OFFICE OF TREASURY SERVICES
HANDBOOK FOR TAX-EXEMPT DEBT

The University of Connecticut’s Bond Related Mission, Authority, Responsibilities, Processes and Operations

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I. GENERAL INTRODUCTION AND MISSION

The tremendous renewal of the University of Connecticut’s infrastructure is paralleled by its growth as a world-renowned institution of higher education. As part of this coming of age, the University has become a large issuer of tax-exempt bonds. While the University enjoys the privileged benefits of the use of tax-exempt bond proceeds, it also must shoulder the imposing tax-exempt bond related responsibilities it never had before. In the perspective of the financial markets, the reputation of the University is intertwined with that of the State of Connecticut. Therefore, it is in the interest of the people of the State of Connecticut, and the University, to prudently manage the UCONN 2000 Bond program.

The University has summarized its overall accountability in its mission statement as follows: “the University must accept responsibility for estimating the resources required to achieve and maintain its mission, and for accounting to the public funding sources and the community at large for the use of those resources.”

In support of the University, it is the mission of Treasury Services to professionally and prudently manage the bond issuance process, the investment and disposition of bond funds, and to efficiently manage the other financial resources of the University of Connecticut, and to promote public confidence in the University's Treasury Operations.

II. AUTHORITY TO ISSUE BONDS

A. Statutory Authority

The broad authority for UCONN to issue tax-exempt or taxable bonds began with the passage of P.A. 95-230 by the General Assembly. The UCONN 2000 bonding program, as now codified in Connecticut General Statutes Section 10a-109 through 10a-109y, enables the University to issue General Obligation and Special Obligation Bonds. The law allowed the University to enter Bond Indentures to establish the details of the bond issues.

It is important to understand that under the law the University, not the State, is the issuer of the Bonds. The Statute authorizes two types of bonds: the University’s General Obligation Bonds and Special Obligation Bonds. The General Obligation Bonds are backed by the full faith and credit of the University, and in the case of those carrying the State’s Debt Service Commitment Bonds, are paid for out of the State's General Fund. The Special Obligation Bonds are paid for out of certain, pledged revenues of the University as defined in the particular bond series indentures.

The Statute authorizes projects estimated to cost $1,250,000,000 of which $962,000,000 may be financed by General Obligation bonds of the University secured by the State’s Debt Service Commitment (“DSC” Bonds). An additional $18,000,000 of UCONN 2000 projects have been funded by State General Obligation Bonds. The balance of $240,000,000 may be financed by gifts, other revenue, or borrowing resources, including
Special Obligation Bonds, of the University, or through the deferring of projects or achieved savings.

B. Bonds Issued Pursuant to Indentures

The Indentures are signed legal agreements with bondholders, represented by the Trustee Bank, that define the bond funds and accounts, the flow of bond proceeds, and the responsibility and obligations of the parties. Bonds are issued under the Master and Supplemental Indentures. The University increases its liability to lawsuits if it does not follow the Indentures. Additionally, because bonds are issued in the Public Markets the University falls under the regulations and requirements of the U.S. Securities and Exchange Commission and other Regulatory bodies with civil and other enforcement jurisdiction.

1. The UCONN General Obligation Bonds Are Issued Pursuant to the Master and Supplemental Indentures of Trust

The University’s General Obligation Bonds are issued pursuant to the General Obligation Master Indenture of Trust, dated as of November 1, 1995, between the University of Connecticut, as Issuer, and, Fleet National Bank of Connecticut, as Trustee (now State Street Bank & Trust).

The Master Indenture of Trust was approved by the University’s Board of Trustees on November 10, 1995, and the State Bond Commission on December 21, 1995. The Master Indenture allows several series of bonds to be subsequently issued through Supplemental Indentures that do not need to go to Bond Commission if they follow the Master Indenture of Trust.

The University’s Board of Trustees and the Office of the Governor approve the subsequent Supplemental Indentures for each bond issue. The Indentures are signed legal agreements with bondholders, via the Trustee Bank, that define the bond funds and accounts, the flow of bond proceeds, and the responsibility and obligations of the parties.

