Debt Management Guidelines for University-Issued Debt

October 31, 2020

*See Appendices for more detail on this topic

Table of Contents

*See Appendices for more detail on this topic

*See Appendices for more detail on this topic

Introduction

Board of Regents policy: *Debt Transactions** governs the administration's authority to engage in debt transactions and to engage underwriters and debt advisors. Its provisions apply to all external debt transactions of the University of Minnesota (the "University"), regardless of size or term.

These Debt Management Guidelines (the "Guidelines") are intended to present overall direction for the management of University-issued debt. They 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").

The 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 relating to post-issuance compliance.

The Guidelines shall be periodically reviewed and updated as needed. The Treasurer has the responsibility and authority for structuring, implementing, and managing the University's debt and financings in accordance with Board Policy.

Statement of Objectives

Each debt transaction of the University is completed in the most effective and professional manner, in accordance with the highest standards of the industry, laws and governmental practices, in order to meet the following objectives:

- Minimize borrowing costs and manage market risk
- 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, using various financing instruments, and engaging in refunding opportunities
- 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, rather than pay for it at the time of purchase. This is a financially responsible practice for acquiring certain types of capital investments within appropriate limitations. 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.

*See Appendices for more detail on this topic

The scope, requirements, and demands of the University's 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 only to finance capital expenditures, including property acquisitions and certain equipment.
- Long-term debt will not be used to fund University operating costs, unless the Board approves an exception to policy.
- The University will seek the lowest-cost source of financing available at acceptable levels of risk over the life of the issue.
- 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 that approaches the University's threshold, or when certain financial considerations indicate the use of taxable debt is in the best interest of the University.
- The average maturity of tax-exempt debt should be as short as economically feasible for the project, generally not to exceed the useful life of the financed asset, and will not exceed the federal limit of 120% of the useful life of the financed asset.

Roles and Responsibilities *

Internal Oversight

Responsibility for managing University-issued debt is assigned to the Director of Debt Management ("Debt Director"), as the designee of the Treasurer. This person works closely with, and relies on, various individuals in specific University departments for the expertise needed to ensure compliance with policy, laws and regulations, and to handle specific tasks. The individuals responsible for specific duties involved in debt management at the University perform their required responsibilities in a timely manner to ensure that the University is complying with internal and external policy and regulations.

*See Appendices for more detail on this topic

The University has a responsibility to its bondholders to ensure that the bonds retain any tax advantages afforded under current tax law. The University's Tax Management Office (TMO) is responsible for tax compliance for tax-exempt debt issued by the University.

Committee Oversight

The University utilizes a structure of three committees in its debt management oversight:

- **Debt Process Team (DPT)**

  DPT acts in the capacity of the University's trustee to approve the draws on unspent bond proceeds to reimburse expenditures incurred on eligible projects.

- **Debt Oversight Group (DOG)**

  DOG supports and advises the Treasurer and Debt Director in decisions regarding policy, capital financing strategies, and debt capacity analysis.

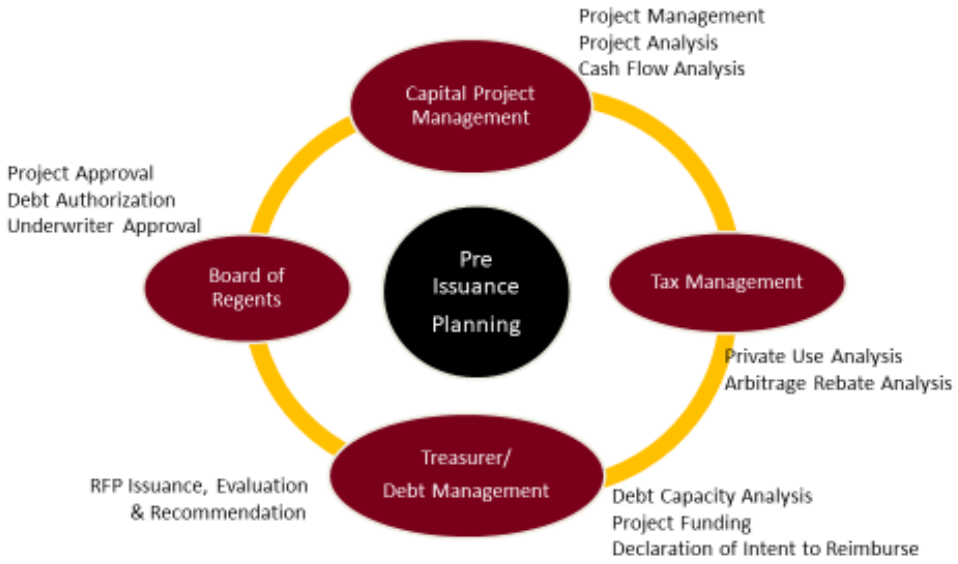
- **Debt Management Advisory Committee (DMAC)**

  DMAC advises the Finance & Operations Committee of the Board and the University's Treasurer on the issuance and ongoing management of debt.

External Oversight - Independent Registered Municipal Advisor

Since 2014, the University has retained an independent registered municipal advisor (IRMA). The University is represented by and will rely on its municipal advisor, Public Financial Management, Inc. (PFM) to provide advice on proposals from financial services firms concerning the issuance of municipal securities and transactions involving municipal financial products. PFM has represented to the University that is it an "independent registered municipal advisor" within the meaning of Section 15Ba1-1(d)(3)(vi) of the Securities Exchange Act of 1934. The IRMA Exemption Notice is posted on the University's Debt Management website at finance.umn.edu/debt_policy.html

Phase I - Pre Issuance



Identification of the Need for External Debt Financing

The University maintains a list of potential future capital projects and property acquisitions where external debt is expected to be part or all of the funding for the projects. The list encompasses land and building purchases, projects in the approved fiscal year capital budget, projects in the current six-year capital plan, and other potential opportunities. This running list provides a two to three year total of future debt issuances.

Once projects have been approved by the Board, estimated cash flows for each project are prepared by Capital Project Management (CPM) and shared with the Debt Director. For many years, the University typically issued long-term debt depending on the estimated cash flows of specific projects to be completed with the goal that the long-term bond proceeds will be spent within two years of issuance. This resulted in a long-term issuance approximately each year. Since the establishment of the Commercial Paper Facility* in 2018, it is the University's intent to issue commercial paper during the construction period of specific projects, with the issuance of long-term debt after the projects approach completion or are completed.

Capital Projects
The University maintains a disciplined program for making capital investments and managing its capital resources. CPM manages all capital projects, system-wide and regardless of funding source, to ensure compliance with local, state and federal laws, guidelines and regulations.

The capital budget process is outlined in the University Administrative Policy: *Funding and Approvals of Capital Projects**.

*See Appendices for more detail on this topic

Capital projects generally fall into one of three broad categories:

- Demolition of existing buildings and infrastructure
- New construction (whole building, building additions, and infrastructure)
- Renovation or renewal of existing facilities and infrastructure

Real Estate
The Real Estate Office is responsible for all transactions involving the University's acquisition or disposal of real estate. Acquisitions of real estate must support the University's education, research or outreach mission. The cost of the land, expenses related to the purchase, and subsequent demolition of existing buildings on that land are usually funded by external debt and are permissible uses of debt proceeds per policy. More information can be found in the University Administrative Policy: *Acquiring and Disposing of University Real Estate**.

Debt Capacity
Debt capacity is the level of debt an institution can prudently bear. The notion of managing and monitoring debt capacity is important for several reasons. It acknowledges the relationship between outstanding debt, the University's ability to pay debt service, the current credit rating, and the importance of maintaining a high rating. A high rating helps to preserve the University's continuous access to low-cost capital financing and investor demand.

The University periodically assesses its debt capacity for new external debt financing using the considerations outlined by the rating agencies. The long-term financial planning model is updated with assumptions of growth in revenues and expenses over a 5-6 year horizon. In addition, the balance of debt outstanding and annual interest expense, including debt issued for projects in the six-year capital plan, is projected for that same time period. Appropriate target ratios* are computed and compared to our peers.

The rating agencies do not consider the rating process and debt capacity to be a formulaic concept derived from income statement or balance sheet ratios alone. Rather, they assign ratings by weighing core credit variables over time and in relation to broad competitive trends in higher education. These variables include an institution's evolving overall financial strength, market position and strategy, governance and management, as well as legal security and debt structure. Although the debt capacity of any institution is a function of numerous specific factors, such as the strength of state support, student demand, and unrestricted assets, many colleges and universities may have some degree of unused debt capacity. Management's risk tolerance will often be the final arbiter of debt capacity for a particular institution.

Board Approval

The University issues debt on its own behalf. Under the Territorial Laws of 1851, the government of the University was vested in a Board of Regents. Article XIII, Section 3, of the Constitution of the State, adopted on October 13, 1857, perpetuated all of the rights, immunities, franchises, and endowments granted or conferred upon the University by the Territorial Laws; this grant of independent power was reconfirmed in the Minnesota Restructured Constitution of 1974. Under Minnesota Law, the University operates as a public corporation. Management of the University is independent of other branches of State government.

Approval by the Board for debt transactions, including new borrowings and refinancings, will be secured as required by policies and procedures in place at the time of the borrowing. The preparation of the required

*See Appendices for more detail on this topic

resolutions are the responsibility of the Debt Director with input and review by the Office of General Counsel (OGC) prior to submission to the Board for review and action.

Declaration of Official Intent to Reimburse from Bond Proceeds

Generally, the net proceeds to be received by the University from the sale of general obligation bonds will be used for certain capital projects of the University which may also include the reimbursement to the University for certain amounts previously expended in connection with capital projects. When the debt issue reimburses capital project expenditures (other than preliminary construction and design costs and design costs) that were incurred and paid prior to the issuance date the bonds are referred to as "reimbursement bonds".

If project construction costs, other than preliminary or design costs, are anticipated to begin prior to debt issuance, a "Declaration of Official Intent" document~ within the meaning of Treasury Regulations Section 1.250-2 will be prepared by the Debt Director and approved by the University Treasurer within 60 days of the date of the expenditure for which reimbursement from bond proceeds will be sought. The purpose of the official intent requirement is to provide evidence that a future debt issue is intended to reimburse a construction expenditure at the time the University made such expenditure, thus ensuring that the subsequent reimbursement is not a device to avoid tax-exempt bond requirements.

~ See TEMPLATE 1

Determination of Type of Debt to Issue

The Debt Director, working with the Treasurer, TMO and OGC, identifies the type(s) of debt to be issued for a capital project. The University will manage its debt level, debt composition, and risk profile from a portfolio standpoint. The University will actively manage its debt portfolio to take advantage of current market conditions, either to generate economic savings, to take advantage of alternative financing structure, or for strategic purposes. Since debt financing availability by its nature is limited and our demand for debt may exceed our willingness to pay the interest and other carrying costs related to it, it is imperative that borrowings are structured to effectively utilize the financial capital market.

In considering types of financing structures and funding sources available, the University will evaluate the benefits, risks and costs of each financing structure and funding source. There are a variety of choices of debt to be issued, based on the facts and circumstances of the project(s) to be funded.

Core Debt

Core debt is regarded by the University as any general obligation bond or other University debt backed by the full faith and credit of the University. The structure of such debt is based on the general financial strength of the University. Core debt is issued with a goal of preserving the University's core debt ratings at the target levels established by Board Policy. General Obligation Bonds and Commercial Paper issued by the University plus the obligations to the State of Minnesota (the "State") pursuant to Infrastructure Development Bonds generally make up the core debt of the University.

- ***General Obligation (GO) Bonds*** are long-term obligations that are backed by the full faith and credit of the University. GO bonds are the original and most basic form of municipal debt and can be tax-exempt or taxable.
- ***Commercial Paper (CP) Notes*** are a flexible source of financing which is useful as bridge financing* of capital projects with long-term construction periods and/or during periods of high long-term interest

*See Appendices for more detail on this topic

rates. CP notes, which can be tax-exempt or taxable, are backed by the full faith and credit of the University.

- ***Infrastructure Development Bonds (IDBs)*** are issued by the State for the University and other state agencies for certain capital projects. Between July 1990 and October 2005, the State issued 100% of the funding for certain University capital projects with the understanding that pursuant to Minnesota law, the University is obligated to pay the state one third of the debt service of the IDBs issued on its behalf. Since October 2005, the University has chosen to issue its own debt for its 1/3 share of projects, rather than having the state issue IDBs on its behalf. Final payment of the outstanding IDB is in FY2025.

Special Purpose Debt

Special purpose debt refers to University debt issued to support specific projects where the revenues from specified sources are pledged to repay the indebtedness. Special purpose debt is not supported by the full faith and credit of the University.

- ***State Supported Bonds**** are special limited obligations of the University. Specified transfers expected to be made by the State pursuant to legislation providing for the appropriation of such transfers from the general fund of the state are pledged for the payment of the debt service on the bonds.
- ***Revenue bonds*** will usually fall into the category of Special Purpose Debt unless they are also backed by the full faith and credit of the University, in which case they will fall under the core debt category. The issuance of revenue bonds may be limited due to the uncertainty of internal revenue streams and higher debt service costs. However, based on the concept of user fees, revenue bonds allow the University to expand its debt capacity without creating greater burdens on general tax revenues.

Promissory Note Payable

A promissory note, sometimes referred to as a note payable, is a legal instrument in which one party promises in writing to pay a determinate sum of money to the other, either at a fixed or determinable future time or on demand of the payee, under specific terms. The University has been the recipient of a specific type of promissory note payable called a program-related investment (PRI)*.

Capital Lease Financing*

The use of capital leases at the University can be an additional source of funding for the needs of the University. Consideration of this alternative funding source must be undertaken with a basic understanding of factors unique to the University as a whole in order to effectively utilize this funding source alternative.

Qualified 501(c)(3) Bonds*

The University may choose to issue 501(c)(3) debt in the case where primary users are 501(c)(3) organizations. More stringent compliance rules pertain to 501(c)(3) bonds but they can be an appropriate choice of debt in the right set of facts and circumstances.

Bank Financing

Bank financing can be an inexpensive, flexible source of financing when interest rates are lower than tax-exempt options. Funds can be drawn, repaid and redrawn continuously and without penalty. Size and flexibility will determine whether bank financing is less costly than traditional financing. A bank line of credit may be maintained at minimal costs to finance short-term liquidity needs and a valuable source of liquidity when the use of internal sources would cause unfavorable investment results.

*See Appendices for more detail on this topic

Certificates of Participation

Certificates of Participation (COPs) is a structure where investors buy certificates that entitle them to receive a participation, or share, in the lease payments from a particular project. COPs are generally used by certain governmental issuers due to constitutional restrictions placed on issuing GO bonds. The University does not have limits on using GO Bonds and has never issued COPs, but may choose to do so if circumstances warrant.

Taxable vs. Tax-Exempt

Financings generally will be on a tax-exempt interest rate basis, unless there is private use that approaches the University's threshold within the project, or when other financial considerations indicate the use of taxable debt is in the best interest of the University.

