

## CENTRAL BANK PROCEDURES

### Roles and Responsibilities

The Treasurer will ensure that staff members responsible for managing the assets and liabilities of the central bank have appropriate expertise and ongoing training.

The Treasurer will periodically consult with an advisory group that includes staff, academic deans, and faculty with expertise in asset/liability management, public finance, investment management, and/or quantitative analysis. The advisory team may also include professional consultants or other subject matter experts. The advisory team will:

- review the business plan associated with capital projects over \$5 million that will rely upon university dollars for debt service and advise the Treasurer as to whether the underlying assumptions in the business plan are reasonable;
- discuss significant or new types of transactions being undertaken within the central bank and provide advice and counsel to the Treasurer regarding the contemplated transaction;
- be familiar with the guidelines of the Treasury Management Policy and may suggest changes to the Treasurer; and
- provide advice on other topics as requested by Treasurer.

### Liquidity Management

The central bank will provide day-to-day liquidity for the university. The central bank may establish mechanisms, subject to Board approval as outlined in policy, to ensure that the university's obligations are met even in circumstances where there is insufficient cash to cover the obligation. Such overdrafts are considered routine and necessary to maximize the investment earnings of the university's Cash & Investment Pool. No short-term borrowing may be outstanding for more than 365 consecutive days.

### Treasury Risk Management

Risk related to the optionality of assets and liabilities will be reviewed by Treasury staff at least annually under various scenarios. The impact of such risks will be quantified and measured against the university's unrestricted net assets and net income. The analysis will include both a single year's analysis to assess the impact of an immediate event as well as a multi-year analysis to assess the impact of sustained economic stress on the university. At a minimum, the following risks will be evaluated:

- Interest Rate Risk: The exposure to changing nominal interest rates and volatility and how such changes impact investment returns and the cost of capital
- Credit Risk: The exposure to default risk and changing credit ratings and credit spreads and how such changes impact investment returns and the cost of capital.

- Liquidity Risk: The exposure to uncommitted financings or liquidity market failures and how such changes impact the operations and reputation of the university and the impact on investment returns and cost of capital.
- Counterparty Risk: The exposure that arises when counterparties fail to perform and how such changes impact the operations and reputation of the university and the impact on investment returns and cost of capital.
- Tax Risk: Understanding how potential changes in tax law or the university's standing as a tax-exempt entity may impact investment returns and the cost of capital.

## Central Bank Loans

### Loan Application

Upon approval of a funding source for a capital project, the sponsoring department or functional area may obtain a loan from the central bank. The borrower will be asked to provide several documents including:

1. Evidence that the project's funding has been appropriately authorized
2. A description of the project
3. The project's budget
4. A schedule detailing funding requirements by month or quarter
5. An analysis showing the source, timing, and adequacy of the funds available to repay the loan
6. A private business use survey for the structure(s) involved
7. Loan agreements require the signature of the responsible Dean or Vice President

### Permitted Loan Terms

- The term of the borrowing will be commensurate with the life of the underlying capital asset but will not exceed 30 years
- Loans will generally have level annual payments that are paid in semi-annual installments during the fiscal year
- As of July 1, 2014, the central bank loan rate is 5.25% inclusive of any fees for 100% tax-exempt projects
- The rate increases depending on the level of taxable debt required

### Expectations

1. Borrowers will sign a loan agreement that states the terms of the loan.
2. Accounting for the expenditures of the project will be done in a manner to ensure compliance with IRS requirements for tax exempt institutions.
3. Borrowers are expected to spend moneys as indicated on the loan application but may work with the central bank to see if changes can be accommodated.

4. Borrowers will make payments as scheduled.
5. Borrowers will inform the central bank if any change in use of the financed building is contemplated. Changes in use include leasing all or a portion of the facility to a third party, permitting unrelated uses in the structure, or entering into a management contract.
6. Prepayments may be negotiated with the central bank and, if possible, will generally be accommodated.

### **Management of the Central Bank**

- The central bank will model the loans and related debt over their respective lifetimes
- The Treasurer may change the borrowing rate for loans, if the analysis indicates that such an action is warranted

## UNIVERSITY OF OREGON

### CASH & INVESTMENT OPERATIONAL PROCEDURES

#### **Selection of Broker/Dealers, Investment Managers and Depository Banks**

##### ***Selection of Broker/Dealers***

All broker/dealers, Registered Investment Advisors (“RIAs”) and their affiliates who desire to provide investment services to the university shall be provided with current copies of these investment procedures. Before an organization, or its affiliates, can provide investment services to the university, it must confirm in writing that it has received and reviewed these investment procedures and the Treasury Management Policy and is able to comply with both.