2. UCONN Special Obligation Bonds Are Issued Pursuant to the Master and Supplemental Indentures of Trust

UCONN 2000, as codified in Connecticut General Statutes Section 10a-109 through 10a-109y, also authorizes the University to issue Special Obligation Revenue bonds. The Special Obligation Indenture of Trust and the Student Fee Revenue Bonds Supplemental Indenture was approved by the University’s Board of Trustees, as to form, on November 8, 1996.

On February 4, 1998, the University issued $33,560,000.00 of Student Fee Revenue Bonds 1998 Series A to fund $30 million of the South Campus
Residence and Dining Hall UCONN 2000 Project. The balance was used to fund a Special Capital Reserve Fund and to pay costs of issuance. The Student Fee Revenue Bonds were issued pursuant to the Special Obligation Indenture of Trust, dated as of January 1, 1997, between the University of Connecticut, as Issuer, and, State Street Bank & Trust, as Trustee.

On June 1, 2000, the University issued $89,570,000.00 of the University of Connecticut Student Fee Revenue Bonds 2000 Series A pursuant to the Special Obligation Master Indenture and the Special Obligation Student Fee Revenue Bonds Second Supplemental Indenture, dated as of May 1, 2000. The Second Supplemental Indenture authorized the issuance of bonds up to a principal amount not exceeding $90,000,000 for construction of the Hilltop Dormitory; Hilltop Student Rental Apartments; and the Parking Garage South Projects and to provide for capitalized interest and costs of issuance. The Special Obligation Student Fee Revenue Bonds 2000 Series A does not have a Special Capital Reserve Fund ("SCRF").

a. State’s Special Capital Reserve Fund Authority

The University can issue bonds secured by the State’s Special Capital Reserve Fund following a determination of the Board of Trustees of the University that the Special Obligation bond issue is self-sufficient as defined in the act. The self-sufficiency finding by the University is then submitted to and confirmed as not unreasonable or arbitrary by the Treasurer of the State, prior to the issuance of the bonds.

The Special Capital Reserve Fund is funded at issuance by the University to meet the minimum capital reserve requirement. However, subject to notification by the University on or before December first annually, if this amount falls below the required minimum capital reserve, there is deemed to be appropriated from the state General Fund the sums necessary to restore each such Special Capital Reserve Fund to the required minimum capital reserve.

III. TREASURY SERVICES’ DEBT MANAGEMENT MISSION, RESPONSIBILITIES, OPERATIONS, AND PROCEDURES

A. Debt Management Mission

The University’s debt management mission is to manage the University's debt programs effectively and efficiently to minimize the cost of the debt to Connecticut taxpayers; to ensure the University has efficient access to the capital markets; to ensure compliance with the various Federal, State, University and other regulations and constraints involving tax-exempt debt so that the University’s may continue to issue tax-exempt debt; and to
provide essential bond related information to the University’s Board of Trustees, and State and Federal agencies, and other entities. Debt Management’s clients include the University, the State Government, and Connecticut taxpayers.

B. Treasury Services Debt Management Responsibilities

As the public finance department for the University of Connecticut, the Treasury Services’ debt management function responsibilities include issuing and managing the University's debt in a prudent and cost-effective manner. Treasury Services manages the issuance of tax-exempt debt, in conjunction with the Office of the State Treasurer, to finance University capital projects as approved by the Board of Trustees. It also administers the debt service payments for Special Obligation bonds; manages any cash flow borrowing; administers the bond funds; and maintains the University's rating agency relationships. The efficiency with which debt management performs directly affects the amount of interest ultimately paid for by Connecticut taxpayers or the University.

Treasury Services is also responsible for the tax-exempt arbitrage compliance following the Internal Revenue Service rules and regulations relative to the University's issuance of tax-exempt debt. Additionally, the debt management function works with the University's Purchasing Department, as well as the Office of the State Treasurer, on the tax compliance of any UCONN tax exempt lease financings, pursuant to Connecticut General Statutes 3-20d, including IRS filings.

