University of Nebraska

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Executive Memorandum No. 35

University of Nebraska Internal Lending Program Policies, Procedures, and Statement of Investment Objectives and Guidelines

The Internal Loan Program (ILP) has been established to support the long-term stewardship of the University's financial resources. The ILP allows the University to manage these financial resources holistically across the system. The ILP seeks to decouple external financings and internal lending such that the University can strategically reinvest in future projects and initiatives. This policy outlines the framework that will govern the program and the process for internal lending.

1. Program Overview

The ILP is established within the Office of the Vice President for Business and Finance (VPBF). The ILP will provide funding for approved capital projects and programmatic initiatives across the University and its campuses. The program will be managed in a manner consistent with University policies regarding the incurrence of obligations related to external financing and approval of capital projects. Benefits of the ILP include a stable borrowing rate to campuses and reduced institutional financing costs.

Commencing January 1, 2020, all new internal loans for approved capital projects and programmatic initiatives will be between the Office of the VPBF and specific campus units. Interest rates and terms on each loan will be documented in a loan acknowledgment and will not be dependent upon the timing or terms of the University's external financings.

2. ILP Management

A. Roles and Responsibilities: The ILP will be administered by the Office of the VPBF. The Office of the VPBF will have responsibility for setting rates, terms, and other internal lending guidelines. The Office of the VPBF will also provide periodic reports to the Board of Regents' Business and Finance Committee as described herein.

Office of the President
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B. Available Uses: The ILP can only be utilized for internal loans as described within and to cover administrative costs of the program.

C. ILP Assets: The ILP's assets will consist of outstanding internal loans and funds received from campus units to repay outstanding internal loans. Funds will be invested per the Statement of Investment Objectives and Guidelines.

D. ILP Liabilities: External University financings will be pursued primarily through incurring obligations to the University of Nebraska Facilities Corporation, which will issue bonds, short-term notes, and other instruments.

External financings will be structured separately from ILP loan structures and will seek to match the useful life of the assets being financed with the tenor of its liabilities.

3. Internal Loan Approval Process

A. Approval Process: Campuses, including the University of Nebraska Central Administration (UNCA) and University Technology Development Corporation (UTDC) subsidiaries or institutes, are eligible to participate in the program. Campuses will request internal loans according to the following steps. Formal requests as described below should be made on a quarterly basis of each fiscal year (January 1, April 1, July 1, October 1). The Office of the VPBF also reserves the right to receive requests for internal loans outside the normal quarterly cycle.

1. Campus Approval: Units (i.e. colleges, departments, centers, etc.) will request campus approval from their respective Chief Business Officer (CBO) and Chancellor. The campus approval request will be documented with an Internal Loan Application that includes the following information:

a. Project/program description or business plan;

b. Relationship to University/campus strategic plans;

c. Total project/program cost and description of funding source(s);

d. Source of debt service repayment;

e. Financial risks and mitigation measures; and

f. Other internal loans outstanding.

Please refer to Appendix A of this policy for the Internal Loan Application form.

2. Formal Request: After campus approval is obtained, the campus will forward the request including a completed Internal Loan Application signed by the Chancellor or CBO to the Office of the VPBF.

3. Final Approval: Internal loans may be approved by the President or the VPBF. Internal loans will a total par amount of $5 million or more should be included and identified as a funding source in the capital project program statement provided to the Board of Regents for approval.

B. Loan Acknowledgment: Upon final approval, the terms and conditions of each internal loan will be documented in a Loan Acknowledgement which will be executed by the borrowing unit and either the President or the VPBF. The Loan Acknowledgement will include a schedule of principal and interest payments due over the life of the loan.

4. Internal Lending Guidelines

A. Legacy Internal Loans: Total campus obligations related to projects financed prior to October 1, 2019 will remain unchanged (i.e. outstanding housing, parking, and other historical Master Trust Indenture (MTI) debt). These legacy internal debt service obligations will be converted to equal monthly principal and interest payments for the remaining life of the loans. However, the total debt service paid over the life of the loans will not change.

B. New Internal Loans: New internal loans issued under the ILP will be structured based on the following guidelines and documented in a Loan Acknowledgment.

1. Debt Service Payments: Monthly principal and interest payments are due within the first five business days of each month.

2. Tenor: Borrowing units will be able to borrow for different tenors subject to the prevailing Internal Loan Term Sheet provided by the Office of the VPBF. The Office of the VPBF will provide the campuses with an updated Term Sheet as required.

a. Long-Term Loans: Long-term capital projects are typically funded using a loan from the ILP. Loans may not exceed 20 years without approval from the President and report to the Business and Finance Committee.

b. Bridge Financing: The ILP can provide bridge financing for donor-funded capital projects for a period of up to five years.

c. Other Loans: Other loans may be considered if approved by the President and reported to the Business and Finance Committee.

