

1807 INTERFUND BORROWING – EQUIPMENT PURCHASE LOAN PROGRAM (EPLP)

Effective: May, 2018

Revised: May, 2018

Reviewed: May, 2018

Responsible Office: Office of the
Treasurer

Approval: V.P. for Finance and Treasurer

PURPOSE

This policy governs the extension of internal loans from the University's working capital for the purpose of financing equipment acquisitions.

The objectives of the EPLP include the following:

- Provide a source of funding for equipment purchases which the school or center cannot self-fund.
- Provide bridge funding for project gift pledges maturing in five years or less.
- Promote efficient working capital management by generating a higher rate of return on University liquidity balances.
- Ensure that internal equipment loans will not be authorized without the borrowing school or center submitting a fiscally responsible and achievable business plan in support of timely repayment.

POLICY

1. Responsibility:

The Office of the Treasurer is responsible for administering the EPLP program.

2. Pool:

The maximum amount of loans outstanding under this program is \$5,000,000.

Principal repayments will create a revolving loan pool over time.

3. Terms and conditions:

Individual loans administered under this program must be between \$100,000 and \$1,000,000.

The maximum loan term is 5 years.

Borrowers will repay loan principal and interest over a predetermined time period through monthly fixed charges to the borrower's operating account.

Each loan will be analyzed to determine the most appropriate term, with the repayment term not exceeding the useful life of the asset being financed.

Loans may be prepaid early without penalty at any time.

4. Interest charges:

Interest will be calculated on the loan balance beginning on the date on which the funds are deposited into the appropriate general ledger account.

The interest rate will be set by the Treasurer's Office annually based on prevailing leasing rates, which are slightly higher than the University's overall cost of capital.

The FY19 rate is 5%.

5. Approvals:

All loan requests are to be submitted to the Office of the Treasurer. (Refer Procedures section below)

Loan request should first be approved by the School/Center's Dean and Senior Business Administrator prior to submission.

Loan amounts under \$500,000 will be subject to review approval by the Office of the Treasurer.

Loans amounts between \$500,000 and \$1,000,000 will require additional approval from the Capital Information and Technology Equipment (CITE) Committee and Capital Council.

6. Loan request procedures:

Loan requests must be submitted to Jeff McCray (jmccray@upenn.edu). The request must include a complete business plan justifying the financing and detailing debt service funding sources. The business plan should include the following:

- Exec Summary
- Background/ Rationale
- Business Description/ Objective
- Market Analysis (if applicable and/or associated with a revenue generating activity)
- Any opportunities and risks associated with this investment
- Funding requirements (acquisition, installation, and operating incremental operation costs)
 - Detailed equipment description including supplying vendor and price
 - Amount of the loan being requested
 - The estimated useful life of the equipment
 - Repayment period requested
 - Source of funds available for repayment, specifically cash in hand if gifts or bequests
 - 26 digit budget code to be charged for debt service

- **Financial Analysis/ Projections** - Copy of the departmental budget as recorded in Planning (form A3-Budget Analysis) including the prior 2 year actuals and 5 future year's projections. The budget should include debt service as provided by the Treasurer's Office
- **Summary**
- **Dated signature of Dean and Senior Business Administrator**

Upon review and approval of the Loan Request and Business Plan, the Office of the Treasurer will facilitate further approval, if applicable. For Loan Requests > \$500,000, a copy of the Capital Needs Statement signed by Provost or EVP for equipment over \$500,000 will be required.

The Treasurer's Office will advise the School if the Loan Request is approved. If the Loan Request is approved, a formal amortization schedule in a Memorandum of Agreement ("MOA") will be prepared for the school/center's review, signature and return. Once the Treasurer's Office receives the signed MOA, funding will be transferred to the school/center for their equipment.