C. The Bond Issuance Process

The power to issue tax-exempt is both a powerful privilege and a weighty responsibility. The Bond issuance process is long and arduous with many required steps. The consent of several State officials and agencies are required. There is a designed bureaucracy inherent in the processing of the essential state power to enter into debt on behalf of the people of the State and that is too large extent unavoidable.

1. Bond Proceed Needs & Authorization

The issuance process begins with the determination of what projects will be financed with the next fiscal year’s allotment of bond authorizations. There is an annual ceiling for each fiscal year in the legislation. Then a Supplemental Indenture is drafted. Once approved by the Board of Trustees and the Office of the Governor (or deemed approved if 30 days elapse), the Supplemental Indenture becomes the “Authorization” for issuing bonds. The Supplemental Indenture basically sets broad guidelines for the types of bonds to be issued, defines certain terms, delegates certain responsibilities, and establishes the total amount of dollars to be bonded by Project.
2. Schedule and Working Group

The next step is to develop a draft issuance schedule for when the money is required and the steps in the issuance process in between, and to schedule a window for the issue with the State Treasurer.

A working group is then assigned. For a negotiated bond issue (such as UCONN has been), this usually comprises: UCONN’s CFO and Treasury Services; usually a representative of the State Treasurer’s Debt Management Department; a representative of the State Treasurer’s Public Relations Department; and often the Deputy Treasurer (the 1999 bond issue was headed by the State Treasurer herself; UCONN’s bond counsel; the State’s Bond Counsel; UCONN’s financial advisors; the bookrunning Underwriters (this changes by issue) and their counsel; the Trustee Bank and their counsel, and often times others. Sometimes a negotiated bond issue is well underway before the underwriters are involved. Other involved entities are the rating agencies, the bond insurers, the printers, and others.

The working group moves step by step together through the issuance schedule. While there are one or two face to face meetings, besides investor presentations, much of the work is done by phone, fax, and conference calls. The issuer is responsible and always has a role. The other working group members’ contributions wax and wane along with their respective responsibilities. All members have a role and can influence the final product of the working group, whether attending the due diligence meetings, the investor meetings, working on obtaining the ratings for the bonds, producing the Preliminary Official Statement, or the sale of the bonds, or producing the Bond Purchase Agreement, or the Official Statement, or the Tax Regulatory Certificate or other closing documents.

The actual amounts bonded for will vary up to the time of issuance and then must be sized for a twelve month period of expected spending on each authorized project, plus 20% if required up to the maximum authorization, plus cost of issuance.

Treasury Services prepares many of the technical closing documents and records.

3. Bond Issuance Schedule Operational Example

A typical UCONN negotiated bond Issue would have the following abbreviated steps:

(a) Kick Off Meeting – Members introduced and begin preliminary discussion of bond issue including comments to draft schedule
(b) Fax and calls to update Preliminary Official Statement pages.
(c) UCONN Mailing to Board of Trustees for approval of revised Supplemental Indenture (to reflect budgets shifting bond proceeds between projects)
(d) Rating Agencies contacted  
(e) Governor’s Budget Addresses comes out and UCONN & State discloses respective possible impacts  
(f) UCONN Board of Trustees approval of revised Supplemental Indenture (to reflect budgets shifting bond proceeds between projects)  
(g) Preliminary Official Statement almost finished  
(h) Marketing - UCONN & OTT Public Relations review materials  
(i) Marketing program begins – radio, newsprint, TV, mailings, possible Internet site, etc.  
(j) Preliminary Official Statement goes to Printer  
(k) Bonds receive ratings  
(l) Investor Seminars – State Treasurer and UCONN CFO make presentations to Investors at Stamford Campus  
(m) Financial Advisors get indications of Bond insurance  
(n) Final sizing of bonds-UCONN Construction  
(o) Bonds Sold to Retail Customers (approx. 2-3 days)  
(p) Bonds sold to Institutional Customers (approx. 1 day)  
(q) Bonds Priced & Bond Purchase Agreement signed  
(r) Closing Documents drawn up  
(s) Closing Memo Written  
(t) Preclosing  
(u) Closing – Money in Bank

D. On-Going Debt Management Operations

Once the bonds are issued, a new operational cycle begins for debt management. The investments, deposits, disbursement of bonds proceed all need to be monitored. New and remaining Authorizations are monitored. The Supplemental Indentures, and other information is prepared for the Board of Trustees. Rating agency and investor information request and relationships are addressed. The tax-exempt lease compliance continues. Major and minor problems arise from external and internal sources that must be addressed.