Broker/dealers, RIAs and their affiliates, shall supply the university with information sufficient to adequately evaluate their financial capacity and creditworthiness. The following information shall be provided:

- audited financial statements;
- regulatory reports on financial condition;
- proof of Financial Industry Regulatory Authority (“FINRA”);
- certification of state registration;
- explanations of any enforcement/disciplinary actions taken within the last ten years;
- if a broker/dealer, a sworn statement by an authorized representative of the broker/dealer pledging to adhere to “Capital Adequacy Standards” established by the Federal Reserve Bank and acknowledging that the broker/dealer understands the university has relied upon this pledge; and
- additional information as requested by the university to evaluate the creditworthiness of the institution.

Only firms meeting the following requirements shall be eligible to serve as broker/dealers for the university:

- “Primary” dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
- Capital of at least \$50,000,000;
- Registered as a dealer under the Securities Exchange Act of 1934;
- Member of FINRA;
- Registered to sell securities in the State of Oregon; and
- Engaged in the business of effecting transactions in U.S. government and agency obligations for at least five consecutive years.

##### ***Engagement of Investment Managers***

The Treasurer may engage one or more qualified firms to provide investment management services for the university. All investment management firms who desire to provide investment management services to the university shall be provided with current copies of these investment procedures. Before an organization can provide investment management services to the university, it must confirm in writing that it has received and reviewed these

investment procedures and the Treasury Management Policy and is able to comply with both.

Only firms meeting the following requirements will be eligible to serve as investment managers for the university:

- a) Registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940;
- b) Must have provided to the university an annual updated copy of Form ADV, Part II, if applicable; and
- c) Must be registered to conduct business in the State of Oregon.

Any firm engaged by the university to provide investment services shall:

- a) Select security brokers/dealers who meet the requirements defined under these procedures is policy;
- b) Provide performance reports at least quarterly;
- c) Report on performance in comparison to the university's investment benchmarks; and,
- d) Not collect any soft dollar commissions or credits, from mutual funds or others, in exchange for services directly provided to a customer.

The Board may authorize other investment managers that do not meet the above requirements.

- At its regular meeting in June 2014, the Board authorized the use of Oregon State Treasury for investment management.
- At its regular meeting in September 2014, the Board authorized the University of Oregon Foundation to manage portions of the Cash & Investment pool subject to the funds being in a segregated account, managed according to UO policy and procedures, and provide routine performance reports to the university.

### ***Selection of Depository Institutions***

The university may deposit funds with any depository insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund. All depositories will provide sufficient collateral to secure any amount of funds on deposit that exceed the limits of the coverage of the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund.

The university may also deposit funds with other entities upon consideration of the risks posed by using the potential nonbank depository. The Board will approve all nonbank depositories.

- At its regular meeting in June 2014, the Board authorized the use of Oregon State Treasury as a depository.

### **Custody/Trust and Administration**

The university will not take physical possession of investment securities. Securities will be held by an independent third-party custodian selected by the university as evidenced by custody/trust receipts in the university's name. The third-party custodian shall annually provide a copy of its most recent report on internal controls.

## General Roles and Responsibilities Related to Investment Management

- The university will have an outside investment advisor review its asset allocation and investment performance at least once every five years
- Investment security selection will be made by outside specialists who are familiar with the university's treasury management policy and procedures
- Treasury Operations staff will review performance for each of the components of the cash and investment pool and report consolidated information to the Treasurer and trustees

### Permitted investments – Tier 1

*All Tier 1 investments will be denominated in U.S. dollars.*

**U.S. Treasury Obligations** - Bills, notes, and any other obligation or security issued by or backed by the full faith and credit of the United States Treasury.

**Negotiable Certificates of Deposit, Bank Deposit Notes and Non-Negotiable Certificates of Deposit / Time Deposits** - Negotiable and non-negotiable certificates of deposit, time deposits and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks with a rating of at least A-1 by Standard & Poor's, Inc., or P-1 by Moody's Investor Service, Inc., for maturities of one year or less, and a rating of at least AA by Standard & Poor's, Inc., or Aa by Moody's Investor Service, Inc., for maturities over one year.

**Bankers' Acceptances** - Issued by domestic banks or domestic offices of foreign banks, which are eligible for purchase by the Federal Reserve System with a maturity of 180 days or less. The issuing corporation, or its guarantor, must have a short-term debt rating of no less than A-1 (or its equivalent) by at least two of the Nationally Recognized Statistical Rating Organizations ("NRSROs").