Situations that call for taxable debt to be issued rather that tax-exempt debt include:

- Private Business Use (PBU) thresholds or limitations are expected to be exceeded;
- Unknown future use of the property;
- Longer or unknown construction time;
- Market rates for both tax-exempt and taxable debt are similar or taxable debt has a lower interest rate;
- The rate difference between taxable debt and tax-exempt debt is so small as to make the costs of post-issuance compliance on tax-exempt debt an overly burdensome requirement.

Taxable debt may take the form of commercial paper, variable rate debt or fixed rate debt.

A summary of considerations for tax-exempt vs taxable financings follows:

TAX-EXEMPT	**TAXABLE**
Cost & Call Flexibility • Generally, less expensive than comparable taxable debt • 10-year par call is standard	**Cost & Call Flexibility** • Generally, more expensive than comparable tax-exempt debt • Make-whole call is standard
Investor Base • Focused on coupon payment/tax-exempt income • Accustomed to amortizing debt	**Investor Base** • Focused on total return • Accustomed to bullet maturities • May require minimum size
Administrative Burden/Tax Risk • Certain administrative and tracking requirements (arbitrage compliance; private use compliance; data retention)	**Administrative Burden/Tax Risk** • No on-going bond-related tax-code compliance • Eliminates risk IRS will deem bonds taxable
Use of Proceeds/Average Life Considerations • Use of proceeds restrictions • Spend-down schedule restrictions • Matching of useful life of bonds and projects	**Use of Proceeds/Average Life Considerations** • Unrestricted use of proceeds • No spend-down requirements • No structuring or useful life restrictions

*See Appendices for more detail on this topic

Tax Law Considerations and Preliminary Analysis

Preliminary Analysis - Arbitrage Rebate

During the planning phase of issuing debt, the University should analyze the individual project cash flow expectations as they relate to the timing of the debt issuance in an effort for the University to meet the spending exceptions to arbitrage rebate. Such an analysis should include a review of:

- the University's obligation to enter into a binding contract for spending 5% of the bond proceeds within 6 months of the issuance date,
- the forecasted construction period and if it exceeds the allowable 36-month temporary investment period,
- whether the University will spend the proceeds within the other allowable benchmarks for exceptions to rebate allowed by the code and regulations.

Preliminary Analysis - PBU

Before each issuance of tax-exempt debt, the University will analyze the planned use of bond proceeds and the planned use of property financed by bond proceeds to ensure that limitations and thresholds will not be exceeded. The compliance responsibility for the PBU analysis of the contemplated bonds is delegated to the TMO. This may require units of the University with business arrangements to remain flexible on the ultimate location of the activities depending upon the recommendation of the Treasurer as a result of the PBU analysis completed by the TMO.

A copy of the preliminary private business analysis will be kept with the bond records.

PBU Thresholds

For purposes of managing PBU on its bonds, the University has established a maximum PBU threshold of 5% when issuing tax-exempt debt. This threshold should be used unless there are extenuating circumstances relating to the projects funded by the debt. The use of the 5% threshold will create a cushion for PBU that might occur over the lifetime of the bonds outstanding on the financed facilities.

Generally, the University should also strive to keep PBU to less than 15% per building. Using the 15% threshold will enable the University to use the Qualified Improvement Exception for the financing of subsequent qualified building improvements (e.g., windows and roofs).

In no event should PBU exceed 50% per building. The 50% limit is established to enable the University to prevent a disproportionate amount of PBU. If a facility has a disproportionate amount of PBU then the overall limit of allowable PBU drops from 10% to 5% - a reduction in allowable PBU that needs to be avoided.

See **TMOG #1, University Tax-Exempt Bonds and Private Use Guidelines**
All TMOGs can be found at http://tax.umn.edu/tmogs.html

Multipurpose Election

Federal tax law generally limits the amount of PBU that can be made of proceeds of governmental tax-exempt bonds to the lesser of 10% of the proceeds or $15 million. Therefore, when the University is issuing bonds that generate more than $150 million of proceeds, the PBU permitted for that issue of bonds will generally be less than 10% of the entire issue. However, if the bonds finance more than one "purpose", the University is permitted to make a "multipurpose election". The effect of making a multipurpose election is generally to treat the two (or more) separate purposes of the bond issue and the bonds allocated to those purposes as separate issues for purposes of federal tax analysis.

*See Appendices for more detail on this topic

Each of the different "mini-issues" created by making the multipurpose election must qualify as a tax-exempt issue on a stand-alone basis. This means that each mini-issue will be separately analyzed for the PBU test, each having a limitation of the lesser of 10% PBU or $15 million of private use. In addition, each separate issue must meet the 120% useful life test.

A multipurpose election can only be made if the issue finances two or more separate governmental purposes. The most common form of multipurpose issue is an issue that has both new money and refunding components. Alternatively, an issue that finances several capital projects may also be able to us a multipurpose election; separate purposes might include financing a science building and financing a separate dormitory.

To make a multipurpose election, particular bonds and proceeds must be allocated to the separate purposes.

A multipurpose election can be made any time after the bonds are issued but once made, cannot be made again. As a proactive measure, it is best to make the election at the time that the bonds are issued. The Tax Certificate can be used to make the election and to document the allocation of the bonds and proceeds to the separate purposes.

Fixed Rate vs. Variable Rate

Long-term fixed-rate tax-exempt debt is the most common form of debt issued by institutions of higher education, in which interest rates are fixed for a single or multiple maturities. This type of debt allows institutions to lock into certain debt service obligations at tax-advantaged interest rates over a long period of time. Long-term fixed rate debt generally includes a call option by the University within 0-10 years after the issuance date to allow for refinancing opportunities – i.e., either reduce interest rates (subject to market conditions) or restructure principal payments.

Variable rate financings can lower overall cost of capital. Financings of all maturities can carry a variable rate. Bonds are callable at any interest payment date (daily, weekly, monthly, etc.) with no premium. Tax-exempt variable rate financings retain the tax risk that fixed rate tax-exempt financing lays off to investors. Risks include interest rate risk, credit risk, tax law risk and remarketing risk.

VARIABLE RATE PRODUCTS	FIXED RATE BONDS
• Historically lowest cost of funding	• Generally higher cost of debt
• Uncommitted funding source	• Committed funding source
• Exposed to interest rate, tax, counterparty, put/remarketing risks	• Not subject to interest rate, tax, renewal, or counterparty risk
• Administrative oversight and more involved debt management required	• Less active debt management required
• Can help reduce negative arbitrage in project fund depending on draw schedule of bond proceeds	• Preserves variable rate debt capacity for potentially higher interest rate environments
• May require bank credit – cost and availability considerations	• No bank credit required
• Can be redeemed as new gifts are received	• Can only advance refund debt once throughout the bond's life

The University will review its fixed/variable rate mix on a periodic basis and during periods of significant shifts in the interest rate environment. Adjustments to the fixed/variable rate mix can be accomplished through the use

*See Appendices for more detail on this topic

of hedging (internal or external) vehicles and/or through the issuance of new debt. Issuing and or retiring debt can also change the fixed/variable rate profile of the University.

Considerations for the Fixed/Variable Rate Mix of Outstanding Debt

When evaluating the appropriateness of issuers' variable rate debt exposure, the rating agencies examine such factors as financial flexibility, liquidity sources, asset-liability management, and other risk management tools. The University will consider rating agency views when evaluating its fixed/variable rate mix.

Moody's Investor Services ("Moody's") has no specific quantitative benchmarks or rules in this area, other than the basic observation that the appropriate mix of debt will depend on an organization's ability to handle potential swings in the interest rate on variable rate debt.

The University will consider the impact of the cost and availability of bank standby bond purchase agreements or credit lines that provide liquidity support on variable rate debt. The use of liquidity facilities requires on-going discussions with the support bank as to their renewals and continuance of the facility, the facility fee amount that is charged, and the reporting covenants required of the University. The University will consider the impact of rising rates on the operating budget when considering the appropriate fixed/variable rate mix. The University generally will issue debt that provides flexibility to reduce financing costs. The current interest rate environment and interest rate expectations will be among the considerations.

Derivative Products - Use of Hedging Instruments

Hedging instruments are derivatives used to change the risk profile of a financing and/or entire balance sheet. Derivatives are broadly defined as securities whose value is derived from the value of other securities and indices. Hedging instruments can be used to change the fixed/floating rate profile of the capital structure. In addition, hedging instruments can be appropriate to lock in low rates on future debt issuances. Hedging products that may have appropriate uses include forward rate agreements, caps and swaps.

Derivative products will be considered where appropriate in the issuance or management of debt only in instances where it has been demonstrated through analyses that the derivative product will either provide a hedge which reduces risk of fluctuations in expense or revenue, or alternatively, where it will reduce total project cost. An analysis of early termination costs and other conditional terms will also be performed given certain financing and marketing assumptions. Such analyses will document the risks and benefits associated with the use of the particular derivative product.

Short-term financial assets can act as a natural or "internal" hedge for variable rate debt. Both rates tend to float in the same direction. Issues can use variable rate debt without external hedges when (or if) their internal liquidity or external liquidity support is an adequate buffer.

Use of Credit Enhancement/Liquidity Facilities

Third party guarantees of debt may be used to improve the marketability of a particular issue or when the cost of the credit enhancement – as in the form of additional collateral or insurance - is less than the financial benefit which results from use of the enhancement. Absent special circumstances, credit enhancement providers, if considered necessary, will be selected by competitive proposal. Normally, due to the high ratings on University GO bonds, credit enhancement is not cost effective. Credit enhancement may be beneficial on revenue bonds or specially secured debt of the University.

The issuance of variable rate debt, including variable rate bonds and commercial paper, may require the use of an external liquidity facility. The President or his delegate is authorized to appoint a bank(s) to ensure the availability of liquidity support, should the bonds or commercial paper be tendered for payment and not remarketed. The University recognizes that it may not be cost-effective to issue variable rate debt when a bank

facility must be added to provide liquidity support. In addition, the University recognizes that it may not be advantageous to solicit banks with credit ratings less than the University's. Consideration should be given to these criteria when soliciting banks for responses to RFPs issued.

Method of Sale

Debt issues of the University may be sold by competitive, negotiated, or private placement sale methods unless otherwise limited by State law. The selected method of sale will be the option that is expected to result in the lowest cost and most favored terms given the financial structure used, market conditions, and prior experience.

Negotiated sale - The University has historically sold its bonds through a negotiated sale. A negotiated sale is the sale of a new issue of municipal securities by an issuer directly to an underwriter or underwriting syndicate selected by the issuer. Among the primary points of negotiation for an issuer are the interest rate, call features and purchase price of the issue. The University selects the underwriter for a negotiated sale through a competitive process by issuing a Request for Proposal (RFP). After review of the responses, the recommendation for award is presented to the Board for approval in accordance with current Board policy.

Competitive sale - A competitive sale is a method of sale where underwriters submit proposals for the purchase of a new issue of municipal securities on the specified sale date and the securities are awarded to the underwriter or underwriting syndicate presenting the best bid according to stipulated criteria set forth in the notice of sale. The underwriting of securities in this manner is also referred to as a "public sale" or "competitive bid." Per current Board policy, if the debt is sold through a competitive sale, the president or delegate shall report the identity of the selected underwriter(s) at the regularly scheduled Board meeting immediately following the sale.

Private placement (or direct purchase) - Since the meltdown of the secondary bond markets in 2008, banks have played a more direct role in providing services and products to tax-exempt entities. The increased use of a bank's products frequently involves contractual provisions typically present in the taxable market and not seen in transactions that are publically sold.

As a result, the consideration of the use of banks for certain debt instruments can be particularly troublesome when such tax exempt offerings contain contractual terms that call for negative pledges or have contingent payments. The University should seek competent advice from bond counsel when considering products offered by banks that relate to tax exempt financing.

Use of External Professionals

The University maintains ongoing agreements with certain professionals related to the issuance and management of debt including:

Underwriter – purchases the bond issue from the University to resell it to investors as part of a negotiated sale. The University coordinates with the underwriter on the development of the Official Statement and on decisions relating to type of debt to issue.

Underwriter Counsel – represents the interest of the underwriter(s). Underwriter counsel is selected by the underwriter for a particular engagement, but with an acknowledgement by the University that the selected underwriter counsel is acceptable. The Official Statement is usually prepared and maintained by underwriter counsel through the issuance process. They conduct the "due diligence" process of gathering University

information and representation. They also prepare the "Contract of Purchase" between the underwriter and the University.

Bond Counsel – selected by the University to represent the interest of the University. Bond counsel renders opinions on the validity, enforceability and tax exempt status of the debt and related legal matters, and prepares necessary closing agreements and other documents. The bond closing documents include a written opinion by bond counsel affirming that (a) the University is authorized to issue the proposed debt and has met all constitutional and statutory requirements necessary for issuance, and (b) a determination of the proposed debt's federal and state income tax status has been made. The firm selected will be a nationally recognized bond counsel firm with extensive experience in public finance and tax issues. Under Board delegation policy: *Attorneys and Related Services*, the University's OGC may retain attorneys on a case-by-case basis without competitive bidding.

Issuer's Counsel – in-house counsel representing the interest of the University. The OGC prepares the 'Board Resolution Related to Issuance of Debt' and reviews the bond documentation prepared by bond counsel and underwriter counsel. OGC renders an opinion on the planned transaction as required by applicable section(s) of the Contract of Purchase. The University may choose to engage external issuer's counsel for an additional perspective, when appropriate.

Paying Agent – acts solely as the agent of the University and will not assume any relationship of trust with the holders of the bonds except with respect to funds held by it for the payment of principal and interest on the bonds. The University transfers sufficient funds to the paying agent prior to each payment date to cover principal and/or interest payments due to the bondholders. The paying agent, in turn, pays the bondholders the appropriate payment(s) due.

Financial Advisor (FA) – advises and assists on all elements of planning, structuring, and pricing of debt transactions. The use of a FA for a debt issuance is not required, though is recommended. The University retained its FA in April 2014 due to the release of the SEC Municipal Advisor Rule (the "Rule") effective July 2014. As an IRMA, the FA has a fiduciary duty to the University which precludes the FA from serving in any role that could be adverse to the University.

Independent Auditors – provide consent on the use of their opinion on the University's audited financial statements contained in the Official Statement.

The University will periodically review fees, quality of service, and performance of professional service firms. All contracts for professional services will be in accordance with University contracting policy and procedures including affirmative action goals. Other professional services will be retained when required and when in the best interest of the University.

Phase II - Issuance

Debt issues of the University may be sold by competitive, negotiated, or private placement sale methods unless otherwise limited by State law. The selected method of sale will be the option that is expected to result in the lowest cost and most favored terms given the financial structure used, market conditions, and prior experience. The University sells the majority of its bonds through negotiated sales, therefore a number of the steps outlined in this section will be indicative of the negotiated sales process.

Initial Designation of Proceeds

To support the amount of debt authorized in the Resolution Related to the Issuance of Debt, a list of Board-approved projects is provided with the resolution that informs the Board of the intended use of the proceeds. Once the resolution is approved, but prior to issuance, the University makes a final determination of the projects to be funded and the amount needed for each project as long as the total par to be issued does not exceed what was approved in the resolution. This list of projects constitutes the "initial designation" of projects to a specific bond issue. This is used for the preliminary PBU analysis, which guides the decision as to whether taxable debt will be issued in addition to, or instead of, tax-exempt debt. The calculation of the estimated useful lives of the projects financed by bond proceeds as compared to the life of the bonds is also calculated at this time by the TMO.