Filings are made with the Trustee, the State Treasurer, NRMSIRS, and others. Questions and requests for information answered from other State Agencies or entities. Special request or projects touching on bond issues are addressed (e.g. private use of Banquet Hall by a possible hotel financing). The University participates in interviewing and selecting underwriters, bond counsel, financial advisors and other professionals at the State Treasurer’s Office. Tax-Regulatory Compliance takes up a lot of resources. Spreadsheets are maintained and created for the vast detail of information needed for the bonding process. Then the bonding cycle begins again.

IV. TREASURY SERVICES TAX-EXEMPT COMPLIANCE RELATED MISSION, RESPONSIBILITIES, OPERATIONS AND PROCEDURES
A. Tax-Exempt Compliance Mission

Treasury Services tax-exempt compliance mission is to manage the University's tax-exempt debt programs and tax-exempt bond proceeds cash management effectively and efficiently to minimize the non-compliance liability to the University, the State, and Connecticut taxpayers; and to provide investment earnings to the University or State within the regulations where possible. A main goal is to ensure the University has continued access to the tax-exempt markets.

B. Tax-Exempt Compliance Responsibilities

Tax-exempt compliance is an important, highly complex and time intensive responsibility that covers both the debt management and cash management areas. As the issuer of tax-exempt bonds it is the University’s responsibility to meet the Internal Revenue Service regulations. The University’s tax-exempt compliance responsibility is tied hand to hand with the University’s ability to issue and use UCONN2000 bond proceeds to design, award, and construct UCONN2000 programs. One of the State of Connecticut’s largest UCONN2000 concerns about the University is it does nothing to jeopardize the tax-exempt status of its bonds, and by extension, the reputation of the State of Connecticut with the security markets, bondholders, and regulatory entities.

Tax-exempt compliance has downside risks and some upside potential. The downside of failing to meet the heavily regulated and complex Internal Revenue Service regulations is that the University could lose its federal privilege to issue debt tax-exempt; would be exposed to bondholder lawsuits; and would lose its efficient access to the capital markets. Additionally, if the University does not have a well managed tax-exempt compliance process in place that meets the State standards, it is likely that the State will take action to move the entire UCONN2000 program, including construction, over to State management. This is because the tax-exempt compliance responsibility is tied hand to hand with the ability to use bond proceeds.

An upside potential is that the University or State has the potential to keep investment earnings above the arbitrage yield for certain time periods if certain spending and other requirements are met by the University.

The University’s Chef Financial Officer is responsible for the Tax Regulatory Certificate entered into and filed with the Internal Revenue Service for each bond issue.

C. Tax-Exempt Compliance Operations

Tax-exempt compliance operations are time intensive. The information has to be continually updated for new projects that are added, prior projects that have a change of use, or new information that comes to light. The synthesis of the information into a cohesive tax-exempt compliance program is complex. A major product of the tax-exempt compliance operations is the Tax Regulatory Certificate, which is part of the closing documents.
The Tax Regulatory Certificate is the backbone of bond counsel’s opinion (bond counsel and tax counsel are the same for the University) that the University’s bonds can be issued in the tax-exempt market. Bond Counsel relies on representations made by the University for the tax-exempt information upon which they base their opinion. If the tax-exempt opinion is wrong the issuer could get sued by bondholders and in turn can sue the bond counsel. This has happened to the State. The issuer also faces possible civil and other enforcement action by certain regulatory bodies. Bond counsel is therefore a somewhat independent role.

