MEMORANDUM

March 20, 2019

TO: Members of the Board of Trustees
FROM: Kristina M. Johnson, Chancellor
SUBJECT: Update to the University Reserve Borrowing Policy

Action Requested

The proposed resolution updates the existing State University of New York Reserve Borrowing Policy to accommodate the requirements of a Green Revolving Loan Fund within the existing borrowing infrastructure.

Resolution

I recommend that the Board of Trustees adopt the following resolution:

Whereas at the November 15, 2017 meeting of the State University of New York Board of Trustees, it was resolved that the University Reserve Borrowing Policy be expanded to allow for the borrowing of funds from the collected cash balances in certain of SUNY’s self-supporting accounts in order to carry out their core mission, maintain program quality and staffing levels, and simultaneously develop long term plans to resolve fiscal issues; and

Whereas since that time, a working group of System Administration professionals and State-operated campus chief financial officers have been engaged in finalizing certain operational details for the approval of the Senior Vice Chancellor for Finance and Chief Financial Officer (SUNY CFO), particularly the establishment of an indirect cost recovery rate to be included in the loaned value; and

Whereas the working group has finalized its work and made recommendations to the SUNY CFO; and
Whereas at the January 31, 2019 State of the University System Address, the Chancellor Johnson announced the creation of a Green Revolving Loan Fund, which is intended to aid in the financing of investments in energy conservation, efficiency, and renewables with investments repaid through energy cost savings across the SUNY system, including at the community colleges; and

Whereas this Green Revolving Loan Fund would be most expeditiously effectuated within the confines of the existing University Reserve Borrowing Policy, with certain adjustments made to accommodate the intent of the Green Revolving Loan Fund such as the expansion of the payback period and allowing for loans to be made to the community colleges in such cases as these loans are supported by funds originally appropriated for community college use, the loan is approved by the sponsor or sponsors of the community college in question, and the Senior Vice Chancellor for Finance and Chief Financial Officer of SUNY, or designee, has approved such loan on the basis of a review of the financial viability of the institution; and

Whereas the overall balances in SUNY’s self-supporting accounts and in the System Reserve accounts are, and continue to be, positive; now, therefore, be it

Resolved that the University Reserve Borrowing Policy be updated to comply with the intent of the updated “Income Fund Reimbursable Leveraging Model” policy attached to this Resolution and that loans to be made to the community colleges operating under the program of the State University of New York be only allowable in such cases as the funds supporting the loans are supported by funds originally appropriated for community college use, the loan is approved by the sponsor or sponsors of the community college in question, and the Senior Vice Chancellor for Finance and Chief Financial Officer of SUNY, or designee, has approved such loan on the basis of a review of the financial viability of the institution.

Background

This resolution updates the expanded University Reserve Borrowing Policy (the “expanded policy”). Under the expanded policy, the original intent of the University Reserve Borrowing (making short-term loans of unrestricted cash balances to campuses to address, under a specific plan, temporary shortfalls of
operating funds) was maintained. In addition, it was expanded to allow for the short-term loan of funds to State-operated campuses to support limited infrastructure and programmatic needs while maintaining that the principal of the loan, plus interest and an indirect cost recovery, are repaid within a five year window.

This new update would maintain the intent of both the original and expanded policy, while also doing the following:

- Codifying the work of a working group comprised of System Administration professionals and campus chief financial officers which included, but was not limited to, the University Controller, System Administration Budget and Provost offices, as well as the Chief Financial Officers of Binghamton University, the University at Albany, and SUNY Purchase, to implement an indirect cost recovery rate of 50 basis points or 0.5 percent in addition to interest charges;
- Expand, upon approval of the SUNY CFO, the timeframe for repayment to a maximum of ten (10) years; and
- Expand the granting of loans from funds originally appropriated for community college use, expressly for purposes of the Green Revolving Loan Fund, to community colleges operating under the program of the State University of New York who receive approval from their sponsor or sponsors and receive approval from the SUNY CFO, or designee, on the basis of a review of the financial viability of the college.

Attachment.
State University of New York
Income Fund Reimbursable Leverage Model
March 2019

State University of New York (SUNY) campuses hold funds in Self-Generated Funds that include the General Income Fund Reimbursable (IFR) account, the State University Tuition Reimbursement Account (SUTRA), and the Stabilization Account which can be used for; initiatives and opportunities which may arise; support for future operational expansions or new projects; facility renovations and equipment; or, protection against future economic and programmatic downturns. The funds in these accounts are important to enable campuses to grow and operate efficiently and effectively. Since the programs for which the funds will be used often have extended lead times, funds may be held for extended periods before they are actually disbursed. However, it is extremely important that campuses have the ability to call upon these funds when they are needed.