Both the calculation of potential private use and the calculation of the estimated useful lives of the projects are used by bond counsel in drafting the Tax and Rebate Certificate that is signed by the Treasurer of the University and delivered as part of the Bond Transcripts at the time the bond closing occurs.

*See Appendices for more detail on this topic

External Debt Service Structure

The debt service structure for each bond issue will be determined on a case-by-case basis. The University has typically structured its debt for each bond issue so that the annual debt service payments consisting of both principal and interest are somewhat equal.

The University may amortize its debt over the most advantageous term available, with the understanding that principal payment schedules will not exceed the average economic useful life of the asset being financed and the limits of state or federal law, or related prior bond covenants. Principal and interest will be scheduled to be within the resources available for debt service.

Bond Disclosure Review

Official statements and other financial disclosure materials will be prepared based upon industry practices and regulatory requirements. Appendix A to the Official Statement (OS), "University Disclosure", is prepared and/or updated by the Debt Director and reviewed by OGC prior to a draft being submitted to the issuance working group. In addition, Accounting Services typically reviews the financial disclosure in Appendix A. The information categories contained in Appendix A form the basis of the annual continuing disclosure reporting.

All bond documents are reviewed by the Debt Director and a Senior Associate General Counsel from OGC. In addition, the TMO reviews the University Tax and Rebate Certificate and the IRS Form 8038-G – Information Return for Tax-Exempt Governmental Obligations, and confirms the timely filing of the 8038-G.

Depending on the specific bond document, signatures are required from the President, the Treasurer, and the Secretary. Certain documents, including the applicable 'Resolutions Related to the Issuance of Debt' and the University Bylaws, are certified by the Secretary and stamped with the University seal. It is the responsibility of the Debt Director to obtain all required signatures needed for closing and deliver the executed documents to bond counsel.

Reimbursement Bonds
Language in the "use of bond proceeds" section of the official statement will reference the use of proceeds for various or specific projects, plus the wording, "including the reimbursement of the University for certain amounts previously expended by it for the costs of such projects", if the bonds are considered "reimbursement bonds."

Use of Bond Proceeds for Capitalized Interest*
The University's practice is to use University equity to pay the interest due on the bonds. The University "reserves the right to apply a portion of net proceeds of a specific bond issue to pay for the portion of the interest payments that represent capitalized interest on the Bonds". This statement will be included in the OS under "Use of Bond Proceeds" to provide the greatest flexibility to the University so that it may elect to use bond proceeds for capitalized interest should the need ever arise in the course of appropriately spending bond proceeds.

Optional Redemption
Tax-exempt debt issues customarily include an optional redemption by the University (referred to as the 'call feature') to redeem the outstanding principal after a specific date at a price equal to or greater than the par amount of the principal then outstanding plus accrued interest. Ten-year call options are typical for the University and the industry as a whole. Exceptions may exist for shorter-term debt (less than 10 years) for which optional

*See Appendices for more detail on this topic

redemption may have an adverse effect on the interest rate or marketability of debt. The optional redemption terms will be determined based upon the following factors:

- Special requirements of the University due to program or business considerations
- The earliest date at which bonds may be redeemed at the lowest price which does not have a material adverse effect on the price or marketability of the debt issue

Taxable debt issues customarily include an optional make-whole redemption feature**.** This call provision allows the University to redeem the bonds prior to maturity, in whole or in part, at the "Make-Whole Redemption Price", which is derived from a formula based on the net present value (NPV) of future coupon payments that will not be paid because of the call. The University does not expect to use this provision, but if so, investors will be compensated, or "made whole." Because the cost can be significant, such provision is rarely invoked.

The optional par call feature can also be included in taxable debt issues for the same reasons the feature is included in tax-exempt issues as stated above.

Debt Service Reserve Funds
Debt service reserve funds are cash assets that are designated by the borrower to ensure full and timely payments to bondholders. They will be created only when required to market a specific type of debt, achieve a desired credit rating or provide a needed liquidity source for a debt issue. The University does not typically establish a debt service reserve requirement when issuing GO bonds.

Credit Ratings Review

The University's bonds and commercial paper will be rated by one or more bond rating firms – Moody's, S and P Global Ratings (S&P), or Fitch Ratings*. Generally, the University obtains ratings from S&P and Moody's. The University will actively seek to preserve the credit ratings of its outstanding bonds at the target levels established by Board policy, *Debt Transactions*.

The University provides information to the rating agencies to ensure that they are regularly updated as to the University's student demand, financial position, investment performance, level of state appropriations and the University's relationship with the State, capital plans, major initiatives, and other information as requested. The Treasurer will inform the agencies' analysts regarding material changes in financial condition and developing events that may influence outstanding or future ratings. The rating review with each agency may be by phone or in person, depending on how recent the University met with each respective analyst, or the nature of the issuance.

Information for the ratings review is gathered by the Debt Director, and formatted into a presentation with the assistance of the FA. Ideally the reviews are scheduled with each analyst at a point in the issuance process that will allow the ratings to be received prior to posting of the Preliminary Official Statement (POS). University participants in these reviews should be the individuals who are responsible for each major agenda item that is likely to be discussed. Typically, this includes the Treasurer, Budget Director, Chief Investment Officer, Controller, Debt Director, and the Director of Institutional Analysis.

*See Appendices for more detail on this topic

Posting of the POS

Approximately one week before the scheduled pricing date, the POS should be posted to allow for pre-marketing of the bonds by underwriters to the investor community. By this time, the POS has gone through multiple reviews and edits by the members of the working group. Pricing information is noted as preliminary. Ideally the rating agencies have completed their committee review and provided the University its bond ratings which can be noted in the POS. A due diligence call is scheduled by underwriter counsel to ask for final representation from the University that all pertinent information has been disclosed.

In addition to the working group review, the University's external auditor has also reviewed the document so that they can provide their consent for the use of the audited financial statements and audit opinion from the most recent fiscal year-end that is contained in one of the appendices to the document.

Prior to providing their written consent to attach the financial statements to the POS, the external auditor will require two representation letters from University personnel updating representations made at the signoff date of the previous years' external audit through the date of the POS:

- Attorney representation letter from OGC
- Management representation letter signed by the President, Senior Vice President of Finance and Operations, and either the Assistant CFO or the Controller

Once the external auditor has received these letters and determined no other disclosure is necessary in the POS from their perspective, they will provide their written consent to the Debt Director, who will forward the document to the underwriter and underwriter counsel.

The POS, the auditor's consent, and the two University representation letters should all be dated the same date.

In addition to the POS being posted, a University 'Roadshow' to assist in marketing the bonds is often prepared by the underwriter and reviewed by the University. The Roadshow captures the key information that is in the POS regarding the University and why the bonds are being issued. No new information can be disclosed in the Roadshow.

Pricing and Posting of the OS

During the week or more between the posting of the POS and Roadshow and the day of pricing, the underwriter has been marketing the University's bonds to the potential investors. A premarketing call is usually held the day before pricing and possibly in the morning before the sale starts. The bids can be monitored during the order period so that the University knows whether the bonds are under- or over-subscribed. The University's FA is also part of the process, reviewing the proposed spreads on each maturity to ensure the University is receiving a fair price.

Once the final pricing has been agreed to, the Contract for Purchase (previously reviewed by OGC and agreed to except for pricing information) is updated by underwriter counsel with the results of the sale of the bonds, reviewed by all parties, and signed by the underwriter and for the University, the President and the Treasurer.

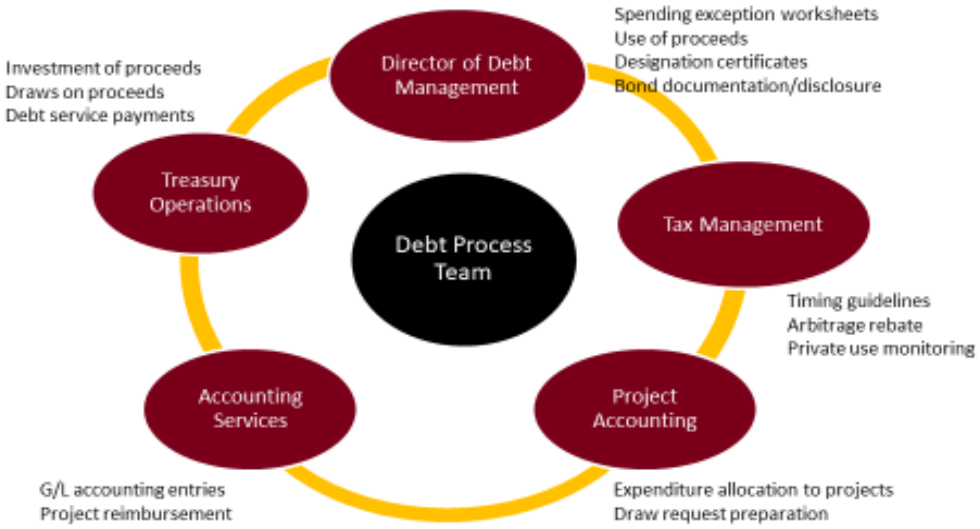
*See Appendices for more detail on this topic

The OS is then updated to reflect the actual results of the sale. Typically nothing else in the POS needs to be updated but the document needs to go through the normal review by the working group and the external auditor. The OS is dated as of the date of sale, and legally, the underwriter has five business days from the day of pricing to post the OS. However, many underwriters prefer to have this document finalized and posted within a day of the pricing. Another second Consent is required from the external auditor, as well as a signature from the President, authorizing the posting of the OS.

Closing

Closing of the issuance transaction is typically scheduled within 1-2 weeks of the pricing of bonds (and as quickly as the day after the sale and pricing of commercial paper). A closing memo is prepared by either the FA or the underwriter outlining the flow of funds on the closing date and the related wire instructions. In addition, all closing documents are reviewed, finalized, and signed by the applicable parties. Certain documents also are certified by the Secretary with the official seal. All completed bond documentation is delivered to bond counsel no later than the day before closing to ensure the transaction will close smoothly. A representative from the OIB should be available on the closing call to confirm that the funds have been received in the designated University bank account prior to the final closing of the bonds with DTC (Depository Trust Company).

Phase III – Post Issuance Compliance



Investment of Bond Proceeds

The University will comply with all applicable Federal, State, and contractual restrictions regarding the use and investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of some invested funds, as well as restrictions on the time period over which some bond proceeds may be invested.

Bond proceeds for each series will be invested in separate custodial accounts as outlined in the "University Order Authorizing the Issuance and Sale of the Bonds" and in the "University Tax & Rebate Certificate" related to each specific bond issue. Investment earnings on the bond proceeds will be reinvested in the custodial account(s) and become additional bond proceeds to be spent on appropriately approved costs of capital projects authorized for use of bond proceeds.

In general, bond proceeds must be yield-restricted after 3 years (36 months) from the issuance date of the bonds. Any investment of proceeds after this period must be restricted to lesser than the yield on the bonds, or alternatively, the University is required to make "yield reduction payments". The University will adhere to the appropriate yield restrictions whenever such action is determined to be necessary by the TMO, outside bond tax counsel, or by other third party consultants engaged by the University.

*See Appendices for more detail on this topic

Project Spending

Allocation to Expenditures

"Allocation" is the formal action of the issuer by which it declares which expenditures incurred on the projects are to be deemed made with bond proceeds. The 'draw process' is the University's formal allocation process where bond proceeds are allocated to expenditures. Generally, the University uses the specific tracing method whereby bond proceeds are specifically traced to expenditures for meeting the spending exceptions to arbitrage and for meeting the 3 year spending requirement on the bonds. Other acceptable methods of allocating proceeds include first-in, first-out (FIFO), last-in, first-out (LIFO), or a ratable allocation.

Timing of Allocation

An issuer must account for the allocation of proceeds to expenditures not more than 18 months after the later of the date the expenditure is paid or the date the financed project is placed in service. In any event, the allocation must be made by the date 60 days after the 5th anniversary of the issue date (or if earlier, 60 days after the issue retirement date).

These time limits apply to the spending of proceeds relating to the specific tracing, FIFO, LIFO, and ratable allocation methods in addition to the allocation for private use. The external issuers counsel used by the University had advised the University that when it takes more than 5 years to incur bond expenditures, the University's only allocation method is that of specific tracing.

Additional allocations may be necessary outside of these timeframes when funds become replacement proceeds or when remedial actions are required as a result of the disposition of bond financed facilities at a future date. Because of the complexity of the varying types of allocations, the TMO will be consulted for compliance with all allocation rules.

Placed in Service

The placed in service date with respect to a facility is the date on which, based upon all the facts and circumstances –

(a) The facility has reached a degree of completion which would permit its operation at substantially its design level and

(b) The facility is, in fact, in operation at such level.

The placed in service date will never be earlier than the date of the Certificate of Occupancy; however, it could be later, when the building is substantially at a level of use for which it was designed.

See **TMOG #12, Tax-Exempt Bond Expenditure Allocation Rules**, for more information.

Allowable Uses of University and State Bond Proceeds

The University may only use bond proceeds for qualified or eligible capital expenditures. Bond proceeds may only be used for direct capital costs and not for noncash provisions for or charges for depreciation, amortization, or cash outlays for overhead, general administration or similar costs not associated with the construction project.

Qualified capital expenditures (or eligible costs) include land acquisition, predesign, design, construction, major remodeling (if it adds to the value or life of a building and is not of a recurring nature), and other improvements or acquisitions of tangible fixed assets of a capital nature. Equipment may be eligible if purchased and installed upon initial acquisition and construction of a building, expansion or major remodeling. Eligible costs may include

certain costs as described above even though they might not be capitalized as part of the asset per the University's capitalization threshold policies.

There is a provision within the tax code that allows for a small portion of operating expenses to be paid from bond proceeds as long as those costs are related to the projects funded by the bonds. This provision only applies when such costs do not exceed 5% of the issuance proceeds of the bonds. In addition, for state bond proceeds, there may be state specific limitations narrower than this 5% threshold and may restrict such proceeds even further than what the University may allow on its debt.

Charges for University Personnel and Expenses (including Project Management)

The University charges personnel costs to capital projects such as the time spent by the project manager, project coordinator, design managers, assistant project manager, etc. In addition, the University allows internal personnel and project-related expenses to be billed to capital projects under limited conditions when the University self-constructs capital projects. All charges must be made in compliance with relevant Internal Revenue Code, Treasury Regulations, University policies, and Generally Accepted Accounting Principles related to capital expenditures. Such costs are allocated to the University-issued debt or other University equity funding sources.

Costs charged to state capital appropriation funding must be in compliance with Minnesota Management and Budget (MMB) policies as outlined in the memo dated October 20, 2009 on MMB's website entitled: *Policy Regarding Use of General Obligation Bond Proceeds to Fund Staff Costs*. In addition:

- personnel charges must be done on an individual basis and must be based on actual hours worked on the project by an individual;
- the hourly rate shall not include depreciation or amortization costs, overhead or other general administration expenses not directly related to, or incurred as a result of, the construction activity. The hourly rate must comply with University Administrative Policy: *Selling Goods and Services to University Departments* and OMB Uniform Guidance dated 12/19/2013 (formerly OMB Circular A-21);
- for Internal Service Organizations (ISOs), staffing rates require annual review and approval as defined in Administrative Procedure: *Establishing Internal Sales Rates*; or
- For non-ISOs, staffing rates are limited to actual cost of salary and fringe unless otherwise approved by the Internal/External Sales department.