3. Interest Rate: The interest rates to be charged to borrowing units will be based on the University's external cost of capital including the cost of administering the ILP and desired internal equity rate of return. The interest rates offered for internal loans will be subject to the prevailing Internal Loan Term Sheet provided by the Office of the VPBF. The Office of the VPBF will provide the campuses with an updated Term Sheet as needed. The VPBF reserves the right to adjust interest rates for new internal loans annually, with input from the President's Council and approval by the President.

4. Early Prepayment: Borrowing units can prepay internal loans at any time with no penalty.

5. Refinancing: Refinancing of internal loans is subject to mutual Acknowledgement between the borrowing unit and the Office of the VPBF.

6. Capitalized Interest: Internal loans may include a period of up to 18 months of capitalized interest. The borrowing unit will be responsible for the cost of capitalizing interest which will be included in the total amount requested in the Internal Loan Application.

7. Project Budgets: Borrowing units are responsible for managing project budgets. In the case of cost overruns, the borrowing unit will be responsible for funding the additional cost and should not assume that the size of an internal loan will be increased. If projects are completed under budget, borrowing units may prepay all or a portion of the outstanding internal loan.

8. Payment Delinquencies: The Office of the VPBF retains the right to withhold from the campus's annual operating budget any amounts required to cover any outstanding internal loan delinquencies.

C. Lending Capacity: At the beginning of each fiscal year, the Office of the VPBF will notify campuses of the updated Internal Loan Term Sheet as well as the expected lending capacity for the upcoming fiscal year.

1. The Office of the VPBF will undertake a stress test analysis at least annually to determine the minimum balance requirement for the ILP and resulting lending capacity.

2. The analysis will evaluate the sensitivity of the ILP to changes in assumptions for the investment return on ILP cash balances.

3. The minimum balance requirement will consider both short-term funding needs and long-term program management.

5. Renewal and Replacement Funds

A. Year-End Fund Balance Transfers: Auxiliary units (housing, parking, etc.) will continue the historical practice of transferring year-end fund balances into a renewal and replacement trust fund that is held with the ILP trustee.

B. Spending of Renewal and Replacement Funds: At least annually, but more often if needed, a list of projects that wish to utilize renewal and replacement funds shall be presented to the Business and Finance Committee. Spending from the renewal and replacement trust fund must be approved by the President. Any single expenditure of $5 million or more must be approved by the Board of Regents.

C. Use: Money in the renewal and replacement trust fund may be used to complete construction of facilities, for the acquisition or construction on any campus of the Board then existing or facilities now or hereafter authorized by law from which the Board will derive revenue, for land acquisition, for extraordinary repairs, renovations, renewals, and refurbishings, and for any lawful purpose of the Board related to facilities described in this paragraph.

6. Reporting and Management

A. Financial Statements: The Office of the VPBF will provide annual unaudited financial statements for the ILP to the President's Council and the Business and Finance Committee.

B. President's Council and Business and Finance Committee Reporting: The Office of the VPBF will provide an annual update on the ILP to the President's Council and Business and Finance Committee, including:

1. Summary of funded projects;

2. Expected annual cashflows;

3. Minimum balance requirement;

4. Expected lending capacity; and

5. Internal Loan Term Sheet.

C. Ongoing Management: The Office of the VPBF will manage the ILP on an ongoing basis.

1. The Office of the VPBF will maintain a model to track ILP cashflows.

2. The model will be updated at fiscal year-end at a minimum.

D. Public Records: All records of the ILP shall be considered public records under Nebraska law.

7. Issues Not Address in Policy/Procedures

The President and the VPBF are authorized to carry out the objectives of the ILP. In the event a matter is not address in these policies, the President and VPBF shall use sound judgment to address the issue so that it adheres to the principles and objectives stated in these policies.

This Executive Memorandum will be reviewed no less than every two years (even numbered years) by the Business and Finance Committee for potential revisions.

Dated this 24th day of March, 2020.

Ted Carter

Ted Carter, President

Reference: March 24, 2020

Schedule I

INTERNAL LENDING PROGRAM LOAN ACKNOWLEDGMENT

This Loan Acknowledgment (“Acknowledgment”), between the University of Nebraska Office of the Vice President for Business and Finance, as administrator of the University of Nebraska Internal Loan Program (“Administrator”) and [Borrowing Unit] (“Borrowing Unit”) is hereby entered into on [DATE] and governed by the University of Nebraska Internal Lending Program Policy adopted on [DATE]. This policy may be amended from time to time in the Administrator’s discretion and, in the event of such change, the most current policy will apply to this Acknowledgment.

1. Principal. Borrowing Unit promises to pay the aggregate unpaid principal amount outstanding under this Acknowledgment to the Administrator according to the internal loan repayment schedule attached as Schedule I.