Operationally, UCONN gathers the tax-exempt information via a tax-exempt questionnaire for each Project listed in the approved Supplemental Indentures. It is important that Project information can be traced to Board of Trustee authorizations. The tax-exempt questionnaire is circulated to the persons designated by the Chancellor to have responsibility for the particular Project.

Much operational time is spent in finding and educating the responsible people, gathering the information, reading supporting documents such as leases, making calculations, trying to find safe harbors, updating the information, and keeping track of it. It is a continual process and stays in place until all the bonds are paid off (about the Year 2025 for the DSC bonds).

The tax-exempt information must be filed with bond counsel before a bond issue can take place. Additionally, it must be filed with the State Treasurer’s Office annually.

The information is ultimately condensed by bond counsel into the Tax Regulatory Certificate. This is an agreement between the University and the State with the Internal Revenue Service whereby, the University discloses certain public-private use detailed information on each Project to be financed with the tax-exempt bonds, and makes certain representations that it will spend the bond proceeds pursuant to certain IRS regulations. The Tax Regulatory Certificate is signed by the Chief Financial Officer of the University, as issuer, and the State Treasurer, and is filed with the Internal Revenue Service.

The Tax-Regulatory Certificate is a very important, complex, and essential document. Without it the University cannot issue bonds tax-exempt.

**D. Treasury Service’s Tax-Exempt Compliance Procedures**

Generally, the tax-exempt compliance process would encompass the following steps:

1) Develop Questionnaires for each BOT Authorized Project
2) Meet with and Make educational Tax-exempt presentations to UCONN Community
3) Assist with questions, etc.
4) Obtain and review any additional information like Leases, Management Contracts for
5) Private Use
6) Private Research
7) Recommend IRS Safe Harbors where possible
8) Update Questionnaires and follow up on missing or partial information
9) Work with bond counsel if tax law question
10) Forward completed questionnaires to bond counsel
12) Monitor tax-exempt application of Bond Proceeds to ensure compliance with Tax Regulatory Certificate, etc.
13) Liaison with Bond Counsel on tax-exempt related matters
14) Track Bond Proceeds Drawdowns against Arbitrage Spending Requirements
15) For DSC Bonds try to meet the elections into the IRS percentages
16) For Revenue Bonds: Perform IRS Required Rebate Computations
17) For Revenue Bonds: Budget Liability and Supervise any payments to IRS
18) Manage IRS and OTT filings of all UCONN Tax-exempt debt including Leases
19) General Advisor to UCONN on tax-exempt Financing Matters
20) Analyze Special Projects or proposed financings as requested
21) Keep Records

v. TREASURY SERVICES’ CASH MANAGEMENT MISSION, RESPONSIBILITIES, OPERATIONS AND DISBURSEMENT AND INVESTMENT PROCEDURES FOR BOND PROCEEDS

A. Cash Management Mission

Treasury Services Cash Management mission is to manage prudently and productively the deposit, investment, and disbursement of bond proceeds under the various Federal, State, University, and other regulations. Managing bond proceeds as efficiently as possible while meeting while the constraints imposed by the Indentures and the Internal Revenue Service regulations is a prime concern.

B. Cash Management Operations

The University’s Treasury Services operations act as the clearinghouse for all of the bond fund inflows and outflows totaling several hundreds of millions of dollars. The Cash Management responsibilities include banking relationships and long and short-term bond proceed investments.

The bond proceed treasury management responsibilities include the administration and investment of bond funds, managing the University’s cash transactions as they relate to bond proceeds, the investment of bond proceeds in both long and short term suitable instruments, the management of the University’s banking relationships, and the
coordination of banking and cash management activities with the State Treasurer's Office.

Cash Management activities include cash accounting and reporting for bond proceeds as they relate to the Authorized Officer Certificates, cash positioning and forecasting, investing, and bank account administration, especially with the Trustee Bank holding the bond funds, and any bond related checking accounts.