Draws of Bond Proceeds *

The University may either act as its own trustee or appoint an outside trustee for investing bond proceeds and/or managing the draws on those unspent bond proceeds. Draws of bond proceeds occur upon written requests with supporting documentation provided of expenses incurred on applicable projects.

The DPT acts in the capacity of the University trustee for purposes of determining the timing and appropriateness of bond draws. For capital projects, draws are generally made for project expenses incurred as of the end of the previous month-end based on checks issued prior to the draw date. Reimbursement for the cost of property acquisitions is made when all expenses related to the acquisition are known, summarized and reconciled to the applicable general ledger chartstring.

After review of the submitted documentation by the DPT, the "Draw Request Approval Checklist"~ is completed and signed by the Debt Director and the project accountant that prepared the request. The completion of this form and signatures represent the approval of the draw.

*See Appendices for more detail on this topic

The approved draw request is then emailed to the Director of Treasury Operations in the Office of Investments & Banking (OIB), with copies to all members of the DPT. Upon receipt, OIB draws the appropriate amount of bond proceeds from the applicable bond account at the third party custodial institution and wires it to the University's general account. Accounting Services processes the general ledger entries that record the draw from the custodial account and reimburses the applicable projects for expenses paid. *

~See TEMPLATE 2

Subsequent Designation of Proceeds

Subsequent to the issuance of the bonds, but before all proceeds of a bond series are spent, the University may decide to change its designation of bond proceeds to other projects. The most common reasons for this occurring is that the original project(s) come in under budget and/or the interest earnings on the unspent bond proceeds are not needed for the original planned projects. This decision to assign proceeds to another project not contemplated when the bonds were issued requires authorizing language to do so. The "Certificate as to Designation of Bond Proceeds to Specific Projects"~ will be prepared by the Debt Director and signed by the Treasurer of the University prior to drawing any proceeds to pay for these projects.

~See TEMPLATE 3

Annual Compliance Reviews

Arbitrage Rebate Compliance

Arbitrage is defined as the investment earnings representing the difference between what could be earned on bond proceeds if they were invested at the yield on the bonds and the amount actually earned on the investment of the proceeds. The Internal Revenue Code regulates the amount and conditions under which arbitrage on the investment of bond proceeds is permissible. The 1986 Tax Reform Act requires that arbitrage profits earned must be rebated to the federal government unless the exceptions to arbitrage rebate apply.

Negative arbitrage, the condition of earning less than the yield on the bonds, is not the University's preference. It is the University's goal to invest bond proceeds to the bond yield or higher – and then meet the exceptions to arbitrage rebate. This practice maximizes the amount of available bond funds to spend on the projects. If the spending exceptions are not met, only the arbitrage up to the yield on the bonds can be kept by the University and the amount of arbitrage in excess of the yield on the bonds must be rebated to the federal government.

The Debt Director prepares and maintains the draw summary analysis spreadsheet for each bond issue for purposes of tracking the spending against the spending exception requirements. The schedule is shared and discussed with the DPT on a regular basis to ensure that all appropriate offices are aware of any potential consequences and/or limitations related to the unspent bond proceeds.

To the extent required by applicable laws, regulations, and bond covenants, the University and component units will comply with all arbitrage rebate requirements. The University may use outside experts, including bond counsel, financial advisers or public accountants, to assist in preparing required filings and making payments. The Debt Director and TMO will arrange for the timely computation of the rebate liability and, if rebate is payable, the timely filing of Form 8038-T and payment of the rebate. Rebate is ordinarily due at 5-year intervals. The University will annually determine any accrued rebate liability, record the liability in the financial statements, and make provisions for reserving funds for rebate purposes.

*See Appendices for more detail on this topic

Investment earnings on bond proceeds are retained in the same investment account as the original proceeds and thus become additional bond proceeds that generally must be spent on appropriate capital costs. A permitted use of these proceeds is the rebating of arbitrage to the federal government. As a result, investment earnings on tax-exempt debt can be used as a primary funding source for arbitrage rebate. To the extent the funds have otherwise been spent on appropriate capital costs and funds are not otherwise available for arbitrage rebate, other University equity must be used, as needed and authorized by the Treasurer, for any future required arbitrage rebate. The DPT will annually monitor the availability of University equity for arbitrage rebate should the need arise.

The University may elect to pay a Penalty in-lieu of Rebate. This can be a useful tool when the University knows up-front that meeting the exceptions to arbitrage rebate cannot be met for spending on the projects relating to the debt issuance. This is a very technical and complicated process and the election should only be made when the University earns arbitrage on the investment of bond proceeds and can otherwise ensure compliance with all the rules and regulations relating to this process. Practically speaking, bond advisers do NOT generally recommend using this alternative due to the risks associated with not making arbitrage on the investment of funds and meeting the sending exceptions on a project. Due to the complex and technical nature of this process, OIB and the TMO will need to work together and consult with outside bond counsel before making this election.

See **TMOG #13, Arbitrage Rebate Compliance** for more information.

PBU Analysis

To maintain the tax-exempt status of bonds, specific wording in the bond documentation of a tax-exempt financing generally requires the University to not do anything that would result in the bonds being classified as "private activity bonds" under Internal Revenue Code Section 141.

The TMO annually analyzes the status of the tax-exempt financing with regards to the private use limitation with the intent that the University can appropriately manage the use of facilities financed by tax-exempt bond proceeds so that it can remain in compliance with the private use limitations. PBU measurement is calculated for all university-debt financed buildings on campus and updated annually based on the TMO review. Risks associated with PBU for each building connected to each debt issuance are identified. The University may need to take corrective action on how its bond financed facilities are utilized to keep the PBU within acceptable limits. When necessary, the TMO will explore and advise of ways to reduce PBU.

See **TMOG #14, Private Business Use** for more information.

Multipurpose Election –

A multipurpose election can be made any time after the bonds are issued but once made, cannot be made again. If the election is not made at the time of issuance and the University later decides to make the election, a memorandum spelling out the parameters upon which the University is make the election will be prepared and incorporated into the bond documents relating to the issuance. The particular bonds proceeds must be allocated to the separate purposes.

Annual Monitoring of Bond Covenants and Continuing Disclosure Practices

The Debt Director will monitor its debt for compliance with bond covenants, third party agreements, and state and federal laws and regulations. The most common bond covenant for the University is the continuing disclosure required under Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as outlined in Appendix E to each OS issued.

*See Appendices for more detail on this topic

The University will remain in compliance with the Security and Exchange Commission Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within 180 days of the close of the fiscal year.

The University will post financial statements, official statements, material event notices, or periodic voluntary notices as required on EMMA.

Record Retention *

Various sections of the Code and Regulations including, but not limited to, sections 103, 141-150, and 6001 require the retention of the records necessary to substantiate compliance with federal tax requirements applicable to tax-exempt bonds.

Section 1.6001-1(e) of the Regulations provides that records should be retained for so long as the contents thereof are material in the administration of any internal revenue law. To support these tax positions, material records should generally be kept for as long as the bonds are outstanding, plus three years after the final redemption date of the bonds. The records are retained in a combination of both paper and electronic form.

For certain federal tax purposes, a refunding bond issue is treated as replacing the original new money issue. To this end, the tax-exempt status of a refunding issue is dependent upon the tax-exempt status of the refunded bonds. Thus, all material records relating to both the original new money issue and the refunding issue should be maintained until three years after the final redemption of both bond issues.

Remedial Action

Change in Use of Property
Even though the University reasonably expects on the issuance date to use the bond proceeds for a qualifying purpose throughout the life of the bonds, unexpected events may occur that impact the actual use. These unexpected events can result in a deliberate action by the University that can change the intended use of the proceeds of the issue. Consequently, this can affect the taxability of the interest on the bonds from the issuance date, even though the events may occur much later. The regulations provide for certain actions, which, if properly taken by the University, will preserve the tax exemption of the bonds starting from the issuance date.

Disposition of Bond-Financed Facilities
Sale or disposition of facilities financed by bond proceeds cause a requirement that the underlying debt be retired or that the University otherwise follow the remedial actions as contained in Treasury Regulation 1.141-2, when sold or disposed prior to the retirement of the underlying debt. Care needs to be exercised because this provision also applies when the underlying debt is defeased but not entirely retired.

Use of VCAP Program offered by the Internal Revenue Service
Treasury Regulations may provide for some remedial action rules to specifically assist in managing private use for actions entered into after the issuance of the bonds which were not contemplated by the University at the time the bonds were issued.

There may be times when the University may need to consider using the Voluntary Closing Agreement Program (VCAP) when issues arise with regards to post-issuance compliance on tax-exempt bonds that are beyond the

*See Appendices for more detail on this topic

gambit of the remedial actions contained in the Treasury Regulations. This process will require that the University work with bond tax counsel or issuer's tax counsel to ensure the University is legally represented by appropriate competent tax advisors.

Training

Staff with compliance responsibilities identified in these Guidelines should be provided with appropriate education and training on federal tax requirements applicable to tax-exempt bonds. The University enables and encourages appropriate personnel to attend and participate in educational and training programs with regard to the federal tax requirements applicable to tax-exempt bonds. Training and resources in this subject matter can be obtained through organizations such as NACUBO, the Treasury Institute for Higher Education, NABL, or bond consultant companies.

In addition, the Debt Director and TMO also provide training to appropriate staff throughout the University that are associated with tax-exempt projects. Such training will cover the purposes and importance of these Guidelines, as well as the details of the particular staff member's responsibilities.

Other Related Activities/Requirements

Annual Reporting

Report to the Board
As required under the Board policy: *Debt Transactions*, a "Capital Financing and Debt Management Report" will be provided annually to the Board. The report will include a review of the current and projected interest rate environment, current and anticipated debt plans, appropriate financial benchmarks and ratios, and other factors deemed appropriate or requested by the Board in order that it may exercise its oversight function. The report shall rely on selected financial ratios, consistent with major credit rating agency criteria, to ensure that the University is operating within appropriate financial parameters to maintain the core debt ratings.

The Treasurer will be kept informed of all unanticipated financial obligations related to each bond issue. Significant financial obligations will be reported by the Treasurer to the President and Board. In the case of arbitrage rebate, a guideline of 1% or more of rebate due as a percentage of the amount of the initial bond issue shall be deemed as 'significant'. [i.e., amount of arbitrage rebate divided by amount of initial bond issue]

Ratio Analysis
The University annually calculates certain ratios as outlined by the ratings agencies as described in Appendix A, based on the financial information contained in the audited year-end financial statements and the long-term planning/projection process that has been developed. These ratios will be periodically updated when a new debt issuance is contemplated and as a part of the debt capacity analysis.

Peer Analysis
The University compares the capital structures, including the relative level of debt and types of debt, adopted by its peer group when evaluating its own capital structure. In addition, other selected financial ratios, consistent with major credit rating agency criteria, will be compared to peers, and to other public institutions with the same rating. The peer group will consist of highly rated preeminent public research universities.

Build America Bonds (BAB) 8038-CP Filing

The University issued three series of BABs* with a Direct Pay Election during 2009 and 2010 when the program was in place. The Debt Director is responsible for the accurate completion of the 8038-CP and timely filing to ensure receipt of the federal subsidy due the University. The form is submitted to the IRS with a delivery service that requires written signature for receipt, thus providing the documentation of proof-of-delivery. Copies of all filed forms are maintained by the Debt Director.

The TMO typically receives an official acknowledgement of receipt by the IRS of the University's 8038-CP and sends a copy to the Debt Director.

Accounting Services notifies the Debt Director when the subsidy is received. This notification provides the confirmation of receipt, the amount of the subsidy, and confirmation of the general ledger chartstring for recording of the receipt.

*See Appendices for more detail on this topic

External Debt-Related Payments

Debt Service Payments

The University uses two external paying agents for its debt – one for its variable rate debt and one for its fixed rate debt. The University reserves the right at any time to vary or terminate the appointment of the Paying Agents upon written notice.

OIB receives billings for principal and interest payments for external debt from the external paying agents. When the debt deal is entered into Deal Management, these payments are scheduled within the system for the entire length of time the related debt is outstanding. When the billings are received, it is the responsibility of OIB to compare the amount and due date to what is scheduled within Deal Management, and ensure that payments are made accurately and timely.

To fund the external debt service payments, University colleges are generally charged for the space each occupies in new or renovated buildings that are partially or totally funded by University-issued external debt. This internal charge-back process represents the debt cost pool component of the University's budget model and includes direct charges to specific colleges or auxiliary units and/or a pooled concept based on assignable square feet (ASF) occupied.

The University's detailed procedures involved in the internal funding of external debt service are described in a separate document.

Costs of Issuance & Annual Expenses

The Debt Director receives the invoices for costs of issuance, annual ratings maintenance, annual administration fees, remarketing, and any other debt-related billings. After review and approval, the invoice is forwarded to Accounting Services for payment by check or ACH, with a copy maintained by the Debt Director.

Costs of Issuance are paid for with bond proceeds; therefore, these expenses become part of the draw request process once all payments on the individual invoices have been made. All other annual expenses are charged to the applicable bond fund in the general ledger and funded by the external debt service payments charged to University colleges.

Once paid, the invoices are copied into the imaging system by Disbursement Services. Preparation of and/or review of all accounting transactions related to debt transactions is the responsibility of Accounting Services. This review verifies that the applicable general ledger accounts are appropriately debited and credited.

Maintenance of External Relationships

Rating Agencies

The University continues to maintain high credit ratings for its general obligation bonds from Moody's and S&P. These credit ratings permit the University to borrow at a low interest cost and are a reflection of the University's excellent management, financial controls, economic conditions and moderate debt levels.

The Treasurer and the Debt Director have primary responsibility for maintaining the University's relationships with Moody's and S & P. In addition to the ratings visit/call prior to each issuance of bonds, communication with the respective analysts occur throughout the year so there are no surprises at the time of the annual review.

Investment Banks/Underwriters/Market and Investor Relationships

The University maintains favorable relations with the investing public and the underwriters that buy and sell its debt. The following actions may be taken to achieve this purpose:

- Maintain a mailing list of underwriter and institutional investors to which financial statements and information concerning any upcoming issues may be distributed.
- Develop contacts with the portfolio managers for the major tax-exempt mutual funds that purchase the University's debt. Mutual funds are among the most important forces in pricing large issues.
- Maintain informal contacts with the underwriting desks of the dealers that routinely buy and sell the University's debt.
- Meet regularly with current and/or prospective underwriters for an exchange of ideas and plans regarding the University's debt profile.

Changing the Debt Structure

Refunding Procedures and Practices

Tax-exempt bonds are typically issued with an "Optional Redemption" feature where the bonds maturing on or after a specific date – typically 10 years from the issuance date – are subject to optional redemption prior to their maturity at the option of the University, in whole or in part, at a redemption price of par plus accrued interest.

