



BOARD OF REGENTS POLICY: ***Debt Transactions and Long-Term Capital Financing Program***

ARTICLE I

SECTION I. SCOPE.

This policy governs the authority to engage in debt transactions, to engage underwriters and debt advisors, and to use internal funds generated from the Internal Lending Program for capital projects. Article I and Article II apply to all debt transactions of the University of Minnesota (University), regardless of size, term, or repayment provisions. Article III applies to the long-term capital financing program, which involve the use of interest-only bonds.

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. Interest-Only Bonds.

Interest-only bonds shall mean a type of debt transaction which includes any form of indebtedness the principal of which is due and payable more than one year after the issuance, is issued on a taxable basis, and that requires the payment of interest only for each year the debt is outstanding, with the full principal amount due and payable at maturity.

Subd. 10. Internal Lending Program.

Internal Lending Program shall mean the process of providing financing from University funds for capital projects through internal loans and the collection of principal and interest from the University units responsible for repayment of the loans.

Subd. 11. Principal Repayment Reserve.

Principal Repayment Reserve shall mean the University funds set aside from sources other than external debt proceeds that are invested to grow in value to be applied to the repayment of the principal of the interest-only bonds when due.

Subd. 12. Proceeds.

Proceeds shall mean the amount of funds available through the sale of external debt prior to being used to fund capital projects.

Subd. 13. 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. 14. 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.

ARTICLE II

DEBT TRANSACTIONS

SECTION I. RESERVATION AND DELEGATION OF AUTHORITY.

Subd. 1. Reservation of Authority to Issue Debt.

The Board reserves to itself authority 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 \$5,000,000 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 reserves to itself authority 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 to take all actions other than those described in Subd 1. and Subd 2. of this section 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 \$5,000,000;
- (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 II. DEBT TRANSACTION GUIDELINES.

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.

Subject to Article II, Section II, Subd. 1 of this policy, 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 permitted percentage of the federally legislated limit of the useful life of the financed asset.

Subd. 4. Use of Proceeds.

Proceeds shall be used to finance capital projects including the purchase of land and buildings, construction of and remodeling projects to University facilities, acquisition of and installation of equipment, and to pay costs associated with the issuance of the debt. Debt may not be used to fund University operating purposes without Board approval.

SECTION III. 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 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 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 IV. 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 V. 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.

ARTICLE III

LONG-TERM CAPITAL FINANCING PROGRAM

SECTION I. RESERVATION AND DELEGATION OF AUTHORITY.

Subd. 1. Reservation of Authority to Approve Use of Proceeds.

The Board reserves to itself authority to approve the use of proceeds to finance or refinance capital projects that require Board approval as defined by Board of Regents Policy: *Reservation and Delegation of Authority*. The Board reserves to itself authority to approve the use of proceeds for any purpose other than capital projects, with the exception of those items delegated to the president or delegate in Subd. 4 of this section.

Subd. 2. Reservation of Authority to Oversee the Principal Repayment Reserve.

The Board reserves to itself authority to approve the amount and source of the Principal Repayment Reserve, which will be invested in accordance with Board of Regents Policy: *Endowment Fund*. The Board reserves to itself authority to withdraw funds from the Principal Repayment Reserve for any purpose.

Subd. 3. Reservation of Authority to Approve Use of Funds from Internal Lending Program.

The Board reserves to itself authority to approve the use of funds from the Internal Lending Program to finance capital projects that require Board approval as defined by Board of Regents Policy: *Reservation and Delegation of Authority*. The Board reserves to itself authority to approve the use of funds from the Internal Lending Program for purposes other than capital projects regardless of the amount.

Subd. 4. Delegation of Authority.