C. DSC Indenture Interpretation: Trustee-Held Construction Fund

To better understand the disbursement process as it is now, it is important to understand the evolution of bond proceeds to the University’s Trustee Bank.

Prior to June 1998, all of the Debt Service Commitment Bond proceeds were deposited with the Office of the State Treasurer, and treated similar to State bond proceeds. Subsequently, the Office of the Attorney General determined that the UCONN 2000 bonds are issued by the University and not by the State. Accordingly, upon the advice of bond counsel and in order to conform to the Master Indenture of Trust, the Debt Service Commitment Bond construction fund proceeds were deposited to the Trustee Bank. The bond proceeds for cost of issuance are still deposited with, and disbursed by, the Office of the State Treasurer.

The Indenture of Trust provides that the University is authorized and directed to order each disbursement from the Construction Account held by the Trustee upon a certification filed with the Treasurer and the Trustee. The Indenture provides that an Authorized Officer of the University shall sign such certification, and that it provides certain disbursement information. Once the Authorized Officer certification filings are made, the University can directly disburse the payments.

D. Cash Management Procedures for Disbursement of Bond Proceeds

The following Procedures are for the Debt Service Commitment Bonds. The University’s Special Obligation Bonds follow similar procedures.

The Indenture of Trust provides that the University is authorized and directed to order each disbursement from the Construction Account held by the Trustee upon a certification filed with the Treasurer and the Trustee. The Indenture provides that an Authorized Officer of the University shall sign such certification, and that it provides certain disbursement information. Once the Authorized Officer certification filings are made, the University can directly disburse the payments.
E. Bond Proceeds Construction Account Disbursement Procedures

Generally, the disbursement of bond proceeds encompass the following steps which were developed with input from the UCONN’s Comptroller’s Department, Facilities Department, the Bond Counsel, Trustee Bank and others. While this refers to DSC bond proceeds the steps for the disbursement of Special Obligation bond proceeds are similar.

1. The originating department (e.g. Facilities Management) receives invoices from Contractors.

2. The originating department (e.g. Facilities Management) stamps and approves the invoices as correct, properly due, and authorized to be paid from bond proceeds, and batches the invoices, and prepares to send them to Accounts Payable. The invoices are certified by the originating department as bonafide evidences of indebtedness to be paid by Bond proceeds as approved by the Board of Trustees project spending authorizations. The originating department represents that the invoices were made pursuant to contracts and/or purchase orders entered into with the proper authority.

3. The originating department submits the batched invoices to Accounts Payable.

4. Accounts Payable enters the invoices into the FRS system.

5. Schedule A is produced and reviewed by Accounts Payable in conformity with Section 603(c) of the General Obligation Master Indenture of Trust for the Debt Service Commitment Bonds or Section 604(f) of the Special Obligation Indenture of Trust for the Student Fee Revenue Bonds.

6. The disbursement request with the certifications and the Schedule A, are reviewed and signed by the Director of Accounts Payable. The Authorized Officer’s Certificate for Disbursements relies upon the certifications that are part of the Controller’s request to draw from bond proceeds.

7. Accounts Payable then submits the disbursement request and accompanying certificate to the Office of Treasury Services.

8. Upon receipt of the above paperwork, the Office of Treasury Services prepares the “Authorized Officer’s Certificate” as required by the relevant Indenture, for the Vice President of Financial Planning and Management’s signature.

9. The Authorized Officer’s Certificate is submitted for the Vice President of Financial Planning and Management’s signature, or in her absence, the
Manager of Treasury Services. Attached to it for his review is Director of Accounts Payable’s disbursement request certification and the Schedule A.

10. Upon signing of the Authorized Officer’s Certificate by the Vice President of Financial Planning and Management, the Manager of Treasury Services prepares a cover letter instructing the Trustee to sell the appropriate investment and deposit the funds in the appropriate UCONN checking account at Fleet Bank.

11. Duplicate filings are then submitted to the Trustee Bank and the Office of the State Treasurer, pursuant to the Indenture(s).

12. A copy of the filing is also sent to Accounts Payable. This serves to notify Accounts Payable that the Trustee has moved the cash to the proper checking account, and the checks may be released.