This feature allows the issuance of a new bond for the purpose of retiring an already outstanding bond issue, referred to as a "refunding". Refunding of outstanding debt will be considered in order to:

- Achieve interest rate savings
- Restructure principal
- Eliminate burdensome covenants with bondholders

The proceeds of the new bonds are either deposited in escrow to pay the debt service on the outstanding bonds when due in an "advance refunding" or used to promptly (typically within 90 days) retire the outstanding bonds in a "current refunding." The new bonds are referred to as the "refunding bonds," and the outstanding bonds being refinanced are referred to as the "refunded bonds" or the "prior issue."

Depending on current market conditions, refunding analyses are prepared by the debt advisor as call dates approach to determine if proposed savings are satisfactory enough to proceed, and the Treasurer is kept informed of possible savings. Since the refunding of debt is a debt transaction, per Board policy, the Board approves the resolution that allows the University to refund the debt. In anticipation of a proposed refunding, review of the refunding analysis occurs periodically to determine if interest rate projections will produce the expected savings sufficient to cover the costs of the refinancing and provide a satisfactory level of net present value savings to the University. Notwithstanding these procedures, it is impossible to predict the exact savings from a refinancing transaction since the savings are dependent upon market conditions at the time of the borrowing, and interest rates are not known until the issuance is completed.

Current Refunding

A current refunding transaction is where the municipal securities being refunded will all mature or be redeemed within 90 days or less from the date of issuance of the refunding issue. Certain federal income tax rules relating to permitted yields of invested proceeds of the refunding issue, rebate of arbitrage earnings and the ability to refund certain types of municipal securities may be less restrictive in the case of current refundings as contrasted with advance refundings.

Advance Refunding

Advance refunding is a financing technique that allows an issuer to obtain the benefit of lower interest rates when the outstanding bonds are not currently callable. The proceeds from the sale of the refunding bonds are generally used to purchase taxable government securities, which are deposited in an escrow account. The escrow account is structured so that the principal and interest earned on the securities are sufficient to pay all principal, interest, and call premium, if any, on the outstanding bonds up to and including the call date. The refunding bonds are secured by the same sources of taxes or revenue previously pledged to the payment of the outstanding bonds. One important rule is that a tax-exempt bond issue may be advance refunded only once. For this reason, an advance refunding should be implemented only when there are significant savings.

The Tax Cuts and Jobs Act (TCJA) essentially disallows advance refunding of all tax-exempt bonds after December 31, 2017 by making previously tax-exempt interest on advance refunding bonds taxable. Therefore, an advance refunding of tax-exempt bonds can only occur if the refunding bonds are taxable debt. Savings are affected by many factors including the spread between current rates and rates of the outstanding bonds, the amount of bonds outstanding, and the time remaining before the bonds are callable.

The outstanding debt is generally considered “defeased” either legally or in substance. A legal defeasance occurs when the covenants relating to the outstanding bonds are satisfied with respect to the retirement of the debt. For accounting and financial reporting purposes the issue is treated as defeased when the escrow account is irrevocably pledged to the retirement of such debt.

Reissuances for Tax Purposes *

Treasury Regulations specifically provide that when the terms of a bond issue are significantly modified then a *reissuance* of the bonds (for tax purposes) results. In these instances, the originally issued bonds are considered retired and a new issuance of the bonds takes place. For tax purposes, this type of reissuance is considered a current refunding. Typically, no changes are recorded for financial reporting purposes when there is a reissuance for tax purposes, although new CUSIPs may be used for such reissuances.

Off-Balance Sheet Financings & Public-Private (P3) Partnerships

In recent years, there has been a significant increase in public-private partnerships referred to as P3 partnerships. There is no single definition of a P3. The National Council for Public-Private Partnerships (NCPPP) defines a public-private partnership as "a contractual agreement between a public agency (federal, state, or local) and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares in the risks and rewards potential in the delivery of the service and/or facility."

Other common off-balance sheet financing arrangements exist, primarily for student housing at public universities that are constrained by state regulations on bidding and capital construction. While these

*See Appendices for more detail on this topic

transactions generally are structured so that the university has no legal obligation for debt repayment, rating agencies typically include them as part of an institution's overall leverage profile due to the strategic and economic linkages to the university. They characterize these transactions as "indirect debt" of the institution, recognizing that the lack of a legal obligation to make debt service payments makes these types of transactions fundamentally different from debt issued directly by the institution. The extent to which the project affects debt capacity depends on their assessment of the project's independent financial strength and ability to support debt service, as well as the structure of the transaction and involvement of the university.

The University will seek to identify and investigate fully any potential future financing deals that directly or indirectly obligate the University and affect its overall leverage profile. These deals are not necessarily discouraged, but it is important that the University has a full understanding of the financial implications of entering into such arrangements.

APPENDIX A – PRE ISSUANCE

Related Policies & Procedures

- **Board of Regents Policy:** ***Debt Transactions***
  Last amended: October 2020
  https://regents.umn.edu/sites/regents.umn.edu/files/2019-09/policy_debt_transactions.pdf

- **Board of Regents Policy:** ***Attorneys and Related Services***
  Last amended: July 2009
  https://regents.umn.edu/sites/regents.umn.edu/files/2019-09/policy_attorneys_and_related_services.pdf

- **Administrative Policy:** ***Funding and Approvals of Capital Projects***
  Last amended: July 2018
  https://policy.umn.edu/finance/fundingprojects

- **Administrative Policy:** ***Acquiring and Disposing of University Real Estate***
  Last amended: August 2018
  https://policy.umn.edu/operations/realestateacqdsp

Internal Roles & Responsibilities – Pre Issuance

Pre-Issuance	**Board of Regents (Board)**	**Debt Director**	**Capital Project Management (CPM)**	**Tax Management Office (TMO)**	**Office of General Counsel (OGC)**
Project Analysis		X	X		
Capital Planning/ Capital Budget	Approve		X		
Resolution to Issue Debt	Approve	Prepare			Prepare
Determine type of debt to issue		X		X	X
Private Use/Private Placement Analysis				X	
Debt Capacity Analysis		X			
Declaration of Official Intent ^		Prepare			
RFP Issuance/ Evaluation Selection of Underwriter	Approve	X			

^ Signed by University Treasurer

*See Appendices for more detail on this topic

Debt Committee Oversight Responsibilities

The University utilizes a structure of three (3) committees in its Debt Management Oversight. The Debt Director oversees the committees and sets the agendas for each. Each of the committees and their respective responsibilities are defined below:

Debt Process Team (DPT)

The DPT meets monthly, at a minimum, regarding current and future debt issuances. The DPT acts as the University's trustee to approve the draws on unspent bond proceeds to reimburse expenditures incurred on eligible projects. In addition, the group establishes and ensures that appropriate accounting and compliance procedures are in place and working properly.

The team consists of representatives from applicable departments within the University that have a direct involvement in various aspects of debt management compliance. These departments include:

- University Services-Finance
- Accounting Services *(within the Controller's Office)*
- Treasury Operations *(within the Office of Investments and Banking)*
- University Tax Management

Debt Oversight Group (DOG)

The DOG supports and advises the Treasurer and Debt Director in decisions regarding policy, capital financing strategies, and debt capacity analysis. In addition, the committee periodically reviews the debt management processes to ensure compliance with University and tax requirements. Meetings are scheduled as needed.

In addition to the Debt Director, the following individuals usually participate:

- University Assistant CFO
- University Tax Director
- University Services CFM
- Chief Investment Officer (CIO)
- Senior Associate General Counsel
- Academic Health Center CFM

Debt Management Advisory Committee (DMAC)

The DMAC advises the Finance & Operations Committee of the Board and the University's Treasurer on debt management issues. In doing so, the Committee evaluates, recommends, and monitors debt management policies, strategies, and guidelines and provides advice on their implementation so as to best serve the financial objectives of the University of Minnesota. The committee typically meets two to four times per year.

As stated in the DMAC Bylaws, a member of the Finance & Operations Committee of the Board chairs the DMAC. The President appoints the remaining members who consist of the following:

a) The Treasurer of the University

b) A faculty member of the Carlson School of Management whose area of expertise is relevant to the work of the committee; and

c) Up to six members of the local business community with relevant professional training and experience.

*See Appendices for more detail on this topic

Responsibilities	DMAC	DOG	DPT
Debt Policies & Objectives	Review, advise, and make recommendations	Develop	Implement
Debt Capacity	Review calculation & advise	Develop models for Board consideration; review calculations	
Debt Issuance	Review, advise on recommended transaction structure, method of sale; underwriter selected	Select underwriter; structure transaction	Support transaction planning and execution
Expenditure of Proceeds		Review efforts of debt process team periodically to ensure compliance with debt policy	Timely draws; cash flow updates and projections; accurate accounting; proper allocation of proceeds; monitoring of unspent proceeds; review private use limitations, etc.
Ongoing Compliance through Life of Debt		Periodic review to ensure compliance	Debt service payments; accurate accounting, arbitrage and yield restriction payments; monitor use of facilities over life of debt, etc.
Debt Management Simulation Tool		Define desired outcomes, reports, data, simulations for management purposes	Research products possibly available on market and/or design tool internally; provide information necessary to run simulation
Tracking and Accounting Practices		Review and approve, if appropriate, modifications proposed by DPT	Analyze current accounting practices for opportunities to simplify; recommend appropriate changes to existing practices.

*See Appendices for more detail on this topic

Target Ratios

The University will calculate certain ratios on a proforma basis when contemplating the issuance of new debt and calculating debt capacity, and include the ratios for the current and previous years in the Annual Capital Financing and Debt Management Report. Certain assets, liabilities and net assets of the University's two component units – University of Minnesota Foundation (UMF) and University of Minnesota Physicans (UMP) – are included in the calculations. The following ratios have been used as relevant measures of financial health up to this time.

Debt Service to Operations - This ratio measures the University's ability to service debt and the impact of debt financing on the University's operations. The ratio is defined as:

Annual Debt Service *(principal and interest)*
divided by:
Operations *(operating expenses, less scholarships & fellowships, plus interest expense)*

The University shall broadly target its capital structure to result in a maximum Debt Service to Operations Ratio between the Moody's Aa1 and Aa2 medians.

Total Cash and Investments to Total Debt

Total Cash and Investments *(includes component units)*
divided by:
Total Debt *(exclude net unamortized premium/discount; include UMF bonds payable)*

The ratio is a broad measure of overall wealth. The University shall broadly target its capital structure to result in a Total Cash and Investments to Total Debt ratio that is no less than Moody's Aa2 median.

Spendable Cash and Investments to Total Debt

Total Cash and Investments *(as computed above, less restricted, nonexpendable net assets of the University, less the permanently restricted net assets of UMF and UMP)*
divided by:
Total Debt

This ratio is narrower than the Total Cash and Investments to Total Debt ratio and measures the degree of flexibility in the balance sheet. The University shall broadly target its capital structure to result in a minimum leverage ratios in the range of Moody's Aa1 and Aa2 Medians.

Note that Moody's calculations include all of the debt of the University. The University also calculates the ratios by excluding the outstanding balance of the special purpose revenue bonds and related interest expense for a fiscal year from direct long-term debt and annual debt service/operating expenses, respectively. The special purpose revenue bonds, while issued by the University, are based on the State's appropriation credit and therefore should not be included when determining debt capacity for the University.

Commercial Paper Facility

By the Resolution of the Board dated October 12, 2017, a revolving commercial paper facility (the "Facility") was authorized through which the University may issue tax-exempt and taxable variable rate debt from time to time as general obligation indebtedness of the University for the short or long-term financing of capital projects. This includes the purchase of land and buildings, construction and remodeling projects to be undertaken by the University and the acquisition and installation of equipment by the University, and to pay costs of issuance related to the issuance of such commercial paper. The aggregate principal amount outstanding under the Facility, together with that of the Prior Notes, cannot exceed $400,000,000 (the "Facility Authorized Amount").

Liquidity Support

The University provides its own liquidity securing payment of the Notes. This means the University will cover the debt if the CP cannot be remarketed by the remarking agent when it matures. The University has various sources of internal liquidity at its disposal. The temporary investment pool ("TIP") is the primary source of self-liquidity but none of the internal liquidity sources are specifically pledged to secure the Notes.

Effective 7/24/2020, the University entered into a credit agreement with US Bank National Association for a 364-day line of credit totaling $150,000,000 for general corporate purposes.

Notes Issued Under the Facility – Series G, H, and I

It is the intention of the University to issue CP Notes during construction of certain capital projects, ramping up the amount of CP outstanding for a period of time, then converting the Notes to long-term debt when the projects are complete or near complete, thus reducing the amount of CP outstanding and opening up the capacity of the CP Facility for new projects requiring financing.

Series G and H are tax-exempt; Series I is taxable. The Notes are to be issued for capital projects only; they cannot be issued for operating purposes.

Maturity Limitations

Pursuant to Section 7 of the Amended and Restated Issuing and Paying Agency Agreement between Regents of the University of Minnesota and The Bank of New York Mellon Trust Company, N.A. ("BoNY Mellon") dated as of June 1, 2018, the aggregate amount of final maturities of all CP Notes issued by the University that will occur on any given day is limited to $50 million, and in any given week to $175 million.

The University maintains a description of the detail procedures involved in issuing CP notes and managing the commercial paper facility in a separate document.

Bridge Financing Program

Certain approved projects include the "local units" share as a piece of the total funding. This local unit funding may be made up of "cash-in-hand", fundraising, and/or bridge financing. Many gifts come in over time, and the total pledged amount might not be received until long after the construction is completed. The University can choose to issue short- to intermediate-term debt to finance the construction of the capital asset with the understanding that this funding "bridges" the local units' share of the total resources until the gift is received. The terms of the gift/pledge should allow for portions of the gift received after construction is completed and all costs are paid to be applied to the principal and interest of the bridge financing if necessary. Commercial paper is one of the easiest forms of debt to use as bridge financing to facilitate the reduction in principal as the gifts are received by the University.

Ideally, the gifts raised during the fund-raising process for a capital project are received upfront, during the project under construction, or pledged over a short time period. That way the gifts themselves are being used as the donor intended (i.e. for the building itself) and he/she can see that themselves while the building is under construction or while invoices are still being paid.

If gifts are pledged for a capital project, we **strongly encourage** the use of the following language in the gift pledge/memo to provide the University with the most flexibility as to use of those funds, while still using them for the purpose the donor intended:

> This gift will be designated for the [Building Name]. The funds donated can be used to build, support, and operate the [Bldg Name], and to pay for debt, both principal and interest, incurred for the [Bldg Name].

Though the University can accept pledged gifts for capital projects, we cannot count estate gifts in the fund-raising tally for this purpose. That's because there is no definitive payment schedule or guarantee that the funds will ever be received in the near future to be able to be applied to the intended purpose.

Depending upon the commitments made at the time the gift was pledged, gifts and their respective earnings from investments may become replacement proceeds for arbitrage rebate purposes. When gifts are treated as replacement proceeds, both interest earnings and gift/pledge principal will need to be used to pay down the bridge loan within legally permissible timeframes. The University will be provided the most flexibility if the terms of the gifts or pledges received are not specifically tied to any one facility or any one purpose. If worded correctly, pledges made using this approach will not create replacement proceeds when they are eventually received by the University. Units should consult with the TMO when gifts and/or pledges are being received for capital projects to ensure that the wording provides the University with the most flexibility as to use of the gift.

