



OBJECTIVE

Revision of policies regarding the use of university debt in the form of bonds, internal loans lines of credit, and leases.

POLICY

Applies to: All university personnel responsible the management of university debt

Issued: 3/2005

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I. Principles Regarding Use of University External Debt

- A. Access to university issued debt is not an entitlement. Debt will be granted only to those projects consistent with the Academic Plan and approved through the university's capital process.
- B. No debt should be issued without prior recommendation by the provost, senior vice president for business and finance, and assistant vice president of financial services to the president, and approval by the Board of Trustees.
- C. The university seeks to maintain a credit rating of at least AA or its equivalent.
- D. The university should seek to limit debt service payments to no more than 5% of annual operating expenditures.
- E. The university should utilize variable rate debt consistent with market Conditions.
- F. No debt repayment period shall exceed the useful life of the asset being financed. In most cases, this means a maximum of 20 years for construction and 10-15 years for renovation.
- G. Capitalization of interest is discouraged.
- H. All debt issued on behalf of a project sponsored by a unit shall include an approved business plan as part of a signed Memorandum of Understanding (MOU) that specifies how the debt service will be paid.
- I. The benefiting unit shall be responsible for the repayment of debt and associated costs.

- J. Refinancing of debt is permissible if the present value savings is at least three percent.
- K. No project will proceed to design unless 10% of total project budget is available to fund design costs. No project will proceed to construction until 75% of the written pledges, cash receipts, or other acceptable guarantees have been received in accordance with guidelines developed by the university.

II. Principles Regarding the Use of Internal Lines of Credit

- A. Internal loans or lines of credit may be granted to units for strategic purposes consistent with the Academic Plan.
- B. Requests for a university internal loan or line of credit are submitted to the office of the senior vice president for business and finance by the appropriate dean or vice president. Approval should not be assumed unless received in writing from the office of the senior vice president for business and finance.
- C. All agreements must be in writing.
- D. Recipients must identify source of repayment in advance and a business plan may be required when appropriate.
- E. Principal is expected to be paid down in annual installments consistent with an approved agreement. Balloon payments are not permitted.
- F. The repayment period is normally no more than five years from first draw in annual installments, although exceptions may be permitted.

For line of credit loans of three years or less, interest charged will be based on the rate of the short and intermediate term investment pool plus a spread as determined by the Office of Financial Services. Line of credit loans for longer periods will be charged interest based on the cost of capital on outstanding university debt plus a spread as determined by the Office of Financial Services.

- G. All agreements must be approved by the senior vice president for business and finance and the respective vice president or dean. All agreements of more than five years, or more than \$5 million, require prior approval by the Board of Trustees.
- H. Agreements for more than ten years, or more than \$10 million are not encouraged except for exceptional circumstances and require prior approval by both the Senior Management Council and Board of Trustees.



- I. Early repayment is encouraged with no penalty.
- J. The University Medical Center also may issue internal lines of credit, but such credit to affiliated entities requires approval of the senior vice president for business and finance and the senior vice president for health sciences. Senior Management Council and the Board of Trustees must approve all agreements of more than \$5 million or more than five years.
- K. Regardless of source, all internal loans and lines of credit to affiliated organizations require Senior Management Council and Board of Trustees approval.
- L. The senior vice president for business and finance shall report annually to the Board of Trustees on all approved lines of credit and their disposition.
- M. These guidelines affect new loans and lines of credit only. Written agreements currently in effect will be honored as written.

III. Principles Regarding Leases

- A. All leases, over \$100,000 , must be approved by the Senior Vice President for Business and Finance.
- B. All leases of a present value of \$ 5 million or more must be approved by the Board of Trustees.
- C. The decision as to whether a lease is a capital or operating lease shall be made at the discretion of the office of the controller, in consultation with the Offices of Legal Affairs and Office of Financial Services.

RESOURCES

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Note: Policy approved by the Board of Trustees on March 4, 2005 Resolution #2005-106