**Commercial Paper** - "Prime quality" commercial paper, with a maturity of 270 days or less, issued by domestic corporations (corporations organized and operating under the laws of the United States or any state thereof) provided that the issuing corporation, or its guarantor, has a short-term debt rating of no less than A-1 (or its equivalent) by at least two of the NRSROs.

**Repurchase Agreements** - Overnight, term, and open repurchase agreements provided that the following conditions are met:

1. the contract is fully secured by deliverable U.S. Treasury and federal agency obligations as described above, having a market value at all times of at least 102 percent of the amount of the contract;
2. a master repurchase agreement or specific written repurchase agreement governs the transaction and which in each case contains terms qualifying each transaction as a securities loan for purposes of Section 512 under the Internal Revenue Code, and provides for master netting of obligations;

3. the securities are free and clear of any lien and held by an independent third-party custodian acting solely as agent for the university, provided such third party is not the seller under the repurchase agreement;
4. a perfected first security interest under the Uniform Commercial Code in accordance with book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the university; such that the agent holding the underlying securities (the collateral) must hold the securities in a way that ensures they remain the property of the university.
5. for repurchase agreements with terms to maturity of greater than one day, the university will have the collateral securities valued daily and require that if additional collateral is warranted, then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated);
6. the counterparty is a:
  - a. primary government securities dealer who reports daily to the Federal Reserve Bank of New York, or
  - b. a bank, savings and loan association, or diversified securities broker-dealer having at least \$5 billion in assets and \$500 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; and
  - c. counterparty that meets the following criteria:
    - d. a long-term credit rating of at least 'AA' or the equivalent from an NRSRO; or
    - e. a short-term credit rating of at least "A-1" or the equivalent from an NRSRO; and
    - f. counterparty that has been in operation for at least five years.
7. collateral under repurchase agreements with a maturity of 1 business day may be held by the agreement counterparty. Collateral under repurchase agreements with a maturity of greater than 1 business day must be held by an independent custodian.

**Money Market Mutual Funds (Open-Ended Investment Funds)** - Shares in open-ended, no-load, money market mutual funds (" MMMF's"), provided such funds are registered under the Federal Investment Company Act of 1940 and rated at least "AAAm" or the equivalent by an NRSRO. The mutual fund must comply with the diversification, quality, and maturity requirements of Rule 2a-7, or any successor rule, under the Investment Company Act of 1940. No more than 50 percent of the portfolio may be allocated to MMMF's with no more than 25 percent of the portfolio being invested with any Money Market Mutual Fund issuer. The university's assets must not represent more than 10 percent of a fund's total assets.

## Permitted Investments – Tier 2

### ***Any investment eligible to be held in Tier 1***

**Federal Agency Obligations** - Bonds, notes, and other obligations of the United States, and securities issued by any federal government agency or instrumentality or government sponsored enterprise that has a rating no less than the rating on U.S. Government debt.

**Asset-Backed Securities** – High quality asset-backed securities with a rating of at least Aa2 by Moody's Investors Service, Inc., or a rating of at least AA by Standard and Poor's, Inc. If the security's rating is based on insurance, the counter-party must be evaluated before the security

may be purchased. This category includes all asset-backed securities including non-agency mortgage-backed securities (MBS) and commercial mortgage-backed securities (CMBS).

**Corporate debt and municipal securities** will generally be of high quality (Aa2 by Moody's Investor Services, Inc., or AA by Standard and Poor's, Inc.). Lower grade bonds of investment quality (down to BBB-) may also be held but are limited to not more than 20% of the Tier 2 portfolio.

### **Permitted Investments – Tier 3**

***Any investment eligible to be held in Tier 1 or Tier 2***

***Other investments*** including, but not limited to: foreign currency, domestic and global equity, global and emerging market securities, real estate, private loans, private equity, and hedge funds.

***No restriction to credit ratings. Unrated securities are permitted***

### **Portfolio Risk Management**

#### ***Interest Rate Risk***

Tier 1: Maximum duration of 9 months, maximum maturity of 3 years

Tier 2: Maximum duration of 3 years, maximum maturity of 5 years

Tier 3: Portfolio is expected to be invested as Funds Functioning as Endowment or Quasi-Endowment and, consequently has no duration nor maturity limits

#### ***Credit Risk***

Tier 1: As provided above under Permitted Investments. In the event of a split rating, the lowest rating should be considered when determining the appropriate rating category.