Special Purpose Debt – State Supported Bonds

The Special Purpose Revenue Bonds (SPRB) are supported by annual capital appropriations from the State to reimburse the University for the debt service on these bonds.

Series 2015A Refunding Bonds - TCF Bank Stadium

Minnesota Statutes, Sections 137.50 to 137.60, enacted by the Legislature in 2006, as amended, provide for an annual transfer to the University from an appropriation from the General Fund to pay the principal and interest on the University's Special Purpose Revenue Refunding Bonds (State Supported Stadium Debt) Series 2015A.

The Special Purpose Revenue Refunding Bonds Series 2015A were issued to defease and refund the SPRB Series 2006, originally issued to finance a portion of the cost of TCF Bank Stadium on the Twin Cities campus.

Pursuant to Minnesota Statutes, Section 137.54 as amended in May 2015, state funding of $10,250,000 per year for no more than 25 years is provided to reimburse the University for the debt service on these bonds and the Series 2015B GO Bonds, and for other University purposes.

Biomedical Science Research Facilities Funding Program (the "Program")

Minnesota Statutes, Sections 137.61 to 137.65, enacted by the Legislature in 2008, established a biomedical science research facilities funding program to pay up to 75 percent of the project costs for each of four biomedical science facilities.

Net proceeds of three series of state-supported bonds, Series 2010A, 2011B, and 2013C, along with the net proceeds of GO Taxable Bonds, Series 2010B, 2011C, and 2013D, were issued under the Program to fund a portion of the costs of construction of biomedical science research facilities in the University's Biomedical Discovery District.

The Statutes were amended in the 2020 5th Special Session in October 2020, which authorized refunding of the state-supported bonds, and allowed the University to use the excess state appropriation available as a result of refunding savings realized to pay the annual debt service amount on bonds issued by the university to pay the costs of design, land acquisition, site preparation, and preconstruction services of the Clinical Research Facility.

Promissory Note Payable

In December 2019, the University executed a long-term promissory note payable with Otto Bremer Trust as a PRI loan to support financing for the purchase of certain property that is to be used for a specific project. A PRI is a long-term loan, equity investment, or guaranty, made by a foundation or other qualifying tax-exempt entity in pursuit of its charitable mission, rather than to generate income. The recipient can be a nonprofit organization or a for-profit business enterprise. A PRI commitment must "specify the purpose of the investment and must include an agreement by the organization… to use all the funds received from the private foundation… only for the [charitable] purposes of the investment and to repay any portion not used for such purposes."

The University's promissory note payable to Otto Bremer Trust is interest-only over five years with the full amount due in year 5, and is not rated by the rating agencies.

Capital Leases

A capital lease is a transaction whereby the goods or property leased have the economic characteristics of asset ownership. A capital lease would be considered a purchased asset for accounting purposes and the leased property becomes property of the University at the end of the lease period. In these leases, a portion of the periodic payment will be treated as interest and a portion will be treated as principal payment on the acquisition of the equipment financed by the lease.

GASB Statement 87, *Leases*, is effective for fiscal years beginning after December 15, 2019 and the definition of a lease has changed under the new guidance. The definition now focuses on a contract conveying control of the right to use another entity's non-financial asset, which is referred to in the new Statement as the underlying asset.

The previous leasing guidance does not take the conceptual framework into consideration – including the definitions of assets and liabilities. Moreover, the prior lease standards allow a lease to be structured in a

manner that avoids reporting the economic substance of the transaction, i.e., a long-term liability and related assets were not reported as a result of the lease transaction.

Through the leasing guidance, the GASB is seeking to align the accounting and financial reporting of lease transactions more closely with their economic substance. The guidance is based on the underlying principle that leases are financings of the right to use an underlying asset for a period of time. It will eliminate the current distinction between operating and capital leases by treating all leases as financings.

Qualified 501(c)(3) Bonds

The GO Bonds, Series 2014B, issued August 2014, where the net proceeds were used for the M Health Clinics and Surgery Center (the "CSC") that opened February 2016 were issued as qualified 501(c)(3) bonds. CSC, referred to as the Ambulatory Care Center (ACC) prior to construction, is owned by the University and occupied by Fairview Health Services ("Fairview") and a Minnesota nonprofit corporation, the members of which are Fairview and University of Minnesota Physicians, both 501(c)(3) entities.

The base rent paid by the occupants is equal to the annual principal and interest payments due on the Series 2014B bonds.

The OS was intentionally written in such a way where the word "lease" or "rental" was not mentioned in the document. Since these are general obligation bonds, we did not want investors to become concerned about certain rental payments being the only source of revenue available to cover the debt service payments.

APPENDIX B - ISSUANCE

Internal Roles and Responsibilities

Issuance	Director of Debt Management	Accounting Services	Treasury Operations	TMO	OGC
Issuance Working Group	X			X	X
Debt Service Structure	X				
University Disclosure (App A)	X	X			X
Ratings Review	X	A	A		
Pricing	X				
Deal Setup In PeopleSoft		X	X		
Closing	X		X		X

A - ratings review includes the Controller and Chief Investment Officer

Capitalization of Interest Cost

Through FY2019 financial reporting, governmental accounting standards required the capitalization of interest costs incurred during the construction period as part of the cost of the related capital asset rather than being charged as a period expense. This practice will change with the implementation of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which states that the interest should be recognized as an expense in the period in which the cost is incurred and should not be capitalized as part of the historical cost of a capital asset. The effective date of GASB 89 is for reporting periods beginning after December 15, 2019; the University is planning to adopt this standard for the FY2020 reporting year.

Investment Grade Long-term Bond Ratings

Moody's Investors Service Rating	Financial Security Evaluation	Standard and Poor's Rating *
Aaa	Exceptional	AAA
Aa1, Aa2, Aa3	Excellent	AA+, AA, AA-
A1, A2, A3	Good	A+, A, A-
Baa1, Baa2, Baa3	Adequate	BBB+, BBB, BBB-
Ba1, Ba2, Ba3	Moderate	BB+, BB, BB-
B1, B2, B3	Weak	B+, B, B-
Caa to C	Default	CCC to D

*Ratings scale also used by Fitch Ratings

The University of Minnesota is currently rated Aa1 by Moody's, and AA by Standard and Poor's

*See Appendices for more detail on this topic

APPENDIX C – POST ISSUANCE COMPLIANCE

Roles and Responsibilities – Post Issuance

Post-Issuance Activity	Debt Director	University Services - Finance	Treasury Operations	Accounting Services	TMO	OGC
Investment of Bond Proceeds			X		X	
Set up Debt Deals and Investment Deals in Peoplesoft			X	X		
Allocation of Bond Proceeds	X				X	
Draws of Bond Proceeds	X	X	X	X	X	
Arbitrage Rebate Compliance	X				X	
Accounting Entries				X		
Debt Service & Other Debt Related Expense Payments	X		X	X		
Monitoring of Bond Covenants	X					
BAB Compliance	X				X	
Private Placement/Private Use Continuing Analysis	X				X	X
Continuing Disclosure	X					X
Annual Reporting	X					
Record Retention	X				X	
Maintenance of Relationships	X					
Disposal of Bond-Financed Facilities	X				X	

*See Appendices for more detail on this topic

Treasury Module Transactions

The Deal Management module within the PeopleSoft Treasury System contains the information supporting all outstanding long-term debt and commercial paper. This system was implemented on July 1, 2008 with conversion of existing outstanding debt as individual "debt deals". When long-term debt is issued, new debt deals are added to the system by Accounting Services. The cash manager in OIB enters the CP sales and rollovers.

The debt deals in Deal Management include:

- CUSIP #
- Par amount
- Settlement amount
- Premiums/discounts
- Interest rate
- Due dates of principal and interest payments
- Cash flows of principal and interest payments
- Interest accruals
- Amortization of premiums and/or discounts

Within Deal Management, one bond series may have multiple deals as there is one deal for each of the individual bond maturities. The individual debt deals are assigned to a "portfolio" representing the total bond series. Deals are coded as open or matured. The portfolio totals represent only the open deals.
As deals are entered into the system, cash flows for the life of the deal are available. The payment for debt service is scheduled through Deal Management for payment on an Electronic Funds Transfer (EFT) through the settlement process within the Cash Module.

Accounting entries for the events surrounding monthly interest accruals, amortization of premiums and discounts, and payments of principal and interest are created within Deal Management on templates and automatically fed from Deal Management to the PeopleSoft General Ledger through a nightly process. Manual accounting entries for any correcting entries related to the initial debt setup, interest or principal payments, or premium/discount amortization are created within the Cash Module and fed from Cash Management to PeopleSoft General Ledger through a nightly process.

Draws of Bond Proceeds

A project accountant within University Services-Finance tracks spending on projects and presents the draw request, along with supporting documentation, to the DPT on a monthly basis for review and approval. Draws are made near the end of a month for project expenses incurred as of the end of the previous month-end based on checks issued prior to the draw date. *(Effective July 1, 2015, the date of the check must be prior to the draw date; prior to July 1, 2015, the expense incurred by previous month-end was included in the draw only if the check had cleared the bank prior to the draw date.)*

The DPT uses a guideline of $100,000 or more to consider making a draw in a specific month for a specific bond series. However, exceptions are made when the draw represents the final amount for a specific project, or is the final draw of remaining proceeds.

After review of the submitted documentation by the DPT, the "Draw Request Approval Checklist" is completed and signed by the Director of Debt Management and the project accountant that prepared the request. The completion of this form and signatures represent the approval of the draw. The approved draw request is then

emailed to the Director of Treasury Operations in OIB, with copies to all members of the DPT. Upon receipt, OIB draws the appropriate amount of bond proceeds from the applicable bond account at the third party custodial institution and wires it to the University's general account. Accounting Services processes the general ledger entries that record the draw from the custodial account and reimburses the applicable projects for expenses paid.

The proceeds of each debt issuance are invested in a separate bank or investment account at the custodial bank and is entered in PeopleSoft as an investment deal. As the proceeds are drawn to fund capital projects, a portion of the investment deal is redeemed.

Accounting Model

Note: The 'Fund' listed is a fund specific to a bond issuance; e.g., the Series 2010C Bond activity is recorded in Fund 7120. Therefore, where the word "Fund" is shown below, the number 7120 would be part of the accounting entry.

		G/L Fund-DeptID-Account	Debit	Credit
1	Cash	1000-12000-100101	$	
	Expense – Bond Issuance Costs	Fund-10011-21377-890104	$	
	Bonds Payable	Fund-10011-21377-230100		$
	Bonds Payable Premium *(or discount)*	Fund-10011-21377-230105	*Or $*	$

Description: To record sale of bonds at a premium or discount, amount of underwriter's discount, and receipt of cash by the University. (Effective FY14, underwriter's discount, i.e., COI, is expensed in the year incurred.)
Action: Cash is wire-transferred into the University's general account; Debt Deal is set up in Deal Module.

		G/L Fund-DeptID-Account	Debit	Credit
2	Unspent Bond Proceeds	Fund-10011-108700	$	
	Cash	1000-10011-100101		$

Description: To record the investment of the bond proceeds.
Action: Cash is moved from the general account to a separate investment.

		G/L Fund-DeptID-Account	Debit	Credit
3	Unspent Bond Proceeds	Fund-10011-108700	$	
	Bond Activity/Investment Income	Fund-10011-21377-580102		$

Description: To record investment earnings on the unspent bond proceeds.
Action: Investment income is reinvested, not drawn, and the income becomes additional bond proceeds.

		G/L Fund-DeptID-Account	Debit	Credit
4	Expense- Bond Issuance Costs	Fund-10011-21377-890104	$	
	Cash	1000-12000-100101		$

Description: To record the payment of invoices related to the Costs of Issuance (COI). Effective FY14, COI is expensed in the year incurred. Prior to that, COI was set up as an asset and amortized over the life of the bonds.
Action: Invoices are approved for payment and paid either via wire transfer by OIB or via check by Accounting Services through the Accounts Payable system.

*See Appendices for more detail on this topic

		G/L Fund-DeptID-Account	Debit	Credit
5	Bond Activity/Interest on Indebtedness	Fund-10011-21377-890102	$	
	Bond Interest Payable	Fund-10011-21377-210140		$

Description: *To record monthly accrual of interest due on bonds.*
Action: *Once Accounting Template is set up, Deal Module interfaces to G/L.*

		G/L Fund-DeptID-Account	Debit	Credit
6	Bonds Payable Premium	Fund-10011-21377-230105	$	
	Bond Activity/Interest on Indebtedness	Fund-10011-21377-890102		$

Description: *To record amortization of Bond Premium on monthly basis.*
Action: *Once Accounting Template is set up, Deal Module entry interfaces to G/L.*

		G/L Fund-DeptID-Account	Debit	Credit
7	Bond Interest Payable	Fund-10011-21377-210140	$	
	Bonds Payable	Fund-10011-21377-230100	$	
	Cash	1000-12000-100101		$

Description: *To record debt service payment.*
Action: *Funds are wire-transferred to pay principal and/or interest; Cash Management entry is interfaced to G/L.*

Note: Interest payments under the terms of swap agreements were accounted for in the same manner as interest payments on the original debt. Interest payments received under the terms of swap agreements are credits to interest expense rather than debits. (Termination date of debt 08/27/2017)

		G/L Fund-DeptID-Account	Debit	Credit
8	Bond Activity/Licenses & Fees	Fund-10011-21377-720312	$	
	Cash	1000-12000-100101		$

Description: *To record fees associated with bonds, e.g. annual ratings agency fees, paying agent administration fee.*
Action: *Payments made via check by Accounting Services through payables; in some cases, by wire transfer by OIB.*

		G/L Fund-DeptID-Account	Debit	Credit
9	Cash	1000-12000-100101	$	
	Unspent Bond Proceeds	Fund-10011-108700		$

Description: *To record draw down of bond proceeds.*
Action: *Draw request is submitted to OIB; Investment Deal is partially liquidated in Deal Module.*

		G/L Fund-DeptID-Account	Debit	Credit
10	Bond Activity/Transfer Out	Fund-10011-21377-610202	$	
	Project/Transfer In	Fund-12007-program or PCBU/Project/1/GLR/600202		$

*See Appendices for more detail on this topic

Description: To allocate bond proceeds to specific projects.
Action: Manual entry in G/L by Accounting Services.

		G/L Fund-DeptID-Account	Debit	Credit
11	Bond Activity/Transfer Out	Fund-10011-21377-610205	$	
	Real Estate Purchase/Transfer In	1026-12251-program-CF2 value-600205		$

Description: To allocate bond proceeds to land purchases.
Action: Manual entry in G/L by Accounting Services.

	NO NEW ENTRY	G/L Fund-DeptID-Account	Debit	Credit
12	Bond Issuance Costs [Expense], or Interest Expense	Fund-10011-21377-890104 (COI) or 890102 (Interest)	$	
	Cash	1000-12000-100101		$
	Cash	1000-12000-100101	$	
	Unspent Bond Proceeds	Fund-10011-108700		$

Description: To allocate bond proceeds to reimburse costs of issuance or to fund debt service.
Action: No additional entry is needed - this is accomplished by the manual entry in G/L by Accounting Services for the original expense, plus the entry that recorded the draw.
Result: The net of the original expense entry and the draw entry as shown above is a net $0.00 to the fund-10011, and a net $0.00 to cash.

