Auxiliary Internal Financing Procedures

I. Auxiliary Internal Financing Committee
   A. The Office of Budget and Planning (OBP) annually convenes a meeting of the auxiliary internal financing committee. This committee is charged with optimizing available Fund 128 cash balances by recommending that future capital projects be financed either internally or externally.
   B. The internal financing committee consists of OBP staff and key staff knowledgeable about capital-intensive auxiliary operations.

II. Internal Loan Request Procedures
   A. In order to be eligible for an internal loan, an auxiliary unit must meet all of the following criteria:
      1. Have future capital or deferred maintenance projects that qualify for external bonding
      2. Demonstrate that it is able to make the accelerated principal and interest payments required for internal loans
      3. Show that segregated and user fees will not require material increases as a result of an internal loan
   B. Auxiliaries with eligible projects should submit a proposal to the internal financing committee using the Internal Loan Request Form. Requests should be submitted by July 31st to be considered for the next budget year.
   C. Departments should explore all possible financing options including:
      1. Cash financing
      2. External financing
      3. Internal financing
      4. A combination of these options.
   D. The internal financing committee will use existing budget schedules (Schedule 2) to review the reserve position of the requesting auxiliary unit.
      1. Reserve balances may be below the desired minimum, but should not be negative.
      2. If reserve balances are below the desired minimum, the auxiliary unit must provide an explanation as to how and when the reserve balance will be within the acceptable campus range.

III. Projects Selected for Internal Financing
   A. The internal financing committee will identify projects selected for internal financing. The committee recommends additions to the loan portfolio prior to the start of the auxiliary annual budget building process based on outstanding loans, repayments and prior commitments.
1. Loans
   a. Duration will generally not exceed ten years
   b. Controller’s office will process the necessary payment
      1) Principal: two principal payments will be made each year, in September and March
      2) Interest
         a) Interest payments will be made monthly
         b) Interest rate for internal financing will be variable and equal to the interest rate that UW System is paying on Fund 128 cash balances.
         c) Auxiliary units will identify the principal and interest payments for their internally financed expenses as internal debt service payments in the auxiliary budget template.

2. Cash balance
   a. As a safeguard against lower than projected cash balances, the campus may request external bonding authorization for the entire amount internally financed as part of the capital budget request.
   b. If sufficient Fund 128 cash reserves are available, external bonding authorization may be returned to UW System.
   c. In the event that cash balances drop below desired minimum levels, new projects initially planned to utilize internal financing that have not yet started will convert to external bonding.

B. The internal financing committee submits recommendations to the Vice Chancellors of Finance & Administrative Affairs and Student Affairs for approval.

IV. Auxiliary Financial Management

A. The above-noted procedures for internal financing of Fund 128 capital and deferred maintenance projects will be applied in combination with existing UW System, campus, and state policies for managing Fund 128 cash balances.