Tier 2: As provided above under Permitted Investments. In the event of a split rating, the lowest rating should be considered when determining the appropriate rating category. Unrated securities are not permitted in this portfolio.

Tier 3: No credit limitations

### **Portfolio Benchmarks**

The returns earned by the university's Cash & Investment Pool will be compared on a quarterly basis to a benchmark with similar risk/return characteristics.

The applicable benchmarks for each of the university's three Portfolio Tiers are listed below:

Tier 1 - A benchmark will be established that reflects the risk tolerances of the portfolio as it develops.

Tier 2 - A benchmark will be established that reflects the risk tolerances of the portfolio as it develops.

Tier 3 - A custom benchmark will be developed reflecting the return objectives and risk tolerances as the portfolio develops. In addition, the portfolio's performance will



be compared to other higher-ed endowment portfolios of comparable size using the annual NACUBO-Commonfund Study of Endowments. The Tier 3 portfolio will be expected to rank at the 33<sup>rd</sup> percentile or higher over a five-year period.

**Portfolio Diversification**

The Cash & Investment Pool’s investments shall be diversified by security type and institution. Concentrations in individual securities, industries, geographies, and economic sectors should not be so high as to subject the Cash & Investment Pool to undue risk.

The maximum percentage of the asset allocation and issuer limit permitted in each eligible security shall be as follows:

<i>Sector limit / Issuer Limit</i>	<b>Tier 1 Portfolio*</b>	<b>Tier 2 Portfolio*</b>	<b>Tier 3 Portfolio*</b>
U.S. Treasury Obligations	100% / 100%	100% / 100%	100% / 100%
Oregon State Treasury	100% / 100%	100% / 100%	100% / 100%
Collateralized Bank Deposits	100% / 100%	10% / 10%	10% / 10%
Negotiable Certificates of Deposit and Bank Deposit Notes	100% / 100%	20% / 5%	20% / 5%
Commercial Paper	100% / 100%	20% / 5%	20% / 5%
Money Market Mutual Funds	100% / 100%	50% / 25%	50% / 25%
Repurchase Agreements	50% / 25%	50% / 25%	50% / 25%
Bankers’ Acceptances	35% / 5%	35% / 5%	35% / 5%
Non-Negotiable Certificates of Deposit / Time Deposits	10% / 3%	20% / 3%	20% / 3%
Federal Agency Obligations	0%	100% / 40%	100% / 40%
Corporate Debt Obligations	0%	50% / 5%	50% / 5%
Asset-Backed Securities	0%	20% / 3%	20% / 3%
Municipal Obligations	0%	20% / 5%	20% / 5%
Other Investments	0%	0%	100% / 5%

*\*These assets may be managed by third party investment management firms and subject to specific guidelines developed at the time the manager is engaged. If the State of Oregon is the manager for any of the portfolios, its policies govern and supersede any limits set forth in these investment procedures.*

The sector and issuer limits shall be applied to each Portfolio at the date of acquisition. For all pooled investments, with the exception of pools managed by the Foundation or the Oregon State Treasury, the university’s holdings must represent no more than 10 percent of the net assets of the pool.

**Subsequent Events** - The limitations established by this Investment Policy will apply at the time a security is purchased and will be based on the then-current book value. Should a subsequent event cause a security or the investment portfolio to no longer meet the specifications of the Investment Procedures, the Treasurer will determine the appropriate course of action and report this activity to the Finance & Facilities Committee. There is no requirement that a security be sold prior to maturity if it no longer meets the criteria set forth in these Investment Procedures. Further, any security held by the university at the time these Investment Procedures was adopted may be held to its maturity.

### **Prohibited Investments and Investment Practices**

The university is expressly prohibited from the following investments and investment practices in the Tier 1 and Tier 2 Portfolios:

- a) Borrowing funds for the sole purpose of reinvesting the proceeds of such borrowing unless specifically authorized by the Board or its designated Committee;
- b) Speculative trading (repetitive buying and selling of the same or similar securities for the purpose of capital gains);
- c) Investment in complex derivatives such as range notes, dual index notes, inverse floating rate notes and leveraged notes, or notes linked to lagging indices or to long-term indices
- d) Investment in collateralized mortgage or debt obligations (CMOs and CDOs); and
- e) Investing in any security not specifically permitted by this Policy.

### **Special Note on Derivative Activity**

Treasury Management policy statement 2.11 states that “The Board must approve the University’s use of investment hedging instruments and other derivatives.”