Construction in Process – Accounting Process

Construction in Process (CIP) is a term used to categorize project expenses during the construction process but before a project is complete. Since the project is not yet complete, no depreciation is recorded at this point.

The building gets reclassified out of CIP based on the "placed in service" date provided by the Project Manager. This reclassification is done at the central level via an adjusting journal entry (AJE) until the project is officially closed and no more project costs are incurred. Depreciation starts, at a central level, at the in-service date.

Additional final costs are added to the total building cost and then the AJE is adjusted each reporting cycle. Once the final closeout is confirmed with CPM, the asset is permanently placed in service in the Asset Management (AM) module and then taken off the AJE.

CPM considers a capital project to be "complete" and/or "placed in service" from a construction viewpoint, even though we are still paying for invoices for at least one year or more afterwards. Even though placed in service, the projects are not officially closed immediately from an accounting standpoint.

Record Retention

Documentation surrounding specific pre-issuance, issuance and post issuance compliance activities will be prepared and retained.

Subsequent to the completion of each bond issuance, bond counsel provides a "bond issuance book" that contains required documents related to the transaction. Two paper copies are received – one is retained by the Debt Director and the other by the Senior Associate General Counsel who worked on the transaction. In

addition, 5 CD copies of the transmittal are also received. These are distributed to Debt Director, OGC, Accounting Services, Treasury Operations, and the TMO.

Although the required records to be retained depend on the transaction and the requirements imposed by the Internal Revenue Code and the Treasury Regulations, records common to most tax-exempt bond transactions include:

Basic records relating to the bond transaction – i.e, the "Bond Issuance Book":

- University Bylaws (Certified) and University Charter
- Certified Board resolutions authorizing the debt issuance
- Contract of Purchase between the University and Underwriter (if negotiated sale)
- University Order Authorizing the Issuance and Sale of the Bonds
- Preliminary and Final Official Statements
- Closing documents, including the University Tax and Rebate Certificate and copy of the filed IRS Form 8038, 8038-G, or 8038-GC (whichever applicable)
- The Certificate of Registrar
- Letters from Accountants and Opinions of Counsel
- Ratings letters
- Blue Sky Memorandum
- Specimen Bond

Additional Pre Issuance & Issuance Records may include:

- Initial private use calculations
- Interest projection on unspent proceeds
- Estimated useful life analysis
- Final pricing
- Costs of issuance
- Project descriptions (initial designation of proceeds)
- Declaration of Intent to Reimburse Bonds (for specific projects)

Post-Issuance Compliance – may include:

- Evidence of expenditure of bond proceeds
- Draw Requests, Draw Request Approval Checklists, Draw Summary
- Spending Exception Worksheets
- Evidence of use of bond-financed property by public and private sources (i.e., copies of management contracts and research agreements)
- Evidence of all sources of payment or security for the bonds
- Designation Certificates for specific projects
- Documentation pertaining to any investment of bond proceeds, including:
    - the purchase and sale of securities,
    - SLGS (State and Local Government Securities) subscription,
    - yield calculations for each class of investments, actual investment income received
- Final Use of Total Proceeds
- Arbitrage rebate calculations
- Annual private use calculations

Build America Bonds (BABs)

Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009) (enacted February 17, 2009) ("ARRA"), added § 54AA to the Code, authorizing state and local governments, at their option, to issue two general types of Build America Bonds as taxable governmental bonds with Federal subsidies for a portion of their borrowing costs. The subsidies take the form of either tax credits provided to holders of the bonds or refundable tax credits paid to state and local governmental issuers of the bonds. Build America Bonds have different levels of Federal subsidies and program requirements depending on the particular type of bond.

The first type of Build America Bond provided a Federal subsidy through Federal tax credits to investors in the bonds in an amount equal to 35 percent of the total coupon interest payable by the issuer on taxable governmental bonds (net of the tax credit), which represents a Federal subsidy to the state or local governmental issuer equal to approximately 25 percent of the total return to the investor (including the coupon interest paid by the issuer and the tax credit). This type of Build America Bond was referred to as "Build America Bonds (Tax Credit)."

The second type of Build America Bond provided a Federal subsidy through a refundable tax credit paid to state or local governmental issuers by the Treasury Department and the Internal Revenue Service ("IRS") in an amount equal to 35 percent of the total coupon interest payable to investors in these taxable bonds. This type of Build America Bond was referred to as "Build America Bonds (Direct Payment)."

The University issued Direct Payment BABs during their availability in 2009 and 2010 when it was determined that it resulted in a lower cost of capital, and there was investor demand for these bonds. The program was not extended by Congress beyond December 31, 2010. The University issued three series of BABs – Series 2009D (issued May 5, 2009), Series 2010D (issued February 5, 2010), and Series 2010D (issued September 30, 2010). Series 2009D and Series 2010D were refunded in May 2019 by the issuance of General Obligation Bonds Series 2019B. Series 2009D was paid off on June 1, 2019; Series 2010D was paid off on February 1, 2020. The remaining outstanding BAB – Series 2010B – was issued with an Optional Make Whole Redemption and an Extraordinary Optional Redemption; thus it is likely that the University will not be refunding these bonds during their remaining lifetime (August 2035).

To ensure than any BABs with a Direct Pay Election were issued within the parameters allowed by code section 54AA, the University completed Steps 1, 2 and 3 of the BAB Compliance Checklist as part of the issuance of Series 2009B, Series 2009D, and Series 2010D as follows:

1. Verify that none of the maturities of the direct pay bonds are issued with a more than de minimis amount of premium (defined as less than 2% of the bond issue price)

2. Determine that costs of issuance do not exceed 2% of the proceeds of the sale

3. Verify that the amount of interest payable on each interest payment date has properly been determined.

To ensure receipt of the federal subsidy due the University on the BABs issued with a Direct Pay Election, the 8038-CP will be prepared in accordance with Steps 4a, 4b and 4c of the BAB Compliance Checklist as follows:

- Report the proper amount of refundable credit.
- Record all amounts in pennies.
- File the 8038-CP timely (at least 45 days before but no earlier than 90 days before the interest payment date).

- Ensure the 8038-CP has "Regents of the University of the Minnesota" as the entity to which the payment is to be made.

The form is submitted to the IRS with a delivery service that requires written signature for receipt, thus providing the documentation of proof-of-delivery.

Congressionally-mandated sequestrations consisting of across-the-board federal budget cuts were implemented beginning in March 2013 and are to be phased in through 2021. It was triggered by Congress' failure to reach agreement over how to significantly cut the deficit. An analysis from the Center on Budget and Policy Priorities in March 2013 estimated that the reduction rate for direct-pay bond subsidies and some other mandatory programs will decrease in each subsequent fiscal year of sequestration, in part because the amount of money cut from Medicare will increase annually.

However, the actual reduction rate is not known until prior to each fiscal year. The table below reflects the reduction rate for the federal fiscal years to date:

Time Period	Reduction Rate
March 1, 2013 through September 30, 2013	8.7%
October 1, 2013 through September 30, 2014 (federal fiscal year 2014)	7.2%
October 1, 2014 through September 30, 2015 (federal fiscal year 2015)	7.3%
October 1, 2015 through September 30, 2016 (federal fiscal year 2016)	6.8%
October 1, 2016 through September 30, 2017 (federal fiscal year 2017)	6.9%
October 1, 2017 through September 30, 2018 (federal fiscal year 2018)	6.6%
October 1, 2018 through September 30, 2019 (federal fiscal year 2019)	6.2%
October 1, 2019 through September 30, 2020 (federal fiscal year 2020)	5.9%
October 1, 2020 through September 30, 2030 (federal fiscal years 2021 through 2030)	5.7%

Defeasance of Bonds

Bonds are legally defeased when the payment of principal and interest has been assured through the structuring of a portfolio of government securities within an irrevocable trust to provide for all future debt service payments on the old bonds. When high interest rate bonds are advance refunded with low interest rate bonds, the amount of securities required for the escrow account will be greater than the amount of outstanding bonds being refunded. This is because the portfolio of government securities may have a yield no higher than the rate on the refunding bonds. As a result, the refunding bond issue must be in a larger principal amount than the outstanding bonds unless a high premium is received on the bonds.

When a bond issue is legally defeased, the claim on the revenues of the issuer is usually eliminated. Neither the outstanding indebtedness nor the related trust account assets for the defeased bonds are included in the University's financial statements. However, disclosure will be made in the footnotes to the annual financial statements including the bond series defeased, refunding date, the amount defeased, the refunded amount, the bond call date, and the amount outstanding at year-end.

Since the number of refundings of tax-exempt bonds which may be undertaken to achieve interest rate savings are limited by federal regulations, savings should be sufficient to offset reduced future refunding flexibility. Savings can be evaluated on a maturity-by-maturity basis; however, the University will only advance refund the entire series, not select maturities, due to the administrative task that that would entail. The targeted level of interest rate savings will be consistent with industry practices in evaluating refunding criteria:

*See Appendices for more detail on this topic

- The net present value savings threshold minimum should be equal to or exceeding 3% of the par amount of the bonds being refunded, net of all transaction costs.
- Utilize breakeven analysis to determine the point at which there is little difference between refunding now or waiting until the call date of the bonds.
- Utilize sensitivity analysis to evaluate current NPV savings relative to NPV savings in a different market to identify how sensitive a refunding candidate's savings are to interest rate improvements.
- The actual dollar savings are large enough to impact the University's current or future borrowing capabilities or finances.

In addition, the net present value savings should generally be larger than the negative arbitrage that exists. Exceptions to this savings target may be made in special circumstances where savings above this level may not be achievable due to call dates, interest rate levels, and market conditions.

The manner in which savings are realized (up front, deferred or on a level annual basis) should be determined based upon the overall needs and objectives of the University. In most instances, up front savings may be used to fund capital projects, while annual savings likely will be used to reduce internal charges for the units who are paying for the debt.

Refundings undertaken to respond to a change of legal covenants or to make pledged reserves available for other purposes should be analyzed to determine any economic effect on the University as measured by present value savings or losses, inclusive of cash contributions and any debt service reserve fund earnings. Such economic effects include:

- Limitations imposed by the Internal Revenue Code
- Use of reserves
- Future financing capacity
- Future marketability of the University's debt
- Credit ratings which may be related to the specific circumstances of the refunding

Reissuances for Tax Purposes

The determination of whether the terms of a bond issue will be significantly modified to meet the threshold of a reissuance is one that requires the assistance of expert legal opinion on the proposed transaction. Different criteria of what constitutes a significant modification exist for qualified tender bonds versus other types of bonds.

In instances of reissuance, care must be exercised to make sure that all arbitrage rebate payments have been made relating to the bond issue.

The University experienced the reissuance of bonds for tax purposes when it entered into substitute liquidity facilities that were not originally required when the bonds were issued. [*Example: Series 1999A was issued as variable rate demand bonds in February 1999 with self-liquidity. The addition of a Standby Bond Purchase Agreement on June 1, 2004 was considered a reissuance for tax purposes.]*

APPENDIX D – DEFINITIONS

For purposes of these Guidelines, the terms below shall have the following meanings:

Advanced refunded bonds – A bond issue that refunds some or all prior bonds more than 90 days after the date the refunding bonds are issued. The proceeds of the refunding issue are usually put into an escrow account from which the first issue's principal and interest will be repaid when due. If all principal and interest requirements of the first issue are to be paid from the escrow, it is considered "defeased" upon advance refunding.

Arbitrage – Investment earnings representing the difference between what could be earned on bond proceeds if they were invested at the yield on the bonds and the amount actually earned on the investment of the proceeds. The Internal Revenue Code regulates the amount and conditions under which arbitrage on the investment of bond proceeds is permissible and the 1986 Tax Reform Act requires, with limited exceptions, that arbitrage from nonpurpose investments must be rebated to the federal government.

Base point (or basis point) – One one-hundredth of one percentage point (1/100 % or 0.01 percent). Thus 25 basis points equal one-quarter of one percentage point (0.25%), 100 basis points equal one percentage point (1.0%).

Bond – An interest-bearing promise to pay with a specific maturity.

Bond counsel – A lawyer who writes an opinion on the bond or note as to its tax-exempt status and the authenticity of its issuance.

Callable bond – A bond that is subject to redemption prior to maturity at the option of the issuer. Tax-exempt issuances are typically issued with a 10-year call feature.

Certificates of Participation - Certificates of Participation (COPs) is a structure where investors buy certificates that entitle them to receive a participation, or share, in the lease payments from a particular project. The lease payments are passed through the lessor to the certificate holders with the tax advantages intact. The lessor typically assigns the lease and lease payments to a trustee, which then distributes the lease payments to the certificate holders. COPs themselves are not municipal obligations but are instead an interest in an underlying municipal obligation.

Commercial paper – Variable rate, short-term debt instruments (i.e., notes) that are issued with a maximum length of 270 days, but which can be remarketed for additional terms. With maturities of 1 to 270 days, the CP notes are short-term in nature and classified as current liabilities in the financial statements. However, the University currently treats certain issuances of the CP series as a long-term financing vehicle, thus renewing the notes for extended periods as they come due, with annual required "pay-downs" established in the original offering memorandums.

Competitive sale – A method of sale where underwriters submit proposals for the purchase of a new issue of municipal securities and the securities are awarded to the underwriter or underwriting syndicate presenting the best bid according to stipulated criteria set forth in the notice of sale. The underwriting of securities in this manner is also referred to as a "public sale" or "competitive bid."

Core Debt – General obligation debt issued the University that is backed by the full faith and credit of the University. The structure of such debt is based on the general financial strength of the University.

Costs of issuance – The expenses associated with the sale of a new issue of municipal securities including fees charged by rating agencies, bond counsel, underwriter counsel, auditors (to obtain consent to use auditor's opinion on financial statements) and printing fees. In addition, the underwriter's discount is considered one of the costs of issuance – this fee is deducted from the amount of proceeds received at closing. The Internal Revenue Code restricts the use of bond proceeds to pay costs of issuance for certain types of tax-exempt bonds, such as private activity bonds. Effective with GASB 65 in FY14, these costs are expensed during the year of the bond issuance. Previous GASB guidance allowed for bond issuance costs to be recorded as a prepaid expense on the balance sheet and amortized over the life of the bond.

Current Refunding Bonds – A bond issue that refunds some or all prior bonds within 90 days of the date the refunding bonds are issued.

Debt adviser – a person or entity engaged to advise the University with respect to the planning and structuring of debt transactions.

Debt transactions – as defined by the University's Board of Regents policy include:

(1) issuing bonds or commercial paper, whether in underwritten offerings, competitive sales, or direct (private) placements;
(2) refunding debt;
(3) entering into capital leases;
(4) entering into liquidity facilities or lines of credit;
(5) engaging in hedging transactions related to University debt.

