Policy Title: Debt Policy for the University

Preamble:
Policies regarding the use of university debt, debt capacity, internal loans, and lines of credit. This policy is owned by the Vice President for Finance and Administration / CFO

Reason for Policy:
University debt capacity is a strategic resource that should be used to further the priorities of the university in serving its mission. This policy is intended to ensure that access to university debt is in keeping with the Academic Plan, is managed with attention to the university’s overall financial health and viability, and is administered as an important component of an integrated treasury operations framework.

Who is Governed by this Policy: President, vice presidents, deans, athletic director, and others with delegated financial decision making authority.
(Please mark all that apply)
- Faculty
- Students
- Staff
- Other

Who Should Know this Policy:
All university personnel responsible for requesting, utilizing, and managing university debt

Policy Statement:

Policy Framework and Authority
- The university’s Debt Policy functions within applicable federal, state, and Oregon University System (OUS) statutes, policies, regulations, and approval processes. These include but are not limited to:
  - OUS Internal Bank Policy
  - OUS Debt Policy
  - OUS Interest Rate Risk Management Policy
  - OUS Fiscal Policy Manual 35.001 and 35.200 (Debt Financing and Management)
  - OUS Fiscal Policy Manual 05.271 (Inter-institutional and Interfund Loans)
  - OUS Fiscal Policy Manual 05.780 (Accounting for Capital Projects)

Principles / Objectives
- The university’s mission and its Academic Plan form the foundation for aligning resources with programmatic objectives.
- The university utilizes a variety of resources to accomplish its goals. The university seeks
to integrate its operating, capital, and debt management processes in a way that achieves
the best overall funding strategies to meet its current and future needs.
  • The university views debt as part of an integrated treasury operations framework which
utilizes asset/liability management strategies for the overall financial benefit of the
institution.
  • The university recognizes debt as a strategic resource – one that provides access to
opportunities and one that also has limitations. As such, debt will be contemplated and
utilized within an overall risk-management framework that keeps related considerations in
mind:
    ▪ Opportunity costs (what may not be accomplished if debt is not utilized);
    ▪ Timing considerations, including tradeoffs between interest earnings and
      inflationary risks;
    ▪ The university’s existing and projected debt capacity;
    ▪ Measures of the university’s financial health, liquidity, and viability.

Principles Regarding Issuance of University Debt
  • Debt for capital projects (including building leases) will be sought only for those projects
approved through the university’s capital and space processes.
  • No debt repayment period shall exceed the useful life of the asset being financed.
  • The benefiting unit (or debt-paying entity) will be responsible for debt repayment,
including all associated financing costs and any bridge financing. A cash down payment
may be required.
  • Debt payments, and any discounts or penalties associated, are subject to the respective
terms established by the OUS Internal Bank.

Principles Regarding Interfund Loans and Lines of Credit
  • Internal loans or lines of credit may be granted to units for strategic purposes consistent
with the Academic Plan and divisional programmatic priorities.
  • All agreements must be in writing.
  • Early payment is encouraged and will be without penalty.

Key Financial Measures
  • Consistent with best practices, OUS policy, and university accountability to its governing
board, the following financial measures will be regularly monitored as indicators of the
university’s overall financial health:
    ▪ Primary Reserve Ratio: Unrestricted net assets / operating expenses
    ▪ Current Ratio: Current assets / current liabilities
    ▪ Debt Burden Ratio: Annual debt service (principal + interest) / total operating
      expenses.
  • Per OUS Board policy, the guideline maximum Debt Burden Ratio for the university as a
whole will be 7 percent.
  • The Internal Bank Advisory Committee may request Debt Burden Ratio and Debt Coverage
Ratio analysis for an individual debt-paying entity as part of its deliberations.
Debt Coverage Ratio: Net operating income / total debt service

- The Director of Business Affairs / Controller will regularly update and report on these financial metrics to inform decision-making. An analysis of these Key Financial Measures will be provided to the Internal Bank Advisory Committee as part of its deliberations. When appropriate, this analysis may include modeling future ratios.