This policy is designed to provide a means whereby SUNY can effectively leverage the cash held in IFR accounts to administer a loan program to assist State-operated campuses in their efforts to undertake various program improvements by taking advantage of funds not needed in the short term, while ensuring that funds will continue to be available for campus use when needed.

In addition, in order to incentivize continued investment and attention to projects that will aid in sustainability actions, energy conservation, efficiency, and renewable energy, the policy is designed to allow for certain loans to both State-operated campuses and Community Colleges for the purposes of a Green Revolving Loan Fund.

Proposal Review Process:

Non-Green Revolving Loan Fund Proposals:

Campuses desiring to borrow funds under this policy will be required to submit an investment and payback plan (Plan). It is anticipated that there will be an annual call for proposals, but proposals can be submitted as opportunities or needs arise. Each proposal, submitted by the campus president, is to clearly indicate the following:

- Funds needed;
- Specific project or program to be funded through the loan;
- Statement of impact on the campus and importance of the proposal to the success of the campus mission;
- Timetable for implementation and monitoring mileposts;
- Detailed business plan and timetable for repayment of the loan (absent extenuating circumstances, term of the loan should not be greater than five years).
The Plans will be reviewed by a University Program Enhancement and Improvement Committee (Committee). The Committee will be comprised of eight individuals: Four from System Administration and four chosen by the State University Business Officers Association (SUBOA), with one additional alternate member from SUBOA in cases where there is a need for a replacement member. Representatives from SUBOA will each be from a different campus. In the event the committee’s vote ends in a tie, the SUNY Vice Chancellor and Chief Financial Officer (CFO) will cast the tie breaking vote.

The Committee will have responsibility to:

- Review the impact and viability of the plans;
- Evaluate the requesting campus’s financial position;
- Recommend action on each request: fund the request at full value, lessor value or not at all;
- Approve the amount of loan, actions to be taken and payback period; and
- Monitor program progress and payback of the loan on a quarterly basis.

It is expected that the Committee would interact with the borrowing campus as needed to obtain any additional information which may be required. Members of the Committee will recuse themselves from voting when reviewing a loan being requested by their home campus.

Upon approval of the Plan, a formal document, signed by the campus president and SUNY Administration, will establish the terms and conditions of the loan as drafted by the Committee, and will at a minimum specify the amount to be borrowed, the term of the loan, the interest rate and payback timeline.

Green Revolving Loan Fund Proposals:

Campuses / colleges desiring to borrow funds under this policy will be required to submit a Green Revolving Loan Fund investment and payback plan (Green Loan Plan) to the SUNY Office of Capital Facilities in a form and fashion to be provided by the Office of Capital Facilities. It is anticipated there will be an annual call for proposals, but proposals can be submitted as opportunities or needs arise.

For a project to be considered for a loan under the Green Revolving Loan Fund, the capital improvement must have environmental benefits such as resource conservation or greenhouse gas reduction, and the project must generate savings that will support repayment and appropriate interest and indirect cost recoveries. Examples of potential projects include but are not limited to; lighting, lighting controls, motors, variable speed pumping, steam trap replacement, renewable systems, and other Heating, Ventilation, and Air Conditioning (HVAC) improvements. Loans for eligible projects will range from a minimum of $25,000 to a maximum of $1,000,000.

The Office of Capital Facilities will review the application and the potential operational and energy savings associated with the proposed project and, in the cases of community college projects, consult with the Senior Vice Chancellor for Finance and Chief Financial Officer, or designee, to confirm the financial viability of the institution / the proposed project. Projects for
State-operated campuses and Statutory Colleges will be reviewed for financial viability by the aforementioned University Program Enhancement and Improvement Committee

Once approved by the appropriate office(s), the proposal will be finalized by a formal document, signed by the campus/college president and SUNY Administration, with approval by the Community College’s Sponsor or Sponsors as appropriate. This document will establish the terms and conditions of the loan, and will at a minimum specify the amount to be borrowed, the term of the loan, the interest rate and payback timeline.

**Loan Terms and Payback Process:**

To establish the maximum amount that may be loaned from the IFR fund at any given time, the Committee will establish a maximum percentage value of full cash balances held by the campuses without consideration of restricted or reserved cash balances. This will help to ensure that adequate funds are available to support on-going State-operated campus operating needs. At the beginning of each academic year the Committee will announce the level of total funding available for campus loans through the leveraging program, for both general loans and the Green Revolving Loan Fund. For each loan approved through the leveraging process, an agreement will be established between the borrowing campus/college and the SUNY CFO. The loan agreement will outline the terms and conditions of the loan, with a schedule detailing the planned repayment of the loan.

