

**Presented:**  
Higher Education Tax Institute

March 24 -26, 2013  
Austin, Texas

## **University of Minnesota Tax-exempt Bond Policy**

**Kelly D. Farmer  
University Tax Director**

Author contact information:  
University of Minnesota  
Tax Management Office  
Minneapolis, MN

[kdf@umn.edu](mailto:kdf@umn.edu)  
612-624-1053

**UNIVERSITY OF MINNESOTA**

**DEBT MANAGEMENT GUIDELINES**

January 1, 2013

## Table of Contents

|  | <u>Page</u> |
|--|-------------|
| <u>INTRODUCTION</u>  | 6           |
| Statement of Guideline Objectives  | 6           |
| Use of Debt Financing  | 7           |
| Principles of Debt Issuance  | 7           |
| Roles and Responsibilities   | 8           |
| Compliance Oversight   | 8           |
| Debt Management Oversight  | 8           |
| Debt Process Team (DPT)  | 8           |
| Debt Oversight Group (DOG)   | 8           |
| Debt Management Advisory Committee (DMAC)                                    | 8           |
| <br><u>PRE-ISSUANCE PLANNING</u>   | <br>9       |
| Identification of the Need for External Debt Financing                       | 9           |
| Allowable Uses of University and State Bond Proceeds                         | 9           |
| Charges for University Personnel and Expenses (Including Project Management) | 9           |
| Factors to Consider When Issuing Debt  | 10          |
| Market Considerations  | 10          |
| Bridge Financing Program   | 10          |
| Lease Purchase Financing   | 10          |
| Debt Capacity  | 11          |
| Ratio Analysis   | 12          |
| Peer Analysis  | 12          |
| Types of Debt to Issue   | 12          |
| Core Debt vs. Special Purpose Debt   | 12          |
| Core Debt  | 12          |
| General Obligation Bonds   | 13          |
| Commercial Paper Notes   | 13          |
| Infrastructure Development Bonds – State of Minnesota                        | 13          |
| Special Purpose Debt   | 13          |
| State Supported Debt   | 13          |
| Revenue Bonds  | 14          |
| Short-Term Debt  | 14          |
| Bank Financing   | 14          |
| Commercial Paper   | 14          |
| Taxable vs. Tax-Exempt   | 14          |
| Build America Bonds – BABs   | 15          |
| Fixed Rate vs. Variable Rate   | 15          |
| Considerations for the Fixed/Variable Rate Mix of Outstanding Debt           | 16          |
| Derivative Products – Use of Hedging Instruments                             | 16          |
| Use of Credit Enhancement/Liquidity Facilities                               | 17          |
| Credit Enhancement   | 17          |
| Liquidity Facilities   | 17          |
| Private Use/Private Payment Analysis   | 17          |

|   |        |
|---|--------|
| Private Business Use Threshold  | 18     |
| Specific Private Business Use Examples  | 18     |
| Management or Other Service Agreements  | 18     |
| Leases and Subleases of Facilities  | 18     |
| Naming Rights Agreements  | 19     |
| Sponsored Research  | 19     |
| Sales of Debt Financed Property   | 19     |
| Joint Ventures and Partnership Arrangements                                   | 19     |
| Roles and Responsibilities  | 19     |
| <br><u>THE DEBT ISSUANCE PROCESS</u>  | <br>20 |
| Board Approval  | 20     |
| Declaration of Official Intent to Reimburse from Bond Proceeds                | 20     |
| Declaration of Official Intent to use Bond Proceeds (Not Reimbursement Bonds) | 20     |
| Method of Sale  | 20     |
| Use of Consultants and Independent Auditors                                   | 21     |
| Debt Service Structure  | 22     |
| Use of Bond Proceeds for Capitalized Interest                                 | 22     |
| Disclosure Practices  | 23     |
| Optional Redemption   | 23     |
| Credit Ratings  | 23     |
| Debt Service Reserve Funds  | 23     |
| Build America Bonds – BABs  | 24     |
| <br><u>THE POST-ISSUANCE PROCESS</u>  | <br>25 |
| Investment of Bond Proceeds   | 25     |
| Allocation of Bond Proceeds   | 25     |
| Draws of Bond Proceeds  | 26     |
| Arbitrage Rebate Compliance   | 27     |
| PeopleSoft Treasury System  | 28     |
| Payment of External Bond Debt Service & Related Expenses                      | 29     |
| Annual Monitoring of Bond Covenants   | 30     |
| Build America Bonds (BAB) Compliance  | 30     |
| Private Business Use (PBU) Analysis   | 30     |
| Private Business Use, Generally   | 30     |
| University Responsibility   | 30     |
| Continuing Disclosure Practices   | 30     |
| Annual Reporting to the Board   | 31     |
| Record Retention  | 31     |
| Disposition of Bond-Finance Facilities  | 32     |
| Use of VCAPP Program offered by Internal Revenue Service                      | 32     |
| <br><u>MAINTENANCE OF EXTERNAL RELATIONSHIPS</u>                              | <br>33 |
| Rating Agencies   | 33     |
| Investment Banks/Underwriter/Market and Investor Relationships                | 33     |

|                                     |    |
|-------------------------------------|----|
| <u>CHANGING THE DEBT STRUCTURE</u>  | 34 |
| Refunding Procedures and Practices  | 34 |
| Advance Refunding Bonds             | 34 |
| Current Refunding of Bonds          | 35 |
| Reissuances for Tax Purposes        | 35 |
| Defeasance of Debt                  | 36 |
| <u>OFF-BALANCE SHEET FINANCINGS</u> | 37 |