Approval Processes

- Requests for university debt, bridge financing for already-approved university debt, internal loans, and/or lines of credit must be submitted by the head of the accountable university responsibility unit (i.e., dean, vice president, or vice provost). Individual departments may not submit requests.
- Preliminary Approval Phase: Requests are first submitted as an abstract or proof of concept to the Senior Vice President and Provost (Provost) and Vice President for Finance and Administration (VPFA) for preliminary approval.
- Development Phase: Requests with preliminary approval are then submitted to the Associate Vice President for Budget and Finance (AVPBF) and should include the following:
  - A narrative description of the project to be financed;
  - A narrative justification regarding the need for financing;
  - A proposed business plan or pro forma that supports the financing requested, including sources of repayment.
  The AVPBF will work with the requesting responsibility unit to refine the business plan based on available potential financing options.
- Review and Recommendation Phase: The refined request will then be reviewed by the Internal Bank Advisory Committee, which will make a recommendation to the Provost and VPFA regarding the request. These recommendations will be based on the principles and measures referenced in this policy, considerations related to other university priorities for which financing is being requested, and other special factors the Internal Bank Advisory Committee may deem appropriate. This recommendation is forwarded to the Sr. Vice President and Provost for approval, unless the amount is greater than $500,000 in which case approval from the President is required as well.
- Notification Phase: At least quarterly the Sr. Vice President and Provost and the Vice President for Finance and Administration / CFO will report on the status of all loan requests to the President.
- Implementation Phase: If approved, the VPFA (or designee) will work with OUS to gain approval for the final financing arrangements.
  - A Memorandum of Understanding (MOU) will be drafted to codify the terms of the financing.

Financial Reporting and Accounting

- The Business Affairs Office (BAO) will be responsible for collecting debt-service payments from responsibility units per the terms outlined in the MOU.
- BAO will be responsible for making external debt payments to the OUS Internal Bank.
- All transactions for debt, interfund loans, and lines of credit will be recorded in the accounting records of the university and will be reported in accordance with generally accepted accounting principles.
- All debt-service obligations will be codified in the university’s annual beginning budget process, and the source of debt payments will be clearly identified and encumbered.
- The Director of Business Affairs/Controller will provide quarterly reports to the VPFA and to the Internal Bank Advisory Committee outlining all outstanding university debt, interfund loans, and lines of credit and the status of payments and balances.

**Procedures:**
VPFA web site

**Exclusions and Special Situations:**
None.

**Definitions:**

For purposes of this policy, the following definitions are utilized:

**Internal Bank Advisory Committee:** Members of the Internal Bank Advisory Committee are appointed by the University of Oregon Vice President for Finance and Administration/CFO (chair) and Senior Vice President and Provost. Membership includes an associate vice president for budget and finance, the director of business affairs/controller, two academic deans, and one senior auxiliary representative.

**Interfund Loan** refers to a movement of funds between major fund groups within the university with a definite plan to repay the money within a specified period of time. It is a specialized type of Internal Line of Credit.

**Internal Line of Credit** refers to a financing agreement that grants access to project funding from one or more university departments to another. Such loans may or may not be between major fund groups.

**University Debt** refers to any debt instrument secured from a third party entity, including the public financial market, the OUS Internal Bank, or any other public or private entity. Such instruments may include tax-exempt or taxable bonds, lease/purchase agreements, certificates of participation, commercial paper, interagency loans, and other financing instruments.

**Forms/Instructions:**

**Cross Reference to Related Policies:**
[Insert any related policies]
Responsible University Office:
University Office: Vice President for Finance and Administration
Office Website URL: http://vpfa.uoregon.edu/
Contact Name: Laura Hubbard, Associate Vice President for Budget and Finance
Email: lhubbard@uoregon.edu
Phone: (541) 346-2817

Related Documents:

Frequently Asked Questions:

Revision/Development History:
1st draft reviewed by Internal Bank Advisory Committee, 7/14/2010
2nd draft reviewed by Internal Bank Advisory Committee, 9/7/2010

Organizational Category:
(Please mark only one)

- Administration and Governance
- Academic and Curricular
- Human Resources
- Facilities
- Students
- Finance and Business Affairs
- University Relations
- Health and Safety
- Research
- Information Technology
- General

POLICY CONSULTATION AND REVIEW
Consultation and review by the following individuals or groups (optional):

Print Name
Date

Print Name
Date

REVIEWED AND APPROVED BY:

Executive Leadership Team

Signature
Date

ISSUED BY:

Office of the Senior Vice President and Provost

Date

POLICY EFFECTIVE DATE:

11/08/2010

Date

ASSIGNED POLICY NUMBER:

06.00.10

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11/08/2010

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