- At its meeting June 2014, the Board authorized the university to enter into forward foreign currency contracts in an aggregate amount not to exceed \$7.5 million (USD) at any time.

### **Investment Income Distributions**

#### **Legally Restricted Interest Income**

Funds that have legally restricted interest or are separately invested for any reason will only be placed in either Tier 1 or Tier 2 and will earn interest based on how they are specifically invested. Separately invested funds include:

- Unspent bond proceeds are placed in the Oregon Short Term Fund (OSTF) and earn that rate of interest. Capital expenditures are paid from the university’s operating account which is reimbursed monthly with a draw from the OSTF.

#### **Other Distributions of Interest Income**

The Treasurer may authorize other funds to also receive interest income and set the rate of interest that will be paid by the internal bank. That rate is currently set at 1.35% per annum

based on the average daily cash balance computed from Banner. If the average daily cash balance is negative, the fund will be charged 1.35% per annum.

**Nonconsolidated Cash Balances**

Cash balances not consolidated into the cash and investment pool are not eligible to receive investment income from the pool. Holders of nonconsolidated cash balances must pay any incremental costs related to the nonconsolidated cash balances. All nonconsolidated cash balances must be approved by the Controller and are generally discouraged. Nonconsolidated accounts may include:

- Unlent Perkins Loan funds
- Monies used to make confidential payments to human research subjects

## LIABILITY MANAGEMENT PROCEDURES

### General Considerations

Debt, or other capital financing, may be used for any purpose that furthers the mission of the university.

The university is not restricted to traditional municipal debt instruments. Other instruments such as mortgages, long-term leases, and other funding mechanisms that may emerge over time may also be considered.

When capital financing is being contemplated, the Treasurer will evaluate:

- How the funds raised will achieve the university's strategic objectives
- Alternative sources of funding and cost of funds
- How the financing affects the university's ability to meet its existing obligations
- The feasibility and appropriateness of the source of repayment
- How the financed project will affect the future fiscal health of the university

The base case assumption for all debt issuances is for tax-exempt, fully amortizing, fixed-rate, level debt service that matches the life of the underlying capital projects with a 10-year call. Any structural deviations considered will be compared to this base case.

If variable rate debt is being considered, interest costs will be estimated using a range of two standard deviations based on historical volatility.

The university will use a professional financial advisor to provide advice on all contemplated debt and debt-related transactions.

Refundings of any outstanding debt may be pursued in order to achieve cost savings. Refunding savings in excess of 5% or \$1 million/year should be captured as quickly as possible unless advised otherwise. Should it be desirable and beneficial to the university, tax exempt bonds may be refunded as taxable bonds.

### Initial Disclosure Documents

Treasury Operations staff will consult with subject matter experts to ensure that all information contained in offering documents is materially complete and accurate. At a minimum, disclosure documents will be reviewed by:

- Director of Treasury Operations for a cover-to-cover review and to ensure that each section is assigned to an appropriate subject matter expert for review
- Controller for financial reporting integrity and to obtain any auditor reviews needed
- CFO/Treasurer for a cover-to-cover review and to ensure new developments are disclosed
- Institutional Research for enrollment and staffing information

- General Counsel's office for cover-to-cover review
- The State of Oregon for information related specifically to the state such as updates related to PERS

As a matter practice, comments are routinely sought on all sections of the disclosure documents and the list above is merely meant to represent the minimum required review. It is the practice of Treasury Operations to have every number and fact confirmed by a source outside of Treasury Operations. The university's Treasurer, with guidance from General Counsel, will attest to the accuracy of the disclosure documents during due diligence. Financial statements, when included, will be audited.

### **Continuing Disclosure**

University-issued bonds require annual and ad hoc continuing disclosure. The university will update all required schedules and post them on the Electronic Municipal Market Access ("EMMA") web site no later than the date stipulated in the official statement of each bond issuance. Details of what must be posted are outlined in the official statement of each university-issued bond issuance. In addition, if any of the following "notice events" occurs, the university will also post notice of the event to EMMA within 10 days:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
7. Modifications to rights of security holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the university;
13. The consummation of a merger, consolidation, or acquisition involving the university or the sale of all or substantially all of the assets of the university, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. Appointment of a successor or additional trustee or the change of name of the trustee, if material.