2. Interest. Interest on the loan will be charged on the unpaid principal amount until all principal has been paid. Interest payments will be made on a monthly basis on the first business day of each month according to the repayment schedule attached as Schedule I. The interest rate on the loan is intended to be fixed, but the Vice President for Business and Finance reserves the right to change rates annually if required.

3. Prepayment. Borrowing Unit has the right to make payments of principal at any time before they are due without penalty. When paying principal prior to scheduled maturity (“prepayment”), Borrowing Unit will give advance notice to the Administrator and the prepayment will occur on an internal loan payment date.

4. Right of Set-Off. In the event Borrowing Unit fails to make a payment on the loan as required under this Acknowledgment, the Administrator may withhold monies due to Borrowing Unit from annual operating budget allocations and apply such monies to the amounts due under this loan.

5. Request for Documents. The Administrator may request from time to time, and Borrowing Unit shall furnish, certain documents that are required for the Administrator to either satisfy compliance requirements or assess the ongoing conditions of the loan.

6. Acceptance of Loan Terms. By executing this Acknowledgment, Borrowing Unit is agreeing the loan terms as specified in Schedule I.

Borrowing Unit	**Campus Administrator**	**President or VP | CFO**
____________________	____________________	____________________
Name:	Name:	Name:
Title:	Title:	Title:
Date:	Date:	Date:

Schedule I

Note: Borrowing Unit will make monthly payments totaling $___________ as shown below beginning on __________, 20__ and ending on ___________, 20__.

Internal Loan Terms	
Project Title:	[XXXXX]
Borrowing Unit:	[XXXXX]
Loan Funding Date:	[XXXXX]
Loan Amount:	[XXXXX]
Interest Rate:	[XXXXX]

Payment Frequency & Amounts	
First Payment Date:	[XXXXX]
Last Payment Date:	[XXXXX]
Monthly Principal Payment:	[XXXXX]
Monthly Interest Payment:	[XXXXX]
Total Monthly Payment:	[XXXXX]

INTERNAL LOAN TERM SHEET
Effective through June 30, 2021

Loan Tenor	Annual Interest Rate
Bridge Financing for Donor-Funded Projects (up to 5 years)	Short-term Financing Rates + 0.25%
Long-Term Financing 15 years or less 16 to 20 years	 4.00% 4.50%

Please note that all terms including tenor, annual interest rate, and monthly debt service schedule will be documented in the Internal Lending Loan Acknowledgment.

INTERNAL LOAN APPLICATION

Please complete the following application to request an internal loan pursuant to the University's Internal Lending Program Policy dated [XXXXXX]. Please attach appropriate support documentation as needed.

SUMMARY OF REQUEST

Project/Program Overview	
Project/Program Title:	[XXXXX]
Borrowing Unit:	[XXXXX]
Project/Program Description:	[XXXXX]
Loan Type:	[XXXXX]
Loan Amount:	[XXXXX]

REVIEW AND APPROVAL

Campus Approval	
Submitted by:	[NAME, TITLE]
Approved by:	[NAME, TITLE]
Signature:	
Date:	November 21, 2019

Formal Approval:	
Submitted by:	[NAME, TITLE]
Approved by:	[APPROVER]
Signature:	
Date:	

SUPPORTING BUSINESS PLAN

Executive Summary

[TO BE COMPLETED]

Requested Loan Information	
Loan Type:	[XXXXX]
Loan Amount:	[XXXXX]
Loan Funding Date:	[XXXXX]
First Payment Date:	[XXXXX]
Capitalized Interest Period:	[XXXXX]
Final Payment Date:	[XXXXX]
GL Account for Principal:	
GL Account for Interest:	

Statement of Investment Objectives and Guidelines for the Internal Lending Program

This statement is issued by the Office of the Vice President for Business and Finance of the University of Nebraska to guide staff in the investment and reinvestment of Internal Lending Program (ILP) funds.

1. **Management and Investment Objectives.** The management and investment objectives of these funds are to, in order of priority:
    - Preserve the ILP's funding nominal principal value;
    - Maintain an adequate level of liquidity; and
    - Generate dividend income and capital appreciation

    a. Consideration shall be given to the projected cash flows of the Internal Lending Program. In aggregate, the maturity commitments required for investment of funds should not exceed the anticipated timeline for internal loans.

    b. The University's Vice President for Business and Finance | CFO, in consultation with the President, shall be responsible for the management and investment of the funds and will provide updates to the Board of Regents Business & Finance Committee at least annually. Although primary management of the funds shall be the responsibility of University Business & Finance staff, external investment advisors may be retained to manage portions of the portfolio.

    c. This investment policy is intended to comply with the Nebraska Prudent Investor Rule which outlines rules for managing strategy, risk, return, diversification, review and delegation in administering funds.

