Internal Bank (IB) UBAC Questions

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When capital projects are funded through the IB, where does the actual money come from to pay for those projects? (clarify question)
Funds come in the form of restricted gifts earmarked for spending specific to purpose/criteria designated by the donor (i.e. capital projects, department support, etc.), and/or restricted unspent endowment income. We use a portion but it ultimately has to be repaid. It is similar to demand deposits from a bank.

> Follow up question: If all available funds that could be used in this way were to be drawn upon, what would that total number be?
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> There isn't a specific number, but we are getting close to borrowing capacity, since we need to make sure we maintain cash and investment balances so that we are in compliance with the financial ratios required by our banks. We also need to make sure we have enough cash on hand during the summer months, which is when cash levels are the lowest, to cover payroll and other operating expenses.

What projects has the IB funded to date? See IB analysis.

How much has been repaid to the IB and how much is outstanding? See IB analysis.

What are the planned future projects? Lone Mountain waste management facility, repairment of Lone mountain viaduct, and Infrastructure Technology replacement project.

What procedures or guidelines govern the use of the Internal Bank? If there are procedures or guidelines, can you share those with us? Is there any flexibility, beyond current practice, in how the Internal Bank can be used (i.e., non-capital projects)? The IB cannot be used for anything other than capital expenditures.

> What criteria are used when deciding if a capital project will be funded through the operating budget vs the internal bank?
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> There are not specific criteria, but larger projects are generally funded through the internal bank rather than through the operating budget. If funded through the operating budget, then the money would all need to be set aside at the beginning of the year, which would be difficult to do for a larger project. The internal bank provides flexibility in repaying the project amount over time, rather than reserving the full amount in the operating budget at the beginning of the year.
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> What criteria are used when deciding if a capital project will be funded through issuing bonds or borrowing from a bank vs the internal bank?
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> We generally only finance larger projects, such as the new Lone Mountain residence hall, through bond issuance. This project would have been much too large to fund through the internal bank, as it would not have left the university with enough cash to cover payroll and other operating expenses. It would also be difficult to get such a large loan from a bank, since most banks have credit limits by institution. The bond financing also allowed us to finance the building over a 40-year term, which was utilized due to the historically low interest rate environment at the time. Also, there are quite a few costs associated with issuing bonds, such as underwriter, legal, financial advisor, and rating agency fees, so it generally only makes sense to issue bonds for larger projects.

What's the effective interest rate for project loans from the IB? There is no interest charged related to project loans. However, by using working capital, we can pay for projects internally rather than borrowing from a bank or issuing bonds, which would require additional debt service to be incorporated into the operating budget in order to cover the interest on the loans or bonds. We could charge interest, but it would reduce operating surplus and funds available for repayment.

What's the outstanding funding capacity of the IB and how is that determined? There are three main parameters to consider: 1) the university's overall cash level; 2) capital projects that are necessary but are not good candidates for fundraising; and 3) the reasonableness of how much each year from the operating budget going forward that could be used to pay back the internal bank.

> How is the "reasonableness" mentioned above assessed? Is it a constant dollar value or a percentage of the operating budget? Or is there another metric?
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> There is no specific dollar amount or percentage of the operating budget. The amount that could be used to pay back the internal bank depends on how much is available from the operating budget at the end of the year to make a repayment. The range of these payments would most likely be close to the range of the payment amounts that have been made over the last several years.

What is the repayment plan for the IB? What is the threshold where other applications of our operating surplus can be considered (e.g., due to a significant or larger than anticipated surplus being expected, as occurred in FY22)? Operating surplus' earmarked to repay the internal bank. There is no threshold where other applications of our operating surplus can be considered.