**Post-Issuance Compliance for Tax-Advantaged Bonds**

The university is committed to ensuring that bondholders continue to receive the tax benefits of holding tax-advantaged bonds and follows a rigorous compliance program. Whether such bonds were issued by the State of Oregon for the benefit of the university or issued directly by the university, the same post-issuance compliance procedures are followed. For the convenience of the State of Oregon their preferred procedures are shown in Exhibit C of the Debt Payment Service Agreement signed by this university in 2014 and are included in this document. [what follows is the entire contents of the current draft of Exhibit C]

## EXHIBIT C

### FORM OF POST-ISSUANCE COMPLIANCE POLICIES

#### Purpose

[Independent University] (the “University”) has adopted these procedures (the “Procedures”) effective [date] in connection with the issuance of one or more series of tax-exempt bonds (the “Bonds”). The University has adopted these Procedures to create internal procedures that will ensure that it complies with promises made in the Bond documents and to ensure that it complies with all applicable requirements of:

- (i) federal tax law necessary to preserve the continued tax-exempt status of interest on any Bonds issued on a federally tax-exempt basis (the “Applicable Federal Tax Law”);
- (ii) federal securities laws applicable to any Bonds sold pursuant to a public offering, including the provisions of Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”) and the Securities Act of 1933 and the Securities and Exchange Act of 1934 (the “Applicable Securities Law”), and;
- (iii) any other applicable regulations (collectively, the “Applicable Regulations”) associated with the Bonds.

These Procedures describe in general terms the requirements of applicable law, but are not comprehensive in nature. The University will consult, as needed, or as directed by the State, with counsel experienced in municipal finance (“Bond Counsel”) to ensure the University’s ongoing understanding of its compliance obligations and continued compliance with applicable requirements.

#### I. GENERAL POST-ISSUANCE COMPLIANCE REQUIREMENTS

##### A. Officials Responsible for Compliance

1. *Tax Compliance Officer.* The University designates its \_\_\_\_\_ as its “Tax Compliance Officer” with the primary responsibility to ensure compliance with Applicable Federal Tax Law relating to all Bonds. The Tax Compliance Officer will review these Procedures and the Tax Certificate annually.

2. *Delegation of Duties.* Consistently with the procedures of the University, the Tax Compliance Officers may delegate certain duties to others. All references to the duties of the Tax Compliance Officer in these Procedures include actions by such person's designee.

B. Resources for Designated Tax Compliance Officer. The University will make the necessary resources available to the Tax Compliance Officer to support their understanding of, and ability to comply with, the requirements of applicable law. These resources may include (without limitation) engagement of and consultation with Bond Counsel, hiring an arbitrage rebate consultant, and continuing education relating to tax and disclosure requirements.

The Tax Compliance Officer should have access to documents from all Bond closing transcripts and related documents, including the following:

- Tax Certificate (the “Tax Certificate”); and
- Copies of each Annual Compliance Certificate.

##### C. Record Keeping Requirements

The Tax Compliance Officer will maintain at least the following documents for the term of each issue of Bonds (including refunding Bonds, if any) plus at least three years:

- a. Transcript of bond transaction
- b. Form 8038, Form 8038-G or Form 8038-GC filed with the IRS

- c. Documentation evidencing use of bond financed property by general public and nongovernmental users, including copies of management contracts, leases and sponsored research agreements.
  - d. Documents evidencing all sources of payments or security of the bonds
  - e. Documents pertaining to any investments of bond proceeds, including the purchase and sale of securities, SLG subscriptions, yield calculations for each class of investments investment income received from the investment of proceeds, guaranteed investment contracts and rebate calculation reports
  - f. Documents regarding the allocation of bond proceeds to expenditures (e.g. allocation of bond proceeds to expenditures for construction, renovation, or purchase of facilities)
  - g. Documents regarding allocation of bond proceeds to bond issuance costs
  - h. Copies of requisitions, draw schedules, draw requests, invoices, bills and cancelled checks related to bond proceeds spent during the construction period
  - i. Copies of all contracts entered into for the construction, renovation or purchase of bond-financed facilities
  - j. Records of expenditure reimbursements incurred prior to issuing bonds for facilities financed with bond proceeds
  - k. Asset list or schedule of all bond-financed facilities or equipment
  - l. Records regarding the purchase and sale of bond-financed assets
- D. Certifications.

The University will comply with all requests by the State to confirm its compliance with all continuing obligations of the University related to the Bonds.

## II. POST-ISSUANCE TAX COMPLIANCE REQUIREMENTS

### A. General Matters

The University will consult with the Bond Counsel and other legal counsel and advisors, as needed, throughout the Bond issuance process to identify requirements and to establish procedures necessary or appropriate so that the interest on Bond will continually qualify for tax-exempt treatment. These requirements and procedures will be documented in the Tax Certificate, Loan Agreement and other documents finalized at or before issuance of the Bonds.

