



BOARD OF REGENTS POLICY: *Debt Transactions*

SECTION I. SCOPE.

This policy governs the administration's authority to engage in debt transactions and to engage underwriters and debt advisers. Its provisions apply to all external debt transactions of the University of Minnesota (University), regardless of size or term.

SECTION II. DEFINITIONS.

Subd. 1. Debt Transactions.

Debt transactions shall mean all transactions in which the University borrows money or incurs obligations that include or are directly related to the borrowing of money. Debt transactions include the following:

- (a) issuing bonds or commercial paper, whether in underwritten offerings, competitive sales, or direct (private) placements;
- (b) refunding debt;
- (c) entering into capital leases;
- (d) entering into liquidity facilities or lines of credit; and
- (e) engaging in hedging transactions related to University debt.

Subd. 2. Capital Lease.

Capital lease shall mean a lease that at inception, under generally accepted accounting principles, is required to be characterized as long-term debt.

Subd. 3. Hedging Transactions.

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

Subd. 4. Underwriter.

Underwriter shall mean an entity that administers the public issuance and distribution of securities by purchasing them from the issuer and selling them to investors through its distribution network, thereby assuming responsibility of distributing the securities of the public.

Subd. 5. Debt Advisor.

Debt advisor shall mean a person or entity engaged to advise the University with respect to the planning and structuring of debt transactions.

Subd. 6. Core Debt.

Core debt shall mean any general obligation bond or other debt backed by the full faith and credit of the University.

Subd. 7. Special Purpose Debt.

Special purpose debt shall mean University debt supported exclusively by specified revenues, appropriations, or other funds and not supported by the full faith and credit of the University.

SECTION III. RESERVATION AND DELEGATION OF AUTHORITY.

Subd. 1. Reservation of Authority to Issue Debt.

The Board of Regents (Board) shall have the exclusive authority and power to approve the following debt transactions:

- (a) the issuance of debt;
- (b) the refunding of debt; and
- (c) capital leases that are not otherwise subject to Board approval under Board of Regents Policy: *Reservation and Delegation of Authority* or other Board policy.

Subd. 2. Reservation of Authority to Engage Underwriters and Debt Advisors.

The Board shall have the exclusive authority and power to engage underwriters and debt advisers.

- (a) If the Board approves the issuance of debt in 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.
- (b) In exigent situations, as determined by the president or delegate, the president or delegate shall have the authority to engage immediately an underwriter or debt advisor, but shall seek Board approval of the engagement at the next regularly scheduled Board meeting.

Subd. 3. Delegation of Authority.

The president or delegate shall have the authority and power to take all actions other than those described in Subd 1. and Subd 2. to manage and conduct the debt transactions of the University consistent with Board policies. Such actions include:

- (a) entering into or terminating liquidity facilities, lines of credit, and other credit enhancement strategies;
- (b) entering into or terminating hedging transactions; and
- (c) terminating the engagement of an underwriter or debt adviser.

SECTION IV. ESTABLISHMENT OF RATING TARGET LEVELS.

Subd. 1. Core Debt.

The Board establishes a goal of maintaining a long-term core debt rating of Aa/AA category and short-term core debt rating of A-1/P-1 by Moody’s and Standard & Poor’s, respectively.

Subd. 2. Special Purpose Debt.

Special purpose debt may be issued only if it will receive an investment grade credit rating, if rated.

SECTION V. GUIDING PRINCIPLES.

The following shall be used to govern the University’s issuance of debt:

Subd. 1. General.

In general, the following goals shall be pursued, taking into account all relevant factors from time to time:

- (a) maintaining key financial metrics so as to assure continued access to capital markets;
- (b) minimizing University borrowing costs at acceptable levels of risk over the life of the debt; and
- (c) maintaining a portfolio of variable and fixed-rate debt that is in the long-term best interest of the University.

Subd. 2. Taxable Debt.

Taxable debt may be used for those projects with an intended use or other characteristic that precludes the use of tax-exempt debt or when other financial considerations indicate the use of taxable debt is in the best interest of the University.

Subd. 3. Tax-Exempt Debt Maturity.

The average maturity of tax-exempt debt should be as short as is economically feasible for the project, generally, not to exceed the useful life of the financed assets, and shall not exceed the federally legislated limit of the useful life of the financed asset.

Subd. 4. Prohibition.

Debt transactions shall not be used to fund University operating costs.

SECTION VI. REPORTING.

The president or delegate shall annually provide to the Board a *Capital Finance and Debt Management Report*. The report shall include a review of the current and projected interest rate environment, current and anticipated debt plans, appropriate financial benchmarks and ratios, and other factors as may be appropriate or requested by the Board in order that it may exercise its oversight function.

SECTION VII. CERTIFICATION OF AUTHORITY.

As needed or may be requested, the secretary of the Board shall certify the authority and power of the president or delegate to enter into debt transactions as provided in this policy.

REVISION HISTORY

Adopted: June 11, 2004

Amended: December 13, 2012

Supersedes: Debt Transactions, dated June 11, 2004; Debt Transactions, dated March 11, 1994; Asset and Debt Management, dated April 12, 1991; and Debt Guidelines, dated January 13, 1989