, and May 2023. A substantive review of the policy was conducted by the Office of the Treasurer and non-substantive revisions were made in June 2023.

Related Information

Institutional Capital Financing Credit Guidelines
FIN-TRE-140, Capital Financing