## APPENDICES

- A. Definitions
- B. Related Policies/Procedures/Oversight
- C. Roles and Responsibilities
- D. Debt Management Oversight Responsibilities
- E. Target Ratios
- F. Management Contracts
- G. Declaration of Official Intent to Reimburse from Bond Proceeds *[Template]*
- H. Financial Advisor Selection Criteria
- I. Investment Grade Long-Term Bond Ratings
- J. Build America Bonds (BAB) Compliance Checklist
- K. Certificate as to Allocation of Bond Proceeds to Specific Projects *[Template]*
- L. Timeline
- M. Draw Request Approval Checklist
- N. Spending Exception Worksheet *[Example]*
- O. Accounting Model

## **Regents of the University of Minnesota Debt Management Guidelines**

### **INTRODUCTION**

These Debt Management Guidelines (the “Guidelines”) are intended to present overall direction for the management of debt at the University of Minnesota (the “University”). These are not meant to be a constraint to the University taking the best course of action when beneficial, but instead should be used as an aid in making the appropriate decisions depending upon circumstances at that time. Management flexibility is necessary provided that any required specific authorization is obtained from the Board of Regents (the “Board”).

These Guidelines confirm the commitment of the University’s management, staff, advisors and other decision makers to:

- adhere to sound financial management practices, including full and timely repayment of all loans or borrowed funds
- achieve the lowest possible cost of capital within prudent risk parameters, and
- conform with all the laws and regulations appertaining to post-issuance compliance.

These Guidelines shall be periodically reviewed and updated as required. The Chief Financial Officer, as the President’s designee, is the administrator of the Guidelines and shall have the day-to-day responsibility and authority for structuring, implementing, and managing the University’s debt and finance program in accordance with Board Policy.

For purposes of these Guidelines, definitions can be found in Appendix A. Additional, related policies can be found in Appendix B.

### **Statement of Guideline Objectives**

The Guidelines are established to ensure that each debt transaction of the University is completed in the most effective and professional manner and in accordance with the highest standards of the industry, laws and governmental practices.

These Guidelines will serve the following objectives:

- Preserve the University core debt ratings at the target levels established by Board Policy
- Maintain financing flexibility on all debt issued by the University through the use of broad guidelines for identifying and managing debt capacity, choosing fixed and floating rate mix, and using various financing instruments
- Minimize borrowing costs and manage market risk
- Follow all related laws and regulations

## **Use of Debt Financing**

Debt financing allows the University to pay for an asset over a period of time, up to its useful life, rather than pay for it at the time of purchase. This is a financially responsible practice for certain types of capital investments within appropriate limitations at current market interest rates. Debt financing may be financially beneficial if borrowing rates are below investment returns or if the University invests in capital assets that provide investment returns or cost savings which are greater than the cost of borrowing.

The scope, requirements, and demands of the Capital Budget, and the ability or need to expedite or maintain the programmed schedule of approved capital projects, should be factors in the decision to issue long-term debt.

The University shall also assess the viability of funding capital projects, or portions of capital projects, on a pay-as-you-go basis using University cash reserves in Central or departmental accounts, as an alternative to debt financing.

## **Principles of Debt Issuance**

The University has access to a variety of forms of public debt. Financings vary in terms of maturity, tax status and interest rate mode. The University should evaluate all types of financing structures when considering raising capital. The following principles should be followed when issuing debt:

- Long-term debt will be issued primarily to finance capital expenditures, including certain equipment.
- Long-term debt will not be used to fund University operating costs.
- When issuing debt, the University will seek the lowest-cost source of financing available at acceptable levels of risk over the life of the issue, as recommended by the Debt Oversight Group (DOG) and the Debt Management Advisory Committee (DMAC), and approved by the Board.
- External borrowings will be coordinated to the extent practical so that multiple project needs can be accommodated in a single borrowing.
- External borrowings will not fund debt service reserve requirements unless it is more cost-effective, or there is a compelling market reason, to do so.
- The amount and timing of borrowings will take into account arbitrage restrictions and opportunities.
- External borrowings will generally be on a tax-exempt interest rate basis, unless there is private use within the project, or when certain financial considerations indicate the use of taxable debt is in the best interest of the University.



Also available as part of the eCourse

[Higher Education Taxation: Implementing a Post-Issuance Tax Exempt Bond Compliance Policy, plus Tax-Exempt Finance](#)

First appeared as part of the conference materials for the

2013 Higher Education Taxation Institute session

"Implementing Your Post-Issuance Tax Exempt Bond Compliance Policy"