



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 advisors. Its provisions apply to all external debt transactions of the University of Minnesota (University), regardless of size or term.

SECTION II. DEFINITIONS.

Subd. 1. Capital Lease.

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

Subd. 2. Commercial Paper.

Commercial Paper shall mean any form of unsecured short-term revolving debt obligation with a maturity of less than 270 days.

Subd. 3. Commercial Paper Facility.

Commercial Paper Facility shall mean a program authorized by the Board of Regents (Board) under which, subject to a total maximum amount, one or more series of commercial paper notes may be issued, reissued, or paid off.

Subd. 4. Core Debt.

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

Subd. 5. Dealer.

Dealer shall mean an entity that administers the public issuance, distribution, and re-issuance of commercial paper notes by purchasing them from the issuer and selling them to investors through its distribution network, thereby assuming responsibility of distributing the notes to the public.

Subd. 6. 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. 7. Debt Transactions.

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

- (a) issuing bonds, notes, commercial paper, or other financing vehicles, 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. 8. 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. 9. 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.

Subd. 10. Underwriter.

Underwriter shall mean an entity that administers the public issuance and distribution of long-term debt 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.

SECTION III. GUIDING PRINCIPLES.

The following guiding principles shall be used to govern the University's issuance of debt.

Subd. 1. General.

The University shall manage the institution's debt portfolio utilizing various types of debt and maintain administrative guidelines to meet its strategic objectives, guided by the following principles:

- (a) minimize borrowing costs at acceptable levels of risk over the life of the debt;
- (b) maintain key financial metrics to assure continued access to capital markets and manage credit-related risks;
- (c) exhibit a maturity profile that meets liquidity requirements and manages the balance sheet of the institution; and
- (d) provide financial and budgetary stability.

Subd. 2. Taxable Debt.

Taxable debt may be used when the intended use or other factors 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. Debt Maturity.

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

Subd. 4. Use of Proceeds.

Debt shall be used to finance the purchase of land and buildings, construction of and remodeling projects to University facilities, and acquisition of and installation of equipment. Debt may be not used to fund University operating purposes without Board approval.

SECTION IV. RESERVATION AND DELEGATION OF AUTHORITY.**Subd. 1. Reservation of Authority to Issue Debt.**

The Board shall have the exclusive authority and power to approve the following debt transactions:

- (a) the issuance of debt;
- (b) the establishment of a Commercial Paper Facility;
- (c) any increase in the total maximum amount authorized for issuance under a previously approved Commercial Paper Facility;
- (d) the refunding of debt, including the refinancing of short-term debt issued under a Commercial Paper Facility to long-term debt; and
- (e) entering into capital lease transactions valued at \$1,000,000 or greater 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, dealers, and debt advisors.

- (a) If a Board approved issuance of debt is sold 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, dealer, 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 capital leases with a value up to \$1,000,000;
- (c) entering into or terminating hedging transactions; and
- (d) issuance of short-term debt authorized under the Commercial Paper Facility up to the total amount authorized for issuance;
- (e) terminating the engagement of an underwriter, dealer, or debt adviser.

SECTION V. ESTABLISHMENT OF RATING TARGET LEVELS.**Subd. 1. Core Debt.**

The Board establishes a goal of maintaining a long-term core debt rating of Aa category as defined by Moody's Investors Service and AA category as defined by S&P's Global Ratings. The Board establishes a goal of maintaining a short-term core debt rating of P-1 as defined by Moody's Investors Service and A-1 as defined by S&P's Global Ratings.

Subd. 2. Special Purpose Debt.

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

SECTION VI. REPORTING.

Subd. 1. Annual Report.

The president or delegate shall annually provide to the Board a capital finance and debt management report in conjunction with the Board's review of the six-year capital plan. 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; October 9, 2020; February 11, 2022

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