

Internal Bank Policies and Procedures

Capital Loans, Lines of Credit and Leases

General Background

From time to time, The Ohio State University issues external debt for the purposes of constructing, renovating, improving and/or equipping university facilities. The University is granted authority to issue tax-exempt debt as outlined in Section 3345.11 and 3345.12 of the Ohio revised code. The University typically issues general receipts debt. General receipts are comprised of all revenues derived by The Ohio State University with the exception of state appropriations and other restricted monies such as federal research grants. As part of the general receipts process, the university must seek permission from the Ohio Board of Regents in order to pledge fees as part of general receipts.

The University Board of Trustees has approved a University Debt Policy (revised April 2012) that establishes principles regarding the use of the Internal Bank. In implementing its capital and operating programs, The Ohio State University will grant internal capital loans and lines of credit loans to a college or department for a specific project or use. These loans and lines of credit are typically for capital projects but they are also for small acquisitions or projects and occasionally to bridge operating deficits while colleges or departments are implementing corrective actions.

Principals

- Internal loans or lines of credit may be granted to units for strategic purposes consistent with the Academic Plan and the University's Strategic Goals.
- A Memorandum of Understanding (MOU) specifying payback schedule must be fully executed by all parties prior to funding being released
- Recipients must identify the source of repayment and an approved business plan as part of a Memorandum of Understanding (MOU).
- Requests for a university internal loan or line of credit are submitted to the Office of Financial Services or the Senior Vice President for Business and Finance by the appropriate dean or vice president.
- Approval should not be assumed unless formal approval received in writing from the office of the Senior Vice President for Business and Finance.
- Principal is expected to be paid down in regular installments consistent with the approved agreement. Balloon payments are discouraged.
- Agreements with repayment terms of more than ten years, or more than \$10 million are not encouraged except for exceptional circumstances and require prior approval by both the Senior Vice President for Business and Finance the Integrated Financial Planning Group, and the Board of Trustees.
- All agreements must be approved by the Senior Vice President for Business and Finance and the respective vice president or dean.

- Regardless of source, all leases, internal loans and lines of credit to affiliated Organizations require approval by the Integrated Financial Planning Group and the Senior Vice President for Business and Finance.
- Early repayment is encouraged with no penalty.
- The Senior Vice President for Business and Finance shall report annually to the Finance Committee of the Board of Trustees on all approved loans and lines of credit and their disposition.

General Policy

Commencing July 1, 2009, all capital loans and lines of credit to Colleges and VP Units will be between the University Office of Financial Services and the Colleges and VP Units. Interest rates will be set in advance in a Term Sheet. Terms for payment of interest and principal on a specific loan will be documented in an MOU and will not be dependent upon the timing or terms of University issuance of external debt.

The benefiting units shall be responsible for the repayment of internal debt and associated costs. All internal debt issued on behalf of a project sponsored by a Unit shall include an approved business plan as part of a signed MOU that specifies how the debt will be repaid.

Definitions

External debt: Debt issued to the public in the name of The Ohio State University as outlined in Section 3345.11 and 3345.12 of the Ohio revised code.

Cost of capital: The cost to the Office of Financial Services for all external and internal funds used to finance internal capital loans and lines of credit to colleges and departments.

Term Sheet: A document issued by the Office of Financial Services at least semi-annually which specifies the interest rates that will be charged for each type of internal loan. Different interest rates may be specified for each loan type and for loans with different repayment periods.

Memorandum Of Understanding An agreement executed between the College/VP Unit and the Senior Vice President for Business and Finance which documents the principal, interest charges, and repayment terms for the loan, as well as any other conditions or covenants. This document will be consistent with the Term Sheet then in effect.

Refinancing: Subject to mutual agreement between the Internal Bank Executive Committee and College/VP unit and approval by the Senior Vice President for Business and Finance. An MOU based on the Term Sheet then in effect, will replace the MOU for a current internal loan.

