



Provost Capital Fund Office of the Provost

Provost Capital Fund Funding Commitment Process and Frequently Asked Questions May 2024

During the State of the University convening on November 27, 2023, Provost McCauley announced the creation of a \$500 million capital fund. The Provost Capital Fund (PCF) consists of long term debt financing with discounted interest rates that will be available to qualifying units for capital projects as an additional source of financing.

The following FAQs are provided to help inform units about the PCF as units prepare for the Fall 2024 major capital project request process.

What is the Provost Capital Fund?

The Provost Capital Fund (PCF) is a pool of \$500 million in debt financing that will serve as a more readily available source of funds available to units to pursue capital projects than the larger biannual tranches of Capital Renewal funding.

While the annual debt service payments will be the unit's responsibility, the PCF's interest rates will be subsidized by up to 2 percent with support from the Office of the Provost and the Office of the Chief Financial Officer.

How is this different from the capital renewal fund program? Where can I find information on this?

The Provost's Capital Fund described in this document is a new loan program separate from the capital renewal fund program, which was launched in 2010 / 2011. The capital renewal fund is a separate funding mechanism built into the budget and space charging model, and it generates funds for the Provost to direct to major capital projects. It remains an active part of the Provost's capital funding approach. Additional background on the separate capital renewal fund program is on the Office of Budget and Planning website intranet (unit resources page). Units wishing to request such funds for potential projects should continue to follow the Provost's Office major capital projects request process outlined [here](#).

What units are eligible for the Provost Capital Fund?

Schools, colleges, and academic affairs units are eligible to apply for PCF financing. In all cases, PCF funding requests should be submitted as part of the annual major capital project process. Project review will follow the typical annual process with proposals receiving a "priority" or "high priority" scoring eligible for PCF funding.

Additionally, the Office of the Provost and Office of the Chief Financial Officer will review unit finances to assure an ability to service the debt over the period of the loan. In some cases, units

may need to provide additional information beyond existing budgetary and financial projections and reporting.

What types of projects are eligible for funding?

The PCF will be allocated for the renovation and construction of instructional, research, and academic support facilities, particularly those projects that may also include some or all of the following characteristics:

- Projects previously submitted to the major capital project request process that received a “priority” score.
- Projects that address facilities with significant deferred maintenance backlogs.
- Projects that include a significant sustainability component that can support the university’s carbon neutrality commitment.
- Projects with incomplete funding plans that currently have material fundraised amounts.

The PCF will not be for ancillary needs, swing space, or other temporary needs.

How does a unit request an allocation from the Provost Capital Fund?

Units interested in pursuing financing via the PCF should indicate their interest in their major capital project request. More information on this process is [here](#). The process has been updated to include more detailed questions about potential funding sources. Once submitted, requests will be reviewed by the Capital Projects Review Committee in the Fall and early Winter, and the Provost’s Budget Team to determine potential allocations. Units interested in discussing this prior to the Fall major capital project request process should contact Fadi Musleh, Brent Johnson, and their primary contact on the Provost’s Budget Team. See last FAQ.

How much funding is available for each project?

Allocations from the PCF will target funding requests ranging from \$25 million and \$75 million. It is anticipated that units may apply for funding from the PCF as part of a broader project financing plan.

What are the repayment terms for the Provost Capital Fund?

Interest Rates:

Repayment terms are variable and based upon current interest rates and the duration of the loan. At the present time, base interest rates range from 3.5 percent for ten-year loans to 4.75 percent for thirty-year loans.

In each case, the Office of the Provost and the Office of the Chief Financial Officer will discount the interest rate by 0.5 percent, respectively, for a total discount of 1.0 percent. Additionally, should the proposed project meet sustainability requirements, an additional discount of up to 1.0 percent is available. Specific requirements will be determined over the coming months as campus implements ways to support sustainability and carbon neutrality goals.

Project Duration:

Financing terms of 10, 20, and 30 years are available to units at their request with interest rates established according to duration. In all cases, the interest rate discount described above applies.

Loan Type & Annual Payments:

The PCF has two available types of loan structures, level debt service, and interest-only annual payments with a lump-sum payment of principal at the conclusion of the loan.

- **Level Debt Service:** Level-debt services loans follow a typical amortization schedule with both principal and interest charged to units on an annual basis after deducting the interest discount provided by the Provost and CFO. This type of loan comprises approximately 75 percent of available PCF funding. Please refer to the summary schedule below for pro-forma annual payment terms at varying loan amounts.
- **Interest-only with lump-sum principal payment:** Interest-only loans assess annual interest payments to units after deducting the interest discount provided by the Provost and CFO. Principal amounts are due at the conclusion of the loan as a lump-sum payment. Units will work with the Office of the Provost to develop a lump-sum payment plan which can include defeasance at origination into a quasi-endowment.

This type of loan comprises 25 percent of available PCF funding. Please refer to the summary schedule below for pro-forma annual payment terms and defeasance amounts for loan principal.

Summary Payment Terms:

Estimated Loan Amount	Concept 1: Annual Debt Service (Principal & Interest)			Concept 2: Annual Interest Only		
	Avg. Annual Unit Payment	Avg. Annual Provost/CFO Subsidy	Principal Needed (PV)	Avg. Annual Unit Payment	Avg. Annual Provost/CFO Subsidy	Principal Needed (PV)
\$25M	\$1,563,474	\$298,000	na	\$625,000	\$500,000	\$6,460,475
\$50M	\$3,182,327	\$597,000	na	\$1,250,000	\$1,000,000	\$12,920,950
\$75M	\$4,880,262	\$895,000	na	\$1,875,000	\$1,500,000	\$19,381,425
Availability of funds determined by the Office of the Provost			Availability of funds determined by the Office of the Provost			

Assumptions:

- 1) 20 year duration for all debt
- 2) 4.5% interest rate, before discounting
- 3) Assumes 0.5% provost discount, 0.5% CFO discount, 1% sustainability discount
- 4) 7% investment return for determine the present value (PV) of interest only principal needed

Specific repayment terms will be determined at the time of the project’s approval.

Who should I contact if my unit is interested in learning more about the Provost Capital Fund?

Units wishing to request such Provost funds for potential projects should follow the Provost’s Office major capital projects request process outlined [here](#).

Units that have already submitted a major capital project request and have a priority or high priority ranking for their proposed project do not need to resubmit. Should your unit want to pursue PCF funding as a component of a previously submitted project proposal, please reach out to the contacts noted below.

For additional questions not addressed in this FAQ document, please contact Fadi Musleh (fmusleh@umich.edu), Brent Johnston (brentwj@umich.edu), and your primary contact on the Provost's Budget Team. Further discussions with the Treasurer's Office may also be needed.