**Non Green Revolving Loan Fund Loans**

Upon approval and signature by both parties, the loaned amount will be transferred to the campus receiving the loans(s) through the following process:

- Cash will be drawn in the amount approved from a specific fund through a debiting entry to a general cost center (not a specific campus).
- The resulting cash will be deposited in the approved campus’ fund balance.
- Other than the campus receiving the cash, no other campus will see a change in their existing balances directly from this action.
- The awarded campus will utilize the cash as per particulars of the approved loan.

The payback term will be established by the Committee, but in only in extenuating circumstances exceed a five year period. The annual payback amount will be sufficient to repay the value of the loan principal divided by the number of years allowed by the Committee, as well as the addition of the estimated Short Term Investment Pool (STIP) compounded interest that would have otherwise been earned by the University’s self-generated funds if the funds had remained in the fund. Each loan will be subject to an indirect cost recovery charge of 50 basis points, or 0.5 percent. The borrowing campus will be responsible for full repayment of the loan, including any interest and indirect cost recovery expenses.

The payback will be accomplished through the same methodology used in the current University Borrowing Policy, with STIP interest allocated proportionately among campus self-generated fund balances and overhead revenue transferred to System Administration.
Green Revolving Loan Fund Loans

Upon approval and signature by both parties of all required documentation and approval by appropriate entities, the loaned amount will be made available to the campus/college receiving the loan(s) through the following process:

Community Colleges

- Cash will be drawn in the amount approved from a specific fund through a debiting entry to a general cost center (not a specific campus). Such cash will originate from funds originally appropriated for Community College use only.
- Following approval by the Senior Vice Chancellor for Finance and Chief Financial Officer, or designee, of the financial viability of the institution, a contract between System Administration and the recipient Community College will be developed, which will require approval by the College’s Sponsor or Sponsor(s) as appropriate.
- The resulting cash will be utilized to make a payment to the recipient college following the process stated in the contract.
- No State-operated campus will see a change in their existing balances directly from this action.
- The awarded college will utilize the cash as per particulars of the approved loan.

The payback term will be established by the Office of Capital Facilities in consultation with the System Administration Budget Office, but only in extenuating circumstances and upon approval of the Senior Vice Chancellor for Finance and Business and Chief Financial Officer will exceed a five (5) year period and in no case may exceed a ten (10) year period. Interest and appropriate indirect cost recoveries will be charged from the time of execution of the loan, and annual payback amounts will be sufficient to repay the value of the loan principal divided by the number of loan years, as well as the addition of the estimated STIP compounded interest that would have otherwise been earned by the University’s self-generated funds if the funds had remained in the fund. Each loan will be subject to an indirect cost recovery charge of 50 basis points, or 0.5 percent. The borrowing college will be responsible for full repayment of the loan, including any interest and indirect cost recovery expenses.

The payback will be accomplished through annual receipt of payment from the college, which will be deposited in the specific account used to effectuate the loan with STIP interest allocated proportionately among campus self-generated fund balances and overhead revenue transferred to System Administration.

In cases wherein the college does not make payments, the sponsor of the college will be deemed responsible for payment.

---

1 Appropriate entities include college sponsor and College Board of Trustees, Office of the State Comptroller, and other parties that may need to review appropriate documentation.
State-operated Campuses and Statutory Colleges

- Cash will be drawn in the amount approved from a specific fund through a debiting entry to a general cost center (not a specific campus).
- The resulting cash will be deposited into a State University of New York (SUNY) Construction Fund Capital Projects Fund (384) account to effectuate spending in a manner congruent with the intent of the activity as an academic capital project.
- No State-operated campus will see a change in their existing balances directly from this action.
- The awarded campus / college will utilize the cash as per particulars of the approved loan.

The payback term will be established by the Office of Capital Facilities and the Committee, but only in extenuating circumstances and upon approval of the Senior Vice Chancellor for Finance and Business and Chief Financial Officer will exceed a five (5) year period and in no case may exceed a ten (10) year period. Interest and appropriate indirect cost recoveries will be charged from the time of execution of the loan, and annual payback amounts will be sufficient to repay the value of the loan principal divided by the number of loan years, as well as the addition of the estimated STIP compounded interest that would have otherwise been earned by the University’s self-generated funds if the funds had remained in the fund. Each loan will be subject to an indirect cost recovery charge of 50 basis points, or 0.5 percent. The borrowing campus / college will be responsible for full repayment of the loan, including any interest and indirect cost recovery expenses.