



UNIVERSITY OF MINNESOTA
BOARD OF REGENTS POLICY

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Financial

DEBT TRANSACTIONS

Adopted: June 11, 2004

Supersedes: (see end of 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 maturity.

SECTION II. DEFINITIONS.

Subd. 1. Debt Transactions. *Debt transactions* shall include the following:

- (a) issuing bonds or other forms of debt financing, including, but not limited to, commercial paper, certificates of participation, and bond anticipation notes;
- (b) purchasing a liquidity facility, line of credit, or other credit-enhancement strategies;
- (c) hedging interest rate risk;
- (d) refunding existing debt; and
- (e) executing capital leases.

Subd. 2. Underwriter. *Underwriter* shall mean a person or firm engaged by the University to underwrite debt transactions and/or advise the University on the planning and structuring of debt transactions.

Subd. 3. Debt Adviser. *Debt adviser* shall mean a financial adviser, manager, or any person or firm engaged to advise the University on all elements of planning and structuring of debt transactions.

Subd. 4. Core Debt. *Core debt* shall mean any general obligation bond or other University debt backed by the full faith and credit of the University. Core debt includes borrowings to support the central mission of the University, subject to the provisions of Section V below. The structure of such debt is based on the general financial strength of the University, and may or may not be self-supporting. Self-supporting debt is repaid from sources outside the University's centrally allocated or attributed funds.



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Subd. 5. Special Purpose Debt. *Special purpose debt* shall mean 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 and may include a subordinated revenue pledge.

Subd. 6. Hedging Transactions. Hedging transactions shall mean the use of investment hedging strategies and/or the use of interest rate caps and swaps where possible to reduce the University's interest rate risk.

SECTION III. RESERVATION AND DELEGATION OF AUTHORITY.

Subd. 1. Reservation of Authority to Engage Debt Advisers and Underwriters. The Board shall have the exclusive authority and power on behalf of the University to engage debt advisers and/or underwriters, provided, however, in exigent situations, as determined by the president or delegate, such officers shall have the authority to engage immediately a debt adviser and/or underwriter. In such instance, the president or delegate shall seek Board approval of the engagement at the next regularly scheduled Board meeting.

Subd. 2. Delegation of Authority. The president or delegate shall:

- (a) be responsible to the Board for the faithful execution of all debt transactions, consistent with Board policies and applicable law;
- (b) have the authority and power to enter into hedging transactions to manage interest rate risk on the University's outstanding debt;
- (c) have the authority and power to terminate the engagement of a debt adviser and/or underwriter; and
- (d) have the authority and power to negotiate agreements on behalf of the University to engage an underwriter in accordance with the following procedures:
 - (1) encourage all interested parties to review and recommend periodic changes in the University's debt structure;
 - (2) prepare and publicly distribute to all interested parties a request for proposal for any new debt transactions; and
 - (3) recommend new debt transactions to the Board following review by the Debt Management Advisory Committee.



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SECTION IV. ESTABLISHMENT OF CORE DEBT RATING TARGET LEVELS.

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

SECTION V. GUIDING PRINCIPLES.

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

Subd. 1. Core Debt. Core debt shall be issued in aggregate amounts of \$10,000,000 or more primarily to finance capital expenditures, including certain equipment, with the goal of:

- (a) preserving the University's core debt ratings at the target levels established in Section IV above;
- (b) providing financing flexibility by ensuring continued access to capital markets;
- (c) ensuring access to different forms of variable and fixed-rate bonds; and
- (d) minimizing University borrowing costs at acceptable levels of risk over the life of the issue.

Subd. 2. Special Purpose Debt. Special purpose debt shall be issued primarily to finance capital expenditures, including certain equipment, and shall:

- (a) receive an investment grade credit rating, if rated;
- (b) ensure an acceptable cost of capital;
- (c) identify a revenue stream to support debt service; and
- (d) consider unique market timing or opportunities.

Subd. 3. 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. 4. Tax-Exempt Debt Maturity. 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 shall not exceed the federally legislated limit of the useful life of the financed asset.



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Subd. 5. Prohibition. Debt transactions shall not be used to fund University operating costs.

SECTION VI. BINDING EFFECT.

Action taken by the president or delegate pursuant to this policy shall be an act of and shall bind the Board.

SECTION VII. REPORTING.

The president or delegate shall annually provide to the Board a *Capital Financing 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 deemed appropriate. 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.

SECTION VIII. CERTIFICATE OF AUTHORITY.

At the request of the president or delegate, 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.