Capital Loan: An internal loan to finance a capital project that is part of the University Capital Plan approved by the Trustees. The interest rate is set in the Term Sheet and in the MOU. Interest accrues at first drawdown. An interest-only period may be offered during construction. Maximum amortization period is 30 years; minimum amortization period is 5 years.

Line of Credit

Loan: A non-revolving internal loan of a maximum specified amount that can be drawn down as needed during a specified period. Lines of credit may be for capital or non-capital purposes. All Lines of Credit require approval by the Senior Vice President for Business and Finance.

Overdraft

Loan: An internal loan of fixed duration to cover operations when the College/VP unit does not have sufficient cash balances to meet payroll and daily obligations including debt service on existing loans outstanding. Cash balances include all non restricted funds available at the overall College/VP unit level.

Leases: Financing used to acquire land, buildings or equipment. All leases require approval by the Senior Vice President for Business and Finance. Leases of a present value of \$10 million or more must be approved by the Board of Trustees.

Internal Bank

Executive Committee Assists on matters relating to capital funding, internal loans and leases. Oversees activities of the Internal Bank.

Policies and Procedures for Colleges and Departments

Capitalized Interest

The University discourages the use of capitalized interest (interest financed as part of the loan) on any project. Capitalizing interest requires an exception and must be approved in advance by the Senior Vice President for Business & Finance.

Construction Funds

Over budget: The college or department must identify up front the account to be charged for any cost overruns. Departments will not have access to construction fund monies beyond the initial allocation. Should the project go over the amount of construction funds available under the MOU, then the individual department is responsible for providing funds for the amount of the overrun. A Line of Credit loan for all or part of the overrun may be approved by the Senior Vice President for Business & Finance.

Under Budget: With approval of the Sr. Vice President of Business and Finance, funds must be returned and the loan balance reduced.

Analysis and Approval

Capital Loan

For all projects seeking debt financing, departments must go through the Capital Planning Process and be approved by the Integrated Physical Planning Liaison Group (IPPLG). . The Office of Financial Services should be contacted to review financing options, timing issues and the tax-exempt status of projects. Once a project is approved for construction by the Senior Vice

President for Business and Finance and/or the Board of Trustees, the Office of Financial Services prepares an MOU detailing the terms and repayment schedule. This memorandum is sent to the Senior Vice President for Business and Finance for approval and is countersigned by the requesting unit's Vice President and Department Head and the Assistant Vice President for Financial Services. The Office of University Resource Planning and the Office of the Controller are also apprised of the agreement and the accompanying amortization schedule. (NOTE: The repayment schedule on any individual project may not correspond directly with issuance of external debt. Considering the University's best interests, the Office of Financial Services will coordinate the timing of external debt issuance and the projects assigned to those issuances.)

Line of Credit Loans and Leases

For all projects seeking line of credit financing, departments must make a request of the Senior Vice President for Business and Finance. The Office of Financial Services should be contacted to review financing options, timing issues and rates. The department should submit a business plan including sources of repayment. The request will be reviewed by the Internal Bank Executive Committee and a recommendation will be made to the Senior Vice President of Business and Finance. Once a project is approved by the Senior Vice President for Business and Finance, the Office of Financial Services prepares an MOU detailing the repayment schedule. This MOU is sent to the Senior Vice President for Business and Finance for approval and is countersigned by the requesting unit's Vice President and Department Head and the Vice President and Treasurer. The Office of University Resource Planning and the Office of the Controller are also apprised of the agreement and the accompanying amortization schedule.

Overdraft Loan

Temporary use of university cash for up to 90 days may be offered and be interest-free at the discretion of the Office of Resource Planning. Use of university cash for over 90 days requires execution of an Overdraft Loan. These loans will have fixed repayment dates. Additional loans may be offered if the College/VP unit cannot meet the terms of outstanding Overdraft Loans. The Office of Financial Services should be contacted to review financing options, timing issues and rates. The department should submit a business plan to the Office of Resource Planning which must include sources of repayment. Once a loan is approved by the Internal Bank executive Committee and the Senior Vice President for Business and Finance, the Office of Financial Services prepares an MOU detailing the repayment schedule and covenants to prevent future cash shortfalls. The MOU for these loans must be approved by the SVP Business and Finance, Provost, and Office of Resource Planning.