### B. Expenditures of Bond Proceeds

1. *In General.* Upon the issuance of any issue of new money Bonds, the University must reasonably expect to spend at least 85% of all of the proceeds of the Bonds (“Bond Proceeds”) that are expected to be used to finance capital projects (excluding proceeds in a reserve fund or for any non-project purpose) within three years of issuance. The University must also have incurred or reasonably expect to incur, within six months after issuance of the Bonds, binding obligations to unrelated parties involving an expenditure of not less than 5% of such amount of Bond Proceeds, and must reasonably expect that completion of the capital projects and allocations of Bond Proceeds to costs will proceed with due diligence. If they exist, these three expectations will be documented in the Tax Certificate and will allow the Bond Proceeds to be invested at an unrestricted investment yield for three years from the date of issue, regardless of whether 85% of the Bond Proceeds are actually expended within three years. Other limitations or adjustments may be set out in the Tax Certificate. See Section II.E. of these Procedures for rebate and rebate exceptions.

The Tax Compliance Officer must summarize the expenditures made with the Bond proceeds (the “Final Allocation”), showing the assets or portion thereof financed with Bond Proceeds and the assets or portion thereof financed with other funds. The Final Allocation must be made not later than the later of 18 months after the date of the expenditure, i.e., that date a check is written in anticipation of receipt by the payee within 5 banking days of the date the check is drawn, or 18 months after the date the facility to which the expenditure relates is completed and is operating at



substantially the level for which it was designed, but in all events not later than 60 days after the end of the fifth year after issuance of the Bonds (or 60 days after none of the Bonds are outstanding, if earlier).

2. *Establishment of Calendar.* On the date of issuance of any Bond, the Tax Compliance Officer will identify for that Bond issue:

- The funds and/or accounts into which Bond Proceeds are deposited.
- The types of expenditures expected to be made with the Bond Proceeds deposited into those funds and/or accounts and any expenditures prohibited from being made from such funds and/or accounts.
- The dates by which Bond Proceeds described in Section II.B. of these Procedures must be spent or become subject to arbitrage yield limitations (“Expenditure Deadlines”) and all interim dates by which funds and/or accounts must be checked to ensure compliance with the applicable Expenditure Deadlines.

3. *Expenditure Failures.* If the Tax Compliance Officer discovers that an Expenditure Deadline has not been met, he or she will consult with Bond Counsel to determine the appropriate course of action with respect to such unspent Bond Proceeds. The University will take the appropriate action needed with respect to unspent Bond Proceeds, including yield restriction, redemption of Bonds, or other action.

4. *Final Allocation.* The Tax Compliance Officer will timely make the Final Allocation in a manner consistent with allocations made to determine compliance with arbitrage yield restriction and rebate requirements (See Section II.E. of these Procedures).

5. *Records of Expenditures.* The Tax Compliance Officer will maintain records related to the expenditure of Bond Proceeds, including records:

- Identifying all of the assets or portion of assets financed with Bond Proceeds.
- Relating to requests for Bond Proceeds, construction contracts, purchase orders, invoices, and payment records.
- Relating to costs reimbursed with Bond Proceeds.
- Relating to any action taken as a result of a failure to meet the Expenditure Deadlines.
- The Final Allocation and all supporting documentation.

The Tax Compliance Officer will ensure that these records will be retained for the life of the Bonds, plus any refunding bonds, plus three years and may be in the form of documents or electronic copies of documents, appropriately indexed to specific Bond issues and compliance functions. If the University maintains electronic records, it will have a document migration policy in place.

C. *Project Use Requirements*

1. *In General.* No more than the lesser of 10% or \$15 million of the net proceeds of the Bonds may be used for a Private Business Use (as hereinafter defined) as further provided in the Tax Certificate. A more strict limit of 5% applies to net proceeds used for a Private Business Use that is disproportionate or unrelated to the governmental uses of the Project.

For this purpose, “net proceeds” means the sale proceeds of the Bonds less amounts deposited in a reasonably required reserve fund, plus investment earnings on sale proceeds (including investment earnings on a reasonably required reserve fund following completion of the project).