> In FY14 and FY15, $15M was rolled-up to the quasi-endowment, which now benefits the operating fund. Would the university ever consider contributing the operating surplus to the quasi-endowment rather than paying back the internal bank?
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> It would be up to the President and Cabinet to consider, but it would be more likely that any operating surplus would need to go back to the internal bank in order to keep the total operating cash and investment balance where it needs to be for compliance purposes.
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> In FY22 it was at some point determined that our anticipated surplus that would have otherwise exceeded 20M, and the decision was made to use approx. 8.75M of that expected surplus for one-time flat-percentage payments for all higher-compensated Faculty and Staff deemed eligible and use the remainder of surplus for IB repayment. Given this clear precedent now, what is (or was) the threshold which the President and/or Cabinet used to consider other uses of anticipated/expected surplus before it technically became (or in the future, becomes) surplus and slated for internal bank repayment?
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> This question would need to be directed to Cabinet and the President, as we do not have this information.
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> Is there a general *minimum* Internal Bank repayment (or a range for repayment) that should be made (or needs to be made, for some reason), especially in a year where we may anticipate and/or realize a large or larger than anticipated surplus and are considering other applications? (as happened in FY22)
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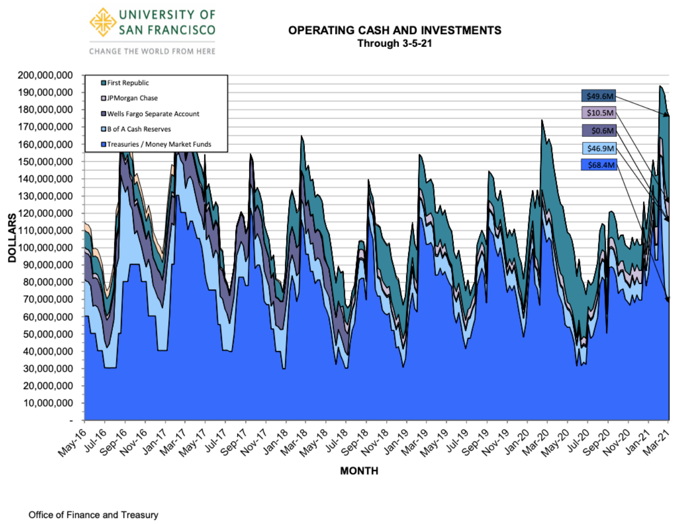
> There is no specific minimum amount, but a payment should be made every year to maintain the discipline in paying back the internal loan, which was the intention when the loans were initially made. Otherwise, the university may not have money to pay for critical projects in the future that need to be funded.

How does the IB debt affect our debt ratios? The debt ratios are negatively impacted, since the Liquidity Ratio compares cash and investments (excluding permanently restricted endowment cash and investments) to total debt (including only debt with third parties). When cash is used to fund the projects, it decreases the amount of cash and investments on-hand, which leads to a lower ratio. The university is well above the minimum ratio requirements; however, the ratios still need to be considered when making major capital and related funding decisions in order to make sure we remain compliant and do not get close to the ratio minimums. It also protects future borrowing needs.

Is the internal bank balance included in the graph below? If so, can you please explain which part of the graph represents the internal bank (i.e., the trough of the dark blue)?

This graph represents the university's cash and short-term investments, such as 3-month Treasury Bills, at different times over the last 5 years. If the decision to fund one of the projects through the internal bank is made, then the cash comes out of this balance. The different colors on the graph just represent where/how the cash and short-term investments are invested. For example, part of the balance that is the dark blue balance at the bottom of the graph, is invested in U.S. Treasuries and money market funds in an account at JP Morgan Securities.



How do you report the IB transactions to our auditing CPA firm? Auditors review all University expenses which includes expenses charged to capital projects.

Are there any existing reporting documents (i.e., to auditors) that you can share with us? N/A

Would you be open to recommendations from UBAC regarding the use of the IB? Possibly, however the IB can only be used for capital projects

What is the full payment lifecycle of a project that gets funded through the IB? (i.e., from inception to fully paid off, what are all the financial steps that take place?) As project funds are created and expenses are processed to each respective fund, the project fund will run into a deficit. At the end of each fiscal year, project deficit balances are reviewed and funded from the IB or other sources (i.e. gift funding).

