

UNIVERSITY POLICY

Policy Name:	Internal Bank Capital Project Financing Program				
Section #:	40.2.20	Section Title:	Fiscal Management	Formerly Book:	
Approval Authority:	Executive Vice President for Finance and Administration and University Treasurer		Adopted:	2/1/2016	Reviewed: 2/1/2016
Responsible Executive:	Vice President for Finance and Associate Treasurer		Revised:		
Responsible Office:	Office of Treasury Operations		Contact:	Director of Debt Management: 848-445-1159	

1. Policy Statement

The University has Master Plans that will guide the development and implementation of capital projects through 2030 and beyond. Additional capital projects will continue to be identified over this period. The goal of this policy is to provide financing of University capital projects through the establishment of an Internal Bank within the Office of Treasury Operations.

2. Reason for Policy

Capital project financing must take into account many factors: availability of University and other resources, ability to raise funds for projects, the University prioritization process, access to debt financing in the context of external bond ratings, debt policy and financial metrics designed to manage financial risk, market conditions and financing structures, among others. An Internal Bank will provide capital project financing that makes efficient use of the University's resources to implement the capital program.

3. Who Should Read this Policy

University administrators including, but not limited to Chancellors, Vice Presidents, Deans, Directors and Department Chairs and Business Administrators.

4. Resources

Policy 20.1.2, Capital Planning: <http://policies.rutgers.edu/sites/policies/files/20.1.2%20-%20current.pdf>

Policy 20.1.3, Capital and Non-Capital Construction & Renovation Projects: <http://policies.rutgers.edu/sites/policies/files/20.1.3%20-%20current.pdf>

University Facilities and Capital Planning: <http://facilities.rutgers.edu/>

Debt Management Policy: <http://oirap.rutgers.edu/msa/documents/DebtPolicy-BOG2006.pdf>

5. The Policy

I. Overview:

The Internal Bank is established within the Office of Treasury Operations and is the entity to provide capital project financing for the University.

II. Objectives:

The Internal Bank will provide financing to fund the University's capital program. The capital financing program will be managed consistent with University policies regarding the incurrence of debt and approval of capital projects. The Internal Bank will use an asset/liability approach to managing University resources including working capital, operating funds, capital reserves and debt financing to provide funding for capital projects, preserve appropriate levels of liquidity and enhance available University resources over time.

III. Internal Bank Loan Program

- A. Loans: The Internal Bank will use available resources including debt financing and appropriate amounts of University resources to make loans to units for capital projects.
- B. Projects: Projects will be identified by academic and administrative units and submitted for review to University Facilities and Treasury Operations.
- C. Approval Factors: Proposals for internal loans will be reviewed based on factors including, but not limited to: ability to pay debt service and operating costs; relationship to Strategic and Master Plans; and the availability of other funding sources such as gifts and grants.
- D. Approval Process: Projects over \$5 million will be submitted for review by the Capital Project Advisory Council (CPAC) and approval by the Boards. Projects between \$2 million and \$5 million will be submitted for review by the CPAC and approval by the Executive Vice President for Finance and Administration and the Senior Vice President for Institutional Planning and Operations. Projects less than \$2 million will be submitted for review and approval by the Executive Vice President for Finance and Administration and the Senior Vice President for Institutional Planning and Operations. Projects will also be reviewed by the Department of Risk Management and Insurance and the University's Tax Director as appropriate.
- E. Loan Structure: The Office of Treasury Operations will provide assistance to units in structuring loans to accommodate available resources for loan repayments. Internal loans will be structured with terms appropriate for the type of asset being financed.
- F. Loan Terms: Loans will be evidenced by a loan agreement. Loan agreements may include covenants and specific operating benchmarks to ensure repayment. The rate on the loans will be at the blended rate as established by the Internal Bank on annual basis. The blended rate will be reviewed annually and, if appropriate, adjusted for each loan. The Internal Bank will manage the blended rate to minimize volatility in loan rate changes. Loans will be repaid on a monthly basis and there will be no penalty for early repayment.
- G. Blended Rate: The blended rate will be charged for all capital loans and will consist of the blended cost of capital of the University's debt portfolio plus an amount for Internal Bank administrative costs and an appropriate level of reserves.

IV. Internal Bank Funding

- A. General: The Internal Bank will use an asset/liability management approach to financing capital projects.
- B. Liabilities: External debt will be the primary source of financing for capital projects. The Internal Bank will develop a capital structure for the University that considers outstanding debt, current market conditions, risk-adjusted cost of financing structures and opportunities to minimize the blended rate. It will also take into account external bond ratings, debt policy metrics and available resources to minimize potential blended rate volatility. External Debt will be structured separately from Internal Bank loan structures.

- C. Assets: The Internal Bank's assets will consist of the University's working capital, operating funds, capital reserves and the rate stabilization fund. If appropriate, the Internal Bank will consider direct loans from assets. The Internal Bank will manage the assets to maximize return consistent with maintaining appropriate levels of liquidity and taking prudent risks.
- D. Other Sources: The Internal Bank will provide a lease financing program for assets with a useful life or warranty period shorter than 60 months.

V. Internal Bank Reporting

The Internal Bank will provide an annual report including unaudited financial statements to the Boards.