

INTERINSTITUTIONAL BORROWING POLICY

Board of Governors for Higher Education
State of Rhode Island and Providence Plantations

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PURPOSE

In the course of operating the public institutions of higher education, especially in administering federal grant contracts and auxiliary enterprises, a substantial level of working capital is required but is not usually provided by external sources such as the state or federal governments. As a result, the institutions often need working capital in excess of that which a single institution can generate internally through inter-fund borrowing. The demand for such resources is most acute near the end of the fiscal year when annual appropriations and other resources are exhausted.

It is the intention of this policy to encourage interinstitutional borrowing as an alternative to securing funds from commercial sources.

POLICY

A public institution of higher education in need of working capital is permitted to enter into an "arm's length" transaction with another public institution of higher education to acquire needed resources. Such a transaction will be executed through a promissory note, including repayment provisions agreeable to all parties. The rate of interest will at least compensate the lending institution for the interest it otherwise would have realized, but be below the market rate the borrowing institution would have paid on a commercial basis. Other terms and conditions of the transaction shall be as mutually agreed to by the institutions involved.