2. **Asset Allocation.** The funds may be managed as a balanced portfolio composed of two major components: an equity portion and a fixed income portion. The primary role of the equity component will be capital appreciation, and the primary role of the fixed component will be income generation. The pool will hold investments within the following policy ranges:

	Allowable Range
Fixed income	65% to 100%
Diversified Equity	0% to 35%

3. **Permissible Investments.** Permissible investments are described in Appendix A.

4. **Risk Tolerance and Diversification.** The overall risk profile of the Internal Lending Program fund shall be consistent with the objectives outlined in paragraph 1. As such, all matters and decisions related to the fund shall be considered with a focus on prudence and conservative judgement.

a. All securities held in the portfolio shall be U.S. dollar denominated. American Depository Receipts (ADR) may be held so long as they are denominated in U.S. dollars.

b. Individual fixed income securities issued by public corporations and municipalities shall have a maximum remaining maturity at time of purchase or acquisition of less than 5.5 years. All securities issued by the U.S. Government or its Agencies shall have a maximum remaining maturity at time of purchase of 10 years or less.

c. The fund shall be managed in a manner consistent with the guidelines as presented in Appendix A.

d. Except for fixed income investments explicitly guaranteed by the U.S. Government and ETF's, no single security shall represent more than 5% of the total portfolio.

e. The following guidelines shall govern the positioning and concentration of the fixed income portfolio. All limits are applied on a market value basis:

    i. Up to 70% of the total portfolio may be invested in U.S. Agency securities, with a limit to any single issuer of 30% of the total pool.

    ii. Subject to the quality guidelines established in Appendix A, Corporate and Municipal fixed income securities shall be permissible, with no specific target or limits on either sector so long as the combined weight does not exceed 70% of the total pool.

    iii. Corporate bond exposure to any single sector, as defined by Standard & Poor's, shall not exceed 20% of the total pool.

    iv. Municipal bonds should be diversified between general obligation and revenue backed issues. Further, revenue bonds shall be diversified by type (e.g. water/sewer, electric, healthcare facilities, infrastructure, etc.).

    v. Up to 20% of the pool may be invested in high quality commercial paper, as defined in Appendix A. Exposure to individual issuers shall be limited to 2% of the total pool.

f. The following guidelines shall govern the positioning and concentration of the equity portfolio. All limits are applied on a market value basis.

    i. Subject to the guidelines detailed in Appendix A, the equity portfolio may be invested in Exchange Traded Funds ("ETF") or closed-end mutual funds

    ii. ETFs and closed-end funds should be diversified in respect to number of holdings and concentration of underlying securities.

iii. Up to 100% of the equity portfolio may be held in cash, fixed income ETF's and/or high quality short-term fixed income securities.

5. **Rebalancing.** It is expected that the pool's actual asset allocations will vary from its target allocation as a result of market fluctuations and periodic cash flows. The Vice President for Business & Finance may elect to rebalance the portfolio periodically. Anticipated cash flows shall be factored into timing and security selection decisions as part of this process.

6. **Monitoring of Objectives and Results.** The Business and Finance Committee will review these guidelines at least every two years (even numbered years).

Appendix A

Permissible Investments

Fixed Income Investments

Permissible fixed income investments include:

1. Direct obligations of the United States.
2. Obligations issued by Agencies of the United States government.
3. FDIC insured Certificate of Deposits with maturities up to 36 months in length.
4. Commercial paper which shall be rated at least A1 by Standard & Poor's or P1 by Moody's.
5. Institutional quality money market funds are permissible provided they are rated AAAm or better by Standard & Poor's or Aaa-mf or better by Moody's.
6. Excepting section 7 below, Corporate and Municipal Bonds must be of investment grade as determined by the lowest rating for the issuer at the time of purchase. After purchase, should the rating on a security fall below investment grade, the Vice President for Business & Finance shall decide as to the prudence of continuing to hold said security.
7. Up to 5% of the total portfolio may be invested in non-investment grade securities defined as Ba1-Ba3 (Moody's) and BB+, BB, and BB- (S&P and Fitch).
8. ETF's and other commingled vehicles whose primary investment strategy and underlying characteristics align with the parameters of his policy.
9. Other instruments that may be approved by the President and reported to the Business & Finance Committee from time to time.

Equity Investments

The equity portion of the Internal Lending program investment funds shall predominantly consist of investment vehicles holding a diversified portfolio of stocks. Permissible equity investments include ETFs and closed-end mutual funds. The equity investment roster should be reviewed annually by the Business & Finance Committee.

Selection of investments shall be dependent upon a variety of factors, including but not limited to:

- Liquidity of investment, and breadth of exchanges investment is listed and traded
- Investment strategy and fit with stated asset allocation goals
- Soundness of investment sponsor (i.e. Vanguard, Fidelity, etc.)
- Operating expenses, including management fees
- Track record and operating history