Narrative for IB analysis:

This analysis provides a summary of all repayments to the internal bank as well as all capital projects that have been funded in part or in full from the internal bank. To calculate the current internal bank ending balance, take the sum of all capital project internal bank funding and subtract the total internal bank repayments. From the analysis, three projects remain active; PBX Replace ITS, Lone Mountain Waste Management Facility, and the Lone Mountain Viaduct.

Explanation of columns:

Project exp to date – Total project expenditures from project inception to analysis date 1/6/22.

Internal bank funding as of 5/31/21 – Total project funding from internal bank from project inception to 5/31/21.

Internal bank funding as of 1/6/22 - Total project funding from internal bank from 5/31/21 to analysis date 1/6/22.

Total Internal bank funding – Cumulative project funding from project inception to analysis date 1/6/22.

Other funding sources – Project funding from other sources such as restricted gifts.

Project ending balance – Remaining cash balance of each project fund. Negative amount reflects a project fund with a positive cash balance.

Additional follow-up questions following IB Presentation on 6/23:

1. Could you explain the two separate lines in the schedule for FY17 and how to understand these two figures? One looks to be a transfer of some sort, but it is not fully clear.

$3.07M was transferred from the FY17 operating surplus. The other $1.2M was transferred earlier in the year which was factored into the anticipated year-end surplus.

2. Operating surplus and IB repayment for FY21 is listed here as an even 8.1M. Could you explain the separate 33K remainder amount which is listed as operating surplus in the FY21 Year End Actual in the most recent April FY22 Forecast, separate from the 8.1M IB Repayment line? In the previous forecast this number was combined for the full $8133, and so I'm just wondering why it gets rounded, when in some years it does not, and what happens to this remainder?

Some years we round, some years we do not. There isn't a specific reason why.

3. In a prior info request fulfilled by Jeff Hamrick, he had listed the following surplus amounts for these years:

> "Recent operating surpluses were as follows: $1.5 million for fiscal year 2016, $3.1 million for fiscal year 2017, $8.4 million for fiscal year 2018, and $10.8 million for fiscal year 2019."

What might explain the discrepancies between these amounts and those listed as operating surpluses in the IB Analysis provided? In particular for FY18 where the surplus/IB repayment listed in your document is just 5.535M, but also the smaller differences for the other listed years? Have there been other years where not all operating surplus funds went to Internal Bank repayment?

We cannot speak to the data that was reported by Jeff at the time. The figures reflected in the IB analysis are actual transfers that were recorded. With respect to FY18 specifically, the remaining difference is from an additional $2.4M in funding to the Workday Capital Project, $400k to Impacts of Lone Mountain Dorm Project, and $100k to the Lone Mountain Welcome Center Refresh project. These transfers were made directly from the operating surplus reserve and did not flow through the internal bank. It was not initially picked up within the internal bank analysis as such.

4. Could you explain why in FY21 the Federal Stimulus funds were listed as a contra-expense revenue line, but for FY22 they are listed as a revenue line?

This was a matter of a change in presentation between the two fiscal years; Federal Stimulus funds were better represented as a revenue line. Bottom line remains the same regardless of presentation.

5. When reserves from a given year are bookmarked for various contingencies and held there in abeyance (e.g. legal contingencies awaiting settlement) after the fiscal close of that year, what accountability or reporting mechanism ensures that these funds are ultimately either (a) fully used for the intended contingency; or (b) once an issue (i.e. lawsuit) is ultimately settled and there is an unspent remainder from those explicitly designated reserve funds for specific (legal) contingencies from prior years, what happens to these funds?

The Board is made aware of legal contingencies. When legal accruals are ultimately recorded, they are only recorded when an amount is estimable and reasonably probable. Prior to recordation of these accruals/estimates, careful consideration is made to ensure the amount is as close to the final settlement cost as possible. We reconcile following the conclusion of the settlement. All legal accruals and expenses are reviewed as part of the University's annual external audit.