For this purpose “Private Business Use” generally means use of the assets financed with Bond Proceeds (“Bond-financed Assets”) in a trade or business by a business entity (e.g., a corporation or partnership whether or not it is a 501(c)(3) entity) or the Federal government (a “Private User”). Private Business Use will arise from the lease or sale of the

Bond-financed Assets to a Private User. Private Business Use will generally arise through a contract whereby a Private User manages, operates or provides services with respect to Bond-financed Assets (a “Management Contract”). Private use may also arise as a result of the University entering an agreement (a “Research Agreement”) to engage in research in bond-financed space, if such research is sponsored by a Private User or as a result of an agreement for the sale of naming rights to a bond-financed facility. However, certain exceptions exist to these rules, which exceptions are best interpreted and applied by Bond Counsel.

2. *Monitoring of Private Business Use.* For each Bond-financed Asset, the Tax Compliance Officer will determine the expected use of such asset and whether such Bond-financed Asset is or will be subject to any contracts that may give rise to Private Business Use.

The Tax Compliance Officer will inform the persons responsible for the management and operation of the Bond-financed Asset (“Asset Managers”) of the Private Business Use restrictions relating to the Bond-financed Asset. The Tax Compliance Officer will work with Asset Managers to identify and discuss any existing or planned use of Bond-Financed Assets that may give rise to Private Business Use.

The Tax Compliance Officer will require Asset Managers to submit any Management Contract, Research Agreement or naming rights agreement with respect to any portion of Bond-financed Assets for his or her review prior to entering such agreement. The Tax Compliance Officer will consult with Bond Counsel or other capable advisors to determine whether such Management Contract, Research Agreement, or naming rights agreement constitutes Private Use.

3. *Sale, Transfer or Lease.* The Tax Compliance Officer will ensure that no Bond-financed Asset (or naming rights with respect to a Bond-Financed Asset) will be sold, leased or transferred without prior approval by Bond Counsel.

4. *Identification and Correction of Violations.* If the Tax Compliance Officer determines that the use of Bond Proceeds or Bond-financed Assets is different from the covenants and representations set forth in the Tax Certificate, he or she will contact Bond Counsel in a timely manner. The University will cooperate fully with its advisors regarding various remedies available to prevent an adverse effect on the Bonds.

5. *Record Keeping Requirements.* The Tax Compliance Officer will keep or delegate to each institution the responsibility to keep copies of all Management Contracts, Research Agreements, and other arrangements involving the lease, management, sale, operation, service or other use of all Bond-financed Assets. Such records will be retained for the life of the Bonds, plus any refunding bonds, plus three years and may be in the form of documents or electronic copies of documents, appropriately indexed to specific Bond issues and compliance functions.

*D. Investment of Proceeds*

On the date of issue of any Bond, the Tax Compliance Officer will identify for that obligation:

- All of the funds and/or accounts into which Bond Proceeds are deposited and the applicable yields at or below which such funds and/or accounts must be invested.
- Any funds and/or accounts that are not directly funded with Bond Proceeds which must be invested at or below the yield on the obligations.

The Tax Compliance Officer will ensure that the investment of Proceeds is in compliance with the applicable yield restrictions contained in the Applicable Regulations.

The Tax Compliance Officer will obtain regular, periodic (monthly) statements regarding the investments and transactions involving Bond Proceeds.

The Tax Compliance Officer will keep all records with respect to investments, including:

- United States Treasury Securities-State and Local Government Series subscription information.
- The solicitation and all responses received from the bidding of any government obligations.
- Records of investment activity sufficient to permit calculation of arbitrage rebate or demonstration that no rebate is due.

E. Arbitrage Yield and Rebate

The Tax Compliance Officer will be responsible for the prompt calculation of rebate. The University may engage the services of an arbitrage rebate services provider, and in that event, the Tax Compliance Officer will timely provide to the provider statements regarding investments and transactions involving Bond Proceeds and all other requested documents and information.

The Tax Compliance Officer will assure prompt compliance with required rebate payments, if any, or, if a rebate service provided is engaged, monitor the arbitrage rebate service provider to assure compliance with required rebate payments, if any.

During the construction period of a capital project, the Tax Compliance Officer will monitor the investment and expenditure of Bond Proceeds, and, if applicable, consult with the arbitrage rebate service provider or Bond Counsel to determine whether the University is meeting any spending exception.

In the event that a rebate payment is due, the Tax Compliance Officer will ensure that such rebate payment is accompanied by a Form 8038-T.

The Tax Compliance Officer will retain copies of all arbitrage reports, related return filings with the Internal Revenue Service, and copies of cancelled checks with respect to any rebate payments and information statements. Such records will be retained for the life of the Bonds, plus any refunding bonds, plus three years and may be in the form of documents or electronic copies of documents, appropriately indexed to specific Bond issues and compliance functions.