The president or delegate shall have the authority to take all actions other than those described in Subds. 1 – 3 of this section to manage the long-term capital financing programs consistent with Board policies. Such actions include:

- (a) Determining the investment strategy of the proceeds within the parameters established in Section II, Subd. 1 of this article, and by Board of Regents Policy: *Investment Functions* prior to their authorized use by the Board.
- (b) Use of proceeds for (i) costs of issuance related to the issuance of interest-only bonds; (ii) the use of the realized earnings on the invested proceeds to fund annual interest expense due on the interest-only bonds; and (iii) to finance or refinance capital projects not requiring Board approval.
- (c) Withdrawal of the earnings realized on the investment of the proceeds to fund interest expense on the interest-only bonds, and to fund investment manager or other related fees incurred in managing the invested proceeds.
- (d) Oversight of the Internal Lending Program including approval of funding for capital projects not requiring Board approval and establishing repayment terms for all internal loans.

SECTION II. LONG-TERM CAPITAL FINANCING PROGRAM GUIDELINES.

Subd. 1. Investment of Proceeds.

The primary investment objective for the proceeds shall be current income and capital preservation, with the following requirements:

- (a) Proceeds shall be separately identified from other University investments and will be available to fund capital projects approved by the Board.
- (b) The invested proceeds shall be subject to limited market risk.
- (c) Investment earnings may be withdrawn to fund interest due on the interest-only bonds and to fund the related investment management fees.
- (d) Earnings on the invested proceeds remaining after authorized uses as defined in Subd. 1 (c) of this section shall be made available to fund capital projects, as required by Internal Revenue Service regulations.

Subd. 2. Investment of Principal Repayment Reserve.

The University shall set aside a specified amount from sources other than debt proceeds as a principal repayment reserve. The amount shall be deposited into a quasi-endowment account in the University's Consolidated Endowment Fund and be invested in accordance with Board of Regents Policy: *Endowment Fund*.

Subject to Article III, Section I, Subd. 2 of this policy, funds will be held in the Principal Repayment Reserve until the original amount set aside plus accumulated earnings is sufficient to repay the amount of interest-only bonds outstanding, or until the Board authorizes the withdrawal of funds for another purpose.

Subd. 3. Use of Proceeds.

The proceeds shall be used to finance University capital projects, to refinance existing outstanding debt, including the refunding of the commercial paper that had been issued to finance the capital projects during construction, and to pay costs associated with the issuance of the interest-only bonds.

Subd. 4. Use of Internal Lending Program.

Subject to Article III, Section I, each capital project funded by the proceeds shall include a repayment plan that collects principal and interest from applicable units and the University shall use the collected balances (i) to fund interest expense on interest-only bonds, and (ii) to provide new funding for capital projects.

Subd. 5. Repayment of the Principal of Interest-Only Bonds.

Depending on the length of time the Principal Repayment Reserve is invested, the final accumulated amount may be sufficient for the full repayment of principal at maturity. In cases where the principal of the interest-only bonds is due in less than 100 years, the accumulated value of the Principal Repayment Reserve may not necessarily provide for the full repayment due to the shorter time period invested. In that situation, the president may recommend to the Board to refinance the interest-only bonds at their maturity for an additional extended period or provide additional funding to pay the principal due in full.

SECTION III. REPORTING.

The president or delegate shall include information related to the invested proceeds and the Principal Repayment Reserve in the annual Asset Management Report. The report shall include the annual investment performance and current market value of the proceeds; the investment performance, current market value, and growth relative to assumptions of the Principal Repayment Reserve; and other information as may be requested by the Board.

The president or delegate shall provide information about the use of proceeds and the Internal Lending Program in the annual Capital Finance and Debt Management Report. The report shall include an annual summary of all funded projects; loans made; the balance of the funds in the Internal Lending Program; and other information as may be requested by the Board.

SECTION IV. 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 Interest-Only Bond transactions as provided in this policy.

REVISION HISTORY

Adopted: June 11, 2004

Amended: December 13, 2012; October 9, 2020; February 11, 2022; July 13, 2022; June 13, 2024

Last Comprehensive Review: 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.