Defeased bonds – Refunded bonds for which the payment of principal and interest has been assured through the structuring of a portfolio of government securities placed into an irrevocable trust to provide for all future debt service payments on the old bonds. Neither the outstanding indebtedness nor the related trust account assets for the defeased bonds are included in the University's financial statements. When a bond issue is defeased, the claim on the revenues of the issuer is usually eliminated.

Discount – The amount, if any, by which the principal amount of a bond exceeds the cost price.

General Obligation (GO) Bonds - GO bonds are long-term obligations that are backed by the full faith and credit of the issuer, a state or local government. The credit structure of these bonds is based on the general financial strength and taxing authority of the issuer, without limitation. GO bonds are the original and most basic form of municipal debt and can be tax-exempt or taxable.

Hedging transactions – The use of instruments (such as interest rate caps or swaps) to manage interest rate risk in connection with debt transactions.

Infrastructure Development Bonds (IDBs) - issued by the State of Minnesota (the "State") for the University and other state agencies for certain capital projects. The IDBs are generally issued once or twice a year, with a fixed rate, 20-year amortization. Payment to the state is made once a year upon receipt of their billing, due every November.

Negotiated sale – The sale of a new issue of municipal securities new issue of municipal securities by an issuer directly to an underwriter or underwriting syndicate selected by the issuer. A negotiated sale is distinguished

from a sale by competitive bid, which requires public bidding by the underwriters. Among the primary points of negotiation for an issuer are the interest rate, call features, and purchase price of the issue. The sale of a new issue of securities in this manner is also known as a negotiated underwriting.

Official Statement (OS) or Offering Circular (OC) – An official document (or prospectus) circulated for an issuer prior to a bond sale that gives in detail the security and financial information relating to the issue. There can be two OSs, the first identified as the preliminary official statement (POS), available to the investor before the sale. The final OS must be sent to the purchaser after pricing and before delivery of the bonds.

Paying agent – An entity, generally a bank, that performs the function of paying interest and principal for the issuing body. The University currently uses two separate external paying agents but has acted as its own paying agent for certain issuances with the role assigned to the Office of Investments and Banking. Also referred to as fiscal agent.

Preliminary Construction and Design Costs – Costs incurred prior to commencement of construction, rehabilitation or acquisition of a project. The official intent requirement and the reimbursement period requirement do not apply to these costs. Preliminary expenditures cannot exceed 20% of the issue of the related reimbursement bond issue. Preliminary expenditures include architectural, engineering, design, surveying, and soil testing. Preliminary costs do not include land acquisition, site preparation, hazardous abatement, and similar costs incident to the commencement of construction.

Premium – The amount, if any, by which the price exceeds the principal amount of a bond. The premium received is additional proceeds that can be used by the University for funding the costs of projects.

Private Activity Bond - Under IRC Section 141, a governmental bond issue constitutes a private activity bond if a) more than 10% of the proceeds of the issue or the bond financed property are to be used by any person other than a state or local governmental unit, and b)(i) more than 10% of the present value of the debt service on the bond is secured by privately used property or private payments or b)(ii) more than 10% of the issue are loaned to any person other than a state or local government unit.

Private Business Use (PBU) – Use of bond proceeds in a manner that would cause the bonds to be classified as private activity bonds, as defined under Internal Revenue Code Section 141.

Private Placement Memorandum – A document functionally similar to an official statement used in connection with an offering of municipal securities in a private placement. Circulation of a private placement memorandum often is strictly controlled to avoid distribution to investors who may not be qualified to purchase the securities.

Qualified 501(c)(3) Bonds - For a bond to be a qualified 501(c)(3) bond, two basic requirements must be met. First, property that is to be provided by the net proceeds of the issue must be owned by a 501(c)(3) organization or by a governmental unit. Second, the private business test for Section 141(b) must not be satisfied. At least 95% of the net proceeds of the bonds and 95% of the facilities financed with the bonds must be used exclusively by governmental units or by one or more 501(c)(3) organizations in a trade or business related to the 501(c)(3) organizations' exempt purpose.

Ratings – Various alphabetical and numerical designations used by institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness.

Each of the services use + or - or +1 to indicate half steps in between. The top four grades are considered Investment Grade Ratings. See Appendix I for the rating scales used.

Real property – Includes land, building and infrastructure.

Refunding bond – The issuance of a new bond for the purpose of paying principal of and/or interest on an already outstanding bond issue.

Reimbursement bond – A reference to bonds for which some of the proceeds will be used to reimburse amounts expended prior to the issuance date for capital expenditures other than preliminary construction and design costs.

Remarketing – A formal reoffering of a bond for which the form or structure is being changed.

Select Auction Variable Rate Securities (SAVRs) – SAVRs were long-term variable rate bonds whose interest rates were typically reset approximately every 7 to 35 days through a Dutch auction, rather than through a traditional remarketing conducted by an underwriter. The major advantage of SAVRs to issuers of variable rate debt was that buyers did not have a put option. By eliminating the put option, the SAVRs program eliminated the need for a standby liquidity facility. (*The University issued SAVRS in May 2003 - $71,000,000 in Series 2003A General Obligation Refunding Bonds; the outstanding balance of $64,100,000 was converted to VRDBs in October 2008; the Series 2003A VRDBs were refunded by Series 2011A fixed rate bonds in February 2011).*

Serial bond – A bond that has a single maturity and with no interim principal payments, as opposed to a Term Bond, which is a bond that has "sinking fund payments" prior to its stated maturity date.

Sinking fund – Money set aside on a periodic basis and accumulated to retire term bonds at or prior to maturity.

Sinking fund schedule – A schedule of payments required under the original revenue bond resolutions to be placed each year into a special fund, called the sinking fund, and to be used for retiring a specified portion of a term bond issue prior to maturity.

Special purpose debt – Debt issued by Regents of the University of Minnesota that is supported exclusively by specified revenues, appropriations, or other funds and not supported by the full faith and credit of the University.

Term bond – A bond of an issue that has a single maturity but with requirements that sinking fund payments be paid prior to its maturity.

Tranche – One of a related series of security issues – each with different cash flows, strike prices, expiration dates, and/or return patterns-created to meet differing investor or issuer requirements or to carve up the returns from a set of underlying cash flows in a marketable way. *(The University's debt issued under the Biomedical Science Research Facilities Funding Program totaling$292,000,000 was issued in 3 tranches – Series 2010A&B, Series 2011B&C, and Series 2013C&D.)*

Trustee – Acts as the custodian of funds and official representative of bondholders. Trustees are appointed to ensure compliance with the contract and represent bondholders to enforce their contract with the issuers. The use of a trustee for a particular bond issue is not required but is a decision to be made each time during the issuance process. The University currently acts as its own trustee.

Underwriter – A person or firm engaged by the University to underwrite debt transactions through a negotiated sales process.

Variable rate demand bonds, (or obligations) (VRDB or VRDO) – A bond which bears interest at a variable or floating rate established at specified intervals (e.g. daily, weekly, or monthly) and which contains a put option permitting the bondholder to tender the bond for purchase on the date a new interest rate is established.

TEMPLATES

Declaration of Official Intent to Reimburse Bond Proceeds

The undersigned, being the duly appointed and acting Treasurer of the Regents of the University of Minnesota (the "University") pursuant to and for purposes of compliance with Treasury Regulations, Section 1.150-2 (the "Regulations"), promulgated under the Internal Revenue Code of 1986, as amended, hereby states and certifies as follows:

1. The undersigned has been and is on the date hereof duly authorized by the Board of Regents of the University of Minnesota to make and execute this Declaration of Official Intent (the "Declaration") for and on behalf of the University.

2. The University proposes to undertake certain projects (the "Projects"), which projects and the estimated costs thereof are generally described on Schedule I hereto, which is hereby incorporated herein and made a part hereof.

3. The University reasonably expects to incur the expenditures made for costs of the Projects in the estimated amounts shown on Schedule I hereto and use the proceeds of debt in an estimated maximum aggregate principal amount of $xxx,xxx,xxx (the "Bonds") after the date of payment of all or a portion of the costs of the Projects and after the issuance of the Bonds. All expenditures shall be capital expenditures, a cost of issuance of the Bonds or other expenditures eligible for reimbursement under Section 1.150-2(d)(3) of the Regulations.

4. As of the date hereof, there are not University funds reserved, allocated on a long-term basis or otherwise set aside (or reasonably expected to be reserved, allocated on a long-term basis or otherwise set aside) to provide permanent financing for the expenditures related to the Projects to be financed on a permanent basis out of the proceeds of the Bonds. The statement of intent contained in this Declaration, therefore, is determined to be consistent with the University's budgetary and financial circumstances as they exist or are reasonably foreseeable on the date hereof.

Dated: _____, _____

REGENTS OF THE UNIVERSITY OF MINNESOTA

By _____
Name, Treasurer

Witnessed the signature above on the date indicated

this _____ day of _____, 20XX

_____
Witness

*See Appendices for more detail on this topic

SCHEDULE I

Description of Projects (1)	Total Estimated Costs (2)	Portion of Total Estimated Costs To be Financed With Proceeds Of Bonds
NAME OF PROJECT **PROJECT #**		
[DETAILED DESCRIPTION OF PROJECT/PROPERTY]		
Totals	**$ xxx,xxx,xxx**	**$ xxx,xxx,xxx**

(1) Include general functional description of character or type of Project, which may include any property, project or program. Examples contained in the Regulations are "highway capital improvement program", "hospital equipment acquisition", and "school building renovation." Alternatively, the University may designate particular funds or accounts as the project description if the functional purpose to be reimbursed is set forth. Example contained in the Regulations is, "parks and recreation fund -- recreational facility capital improvement program."

(2) Include construction or acquisition costs and engineering, architectural, legal, fiscal and other costs.

END OF DOCUMENT

*See Appendices for more detail on this topic

Draw Request Approval Checklist[i]

Bond Draw Description
Description of Bonds:_____ Total Draw Amount: $_____
Expected Draw Date: _____ DPT Meeting Date: _____

Allocation of Bonds to Projects	Yes	No	N/A
1. Have the projects relating to the bond draw request been authorized for use of bond proceeds in the University Order appertaining to the bonds? (If yes, then question 2 is not applicable)			
2. If the question above is answered No, then have the projects relating to the bond draw request been authorized for use of tax-exempt bond proceeds by the Treasurer of the University in accordance with procedures outlined in the University Order? (If No, then tax-exempt debt cannot be used for reimbursement of project expenses.)			

Allocation of Project Expenditures to Bond Proceeds	Yes	No	N/A
1. Have copies of the invoices been reviewed and matched to the draw request?			
2. Are the invoices for work performed on the above listed authorized bond projects and not for other projects? (See section above.)			
3. Are the expenditures for a capital asset (as defined by tax law) and not for other non-capital costs?			
4. Are internal University departmental costs for projects **excluded** in the bond draw request? (If Yes then question 5 is not applicable.)			
5. If the answer to the above question is No then are the departmental charges for the projects determined in accordance with Internal Revenue Code Section 263A and the U.S. Treasury regulations promulgated thereunder? These requirements have been outlined in the May 17, 2010 memorandum to the Assistant Commissioner, Treasury Division of the Minnesota Management and Budget Office.			

Timing of Expenditures	Yes	No	N/A
1. Are the dates of the original expenditures for the capital projects after the issuance date of the tax-exempt debt? (If yes then 2 & 3 are not applicable.)			
2. If the question above is answered No, has the University properly executed a reimbursement certificate for these expenditures? (If yes, then question 3 is not applicable.)			
3. If the question above has been answered No, have 60 days expired since the date of the expenditure and the current date? (if Yes, then tax-exempt debt cannot be used to reimburse the university for the expenditures – If No, then time may exist for a reimbursement certificate to be completed and authorized.)			
4. For reimbursement draws upon which the University has executed a reimbursement certificate, are the dates of the original expenditure for the capital projects (that are to be reimbursed by bond proceeds) less than 60 days prior to the date of the reimbursement certificate? (If no, then such expenditures need to be removed from the draw request.)			

*See Appendices for more detail on this topic

Debt Process Team Approval

We affirm to the best of our knowledge and belief that the above information is accurate and that the attached draw request meets the standards for appropriate use of tax-exempt bond proceeds.

Department	Signed	Date	Print Name	Print Title
Debt Management				Director of Debt Management
University Services - Finance				Finance Professional 3

Distribution

Debt Management Office

[i] A review of the draw request is necessary to ensure that the University is fulfilling its fiduciary responsibility with respect to tax-exempt bond draws. The use of tax-exempt debt for construction projects is permissible only when the expenditures of the debt are for permissible projects and expenses. The purpose of this form is to document the University's review process for authorization of draws of bond proceeds.

END OF DOCUMENT

Certificate As To Designation of Bond Proceeds To Specific Project

The undersigned, being the duly appointed and acting Treasurer of the Regents of the University of Minnesota (the "University") pursuant to and for purposes of compliance with The University Order relating to the issuance of the Series _____ debt, hereby states and certifies as follows:

1. The undersigned has been and is on the date hereof duly authorized by the Board of Regents of the University of Minnesota to make and execute this Certificate as to Designation of Bond Proceeds (the "Designation") for and on behalf of the University.

2. The University has undertaken certain projects (the "Projects"), which projects are generally described on Schedule I hereto, which is hereby incorporated herein and made a part hereof. These Projects have been approved by the Board of Regents as part of the University Capital Planning Process.

3. The costs of the Projects to which bond proceeds are to be allocated under this designation must either 1) be paid after the issuance date of the below referenced bonds or 2) be covered under a Reimbursement Certificate executed consistent with the rules contained in Treasury Regulation 1.150-2.

4. The University hereby designates University of Minnesota General Obligation Bonds Series _____ proceeds to such costs relating to the aforementioned Projects.

5. As of the date hereof, there are not University funds reserved, allocated on a long-term basis or otherwise set aside (or reasonably expected to be reserved, allocated on a long-term basis or otherwise set aside) to provide permanent financing for the expenditures related to the costs allocated to bond proceeds identified in Item 4 above. This Designation, therefore, is determined to be consistent with the University's budgetary and financial circumstances as they exist or are reasonably foreseeable on the date hereof.

6. This Certificate as to Designation will be entered on the official books and records of the University with respect to the Series _____ of the University.

Dated: _____

REGENTS OF THE UNIVERSITY OF MINNESOTA

By _____

Name, Treasurer

Witnessed on the date indicated above

this _____day of _____, 202x

_____

Witness

SCHEDULE I

DESCRIPTION OF PROJECT

_____

(1) Include general functional description of character or type of Project, which may include any property, project or program. Examples contained in the Regulations are "highway capital improvement program", "hospital equipment acquisition", and "school building renovation." Alternatively, the University may designate particular funds or accounts as the project description if the functional purpose to be reimbursed is set forth. Example contained in the Regulations is, "parks and recreation fund -- recreational facility capital improvement program."

(2) Include construction or acquisition costs and engineering, architectural, legal, fiscal and other costs.

(3) The University will ensure that the allocation of the above referenced bond proceeds to costs of the project will occur within 18 months of the date the expenditures are paid or, if later, the date the financed project is placed in service, subject to an outside limit of sixty days after the fifth anniversary of the issuance date, or sixty days after the retirement of the issue date of the bonds [see Treasury Regulation 1.148-6(d)(i)(iii)].

END OF DOCUMENT