

University Tax-Exempt Bond and Private Business Use Guidelines

July 7, 2016

Introduction and Purpose

The purpose of this TMOG is to identify the University of Minnesota (University) guidelines used when issuing debt and subsequently measuring private business use (PBU). The University generally issues governmental tax-exempt bonds and the PBU on those issuances may not exceed 10% over the life of the bond. Occasionally, the University may be in a position where the issuance of § 501(c)(3) debt is necessary. PBU on § 501(c)(3) debt may not exceed 5% over the life of the bond.

University Guidelines

The following guidelines will be considered when issuing debt and subsequently measuring PBU.

- The University will plan to keep PBU on any one building under 50% at all times to avoid triggering the disproportionate use rules which would drop the 10% PBU threshold down to 5%,
- Generally, the undivided portion methodology will be used for all University tax-exempt bond issuances.
- The following table represents the allowable PBU threshold, at both the debt level and at the building level, to which the University should plan:

	Portion of PBU allocated to University Tax-exempt Bonds	Portion of PBU allocated to § 501(c)(3) Tax-exempt Bonds
Debt Level	5%	3%
Building Level	Less than 15%	Less than 15%

One of the main goals of establishing the thresholds identified above is to allow for a cushion for future private business activities. To keep PBU within the above thresholds, the following steps should be taken during the planning phase of the project(s):

- Have enough taxable bonds or equity funding to allow the PBU threshold of 5% for University tax-exempt bonds to be met (or 3% for § 501(c)(3) debt), and
- Strive to meet the qualified building improvement exception. See TMOG #10 - Qualified Improvement Exception for more information.

The methodology for allocating equity to cover any private use must be consistently applied for the life of the project and, generally, will be as follows:

- First, any equity will be allocated to cover private business use.

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- Second, if there is PBU in excess of equity, the PBU will be allocated pro ratably across the tax-exempt bonds based upon the applicable total debt issuance amounts related to the projects and/or buildings.
- If these conditions are not met, the University Tax Management Office (TMO) will explore and advise of ways to reduce the amount of PBU.

Tracking PBU

The following guidelines will be used by the TMO when tracking PBU.

- Annual spreadsheets will be kept for each building and debt issuance.
- Measurement of PBU will be maintained for all buildings on campus and updated annually based upon the TMO review. Risks associated with PBU for each debt issuance will be noted in the following color key:

PBU % allocated to University Debt	Risk	Color
Less than or equal to 5%	Acceptable	Green
Between 5% and 7.5%	Moderate	Yellow
Over 7.5%	Extreme	Red

- In addition, debt will be tracked at the building level and will be noted in the following color key:

PBU % on Buildings with Debt	Color
No Debt; PBU < 15%	Blue
No Debt; PBU > 15%	Orange
Debt on Building; PBU < 7.5%	Green
Debt on Building, PBU ≥ 7.5% and ≤ 15%	Yellow
Debt on Building, PBU < 15%	Red

- If a building has 15% or more PBU
 - The building needs to be monitored for future use of the qualified improvement exception.
 - Restrictions exist on the use of Higher Education Asset Preservation and Renewal (HEAPR) funds as a result of the state using bond proceeds to finance those funds. The TMO must be consulted when PBU exceeds the 15% threshold before any HEAPR funds are allocated to the facility.

The Tax Management Office will train and communicate with other departments on the aspects of PBU.

If you have questions, please contact the Tax Management Office at taxhelp@umn.edu or 612-624-1053.