Policies and Procedures for Office of Financial Services

Before any new external debt is issued, the University will complete a legal analysis and obtain an opinion to confirm that all legal requirements and regulations, including tax regulations, are met. The university will comply with tax regulations for tax-exempt debt.

Construction Funds

Under budget: Should the project not use all the funds set aside for them in the construction fund, the unused funds will be returned to the debt service pool and the department's monthly payment will be lowered accordingly. Upon receipt of a certificate of completion, the debt service pool will be used to pay the debt service on the underlying external debt until substitute capital projects are identified.

Issuance Costs (Capital Loans only):

Issuance costs include but are not limited to: underwriting discounts, legal fees, printing costs and bond rating agency charges. These expenses will be added to the principal amount of the loans.

Administrative Costs

These costs include, but are not limited to, ongoing trustee fees, tender agent fees, remarketing agent fees, bank commitment fees, bond rating agency fees, and university administrative costs. These expenses will be added on to the principal amount of the loans. Additional fees may be charged to certain loans upon the approval of the Senior Vice President for Business and Finance.

Interest Rates:

The interest rates to be charged to the colleges and departments will be based on the cost of capital and a reasonable estimate of financial risk to the University. The Office of Financial Services will issue a term sheet specifying the rates. Interest rates may be revised semi-annually by issuance of a new term sheet; however, once an MOU is executed, the current interest rate will be fixed for the duration of the loan. For capital loans, if the MOU allows for interest-only payments during the construction period, a different interest rate may be charged until principal payments begin. The Office of Financial Services will determine this rate and it may be adjusted on an annual basis.

Repayment Schedules

Departments are charged interest on the remaining principal balance, amortized monthly as documented in the MOU.

Debt Service Pool

The Debt Service Pool consists of all debt service payments made by various departments and the general fund to the Office of Financial Services. The Debt Service Pool is available to make principal and interest payments due on the outstanding external debt and its related administrative costs such as bank fees, legal fees, remarketing agent fees, etc. Should there be any balance that is unencumbered for future debt service payments it will be transferred to a sub account called the Debt Reserve Fund.

Debt Reserve Fund

The Debt Reserve Fund is a sub account of the Debt Service Pool and consists of monies that are free and clear of current external debt service obligations. It is preferred that this fund be perpetual in nature. This fund can be used to defease or to call outstanding debt. The fund serves as a reserve if the debt service pool is not sufficient to make all external bond payments. The target is to have a minimum of the maximum one year of principal payments on bonds available in the debt service reserve.

External Debt Structure:

The university will utilize commercial paper and public variable/fixed rate bonds to finance the capital projects of the University. On occasion the University may also use other financing sources such as certificates of participation, short-term notes or swaps. The University may also issue taxable debt.

Commercial paper is intended to be used to finance the construction cash flows of University projects and to be replaced by a more permanent source of financing. The commercial paper may remain outstanding until it reaches an appropriate size for a bond issue. If the term of the

commercial paper expires before the next bond issue, the commercial paper can be reauthorized and be outstanding until the next long term bond issue.

Fixed and/or Variable Rate Bonds will refinance commercial paper issued for the initial financing of projects or to finance new projects. The structure of bonds will depend on the type of projects being financed and market conditions. In general the University will seek a mixture of fixed and variable rate debt. The University will review alternate rate financing structures available in the capital markets to determine if an alternative structure will be more appropriate to finance the University projects. When appropriate the University may wish to refinance outstanding debt in order to lower its cost of funds. The decision to refinance a debt issue will be based on the net present value savings or structural changes achieved by the refinancing subject to approval of the Vice President and Treasurer and the Senior Vice President of Business and Finance.