F. Bond Proceeds Cost of Issuance Account Disbursement Procedures

The Bond Proceeds Fund Cost of Issuance Account is held by the State Treasurer and it has taken on the responsibility for all of the State accounting and reporting, and the payment of costs of issuance associated with the University’s General Obligation Bond issues. However, since the University issues the bonds under its tax identification number the federal regulatory agencies hold the University responsible. The Office of Treasury Services has requested that copies of the Bond Counsel, Financial Advisors, and other bills be forwarded to the Office of Treasury Services for review prior to payment. However, at times the State Treasurer’s Office has disbursed funds from this account without the review of the University.

The UCONN costs of issuance disbursement procedures are:

1.) Review invoices and bills
2.) Make recommendations for adjustments, if any
3.) Forward bill or invoice to the State Treasurer’s Office for payment, along with a cover letter requesting disbursement.

For Special Obligation bonds, the University disburses proceeds through the filing of Authorized Officer Certificates with the Trustee Bank, similar to the construction fund disbursement procedures above.

G. Treasury Services’ Investment Policy for Tax-Exempt Bond Proceeds

The University’s Treasury Services Department has directed the Trustee Bank to invest the Debt Service Commitment construction fund proceeds in the State Treasurer’s Short Term Investment Fund, which is “AAA,” rated and offers daily liquidity and historically
attractive risk-adjusted yields. The Special Obligation Bonds other funds are similarly invested, except for the Special Capital Reserve Fund which is invested in suitable longer term government securities.

A major responsibility of the treasury operations for bond proceeds is to invest funds, not immediately needed for payment to bondholders, project construction, and/or the operations of the University, in order to enhance the University's investment income. Permissible investment obligations are consistent with Connecticut State Law, and in the case of bond proceeds, are defined in the Indentures. In keeping with these fiduciary responsibilities, all investment decisions made by the Manager of Treasury Services consider the risk adjusted return, and are subject to the following constraints: safety, liquidity, indenture and legal requirements, tax considerations, and other constraints.

1. Safety

The single most important objective of this investment program is the preservation of the principal of those funds within the portfolio.

2. Maintenance of Liquidity

The portfolio shall remain sufficiently liquid to enable it to meet all debt service and project spending requirements, which might be reasonably anticipated. Individual funds and accounts are invested upon consideration of each fund's permissible horizon relative to the slope of risk adjusted return.

3. Return

The portfolio is managed in such a fashion as to generate an efficient risk adjusted return subject to the above constraints through budgetary and economic cycles.

4. Arbitrage Management

Tax-exempt bond funds will be invested subject to the applicable arbitrage considerations including the Tax Regulatory Certificates. It is important to preserve exceptions where permissible. The Office of Treasury Services will calculate any arbitrage rebate on the revenue bonds resulting from such an investment.

VI. Regulatory Oversight and Requirements
Tax-exempt debt is heavily regulated. As a large issuer of tax-exempt bonds the University falls under the regulations and reporting requirements of the Federal Government, the Securities Industry, and the State.

A. State Reporting Requirements

In theory the University answers to the State Bond Commission since the Master Indenture was approved by it. However, as long as the University obeys the Indenture and other requirements the Bond Commission probably will leave us alone.

The University is subject to the General Assembly may choose to make, and is required to make a report semi-annually.

The University is subject to having each of its Supplemental Indentures approved by the Office of the Governor.

The University is subject to the requirement of having each of its Supplemental Indentures and any Reallocation of Bond Proceeds among Projects approved by the UCONN’s Board of Trustees.

University is subject to the Indenture requirements (e.g. Any DSC Bond Proceed Disbursement Filings must be made through an Authorized Officer Certificate files with the Trustee Bank & State Treasurer).

The University is required to make an annual tax-exempt filing with the Treasurer’s Office concerning the bonds.

B. Municipal Security Industry and Federal Requirements

Municipal securities generally are defined as direct obligations issued by a state, county, city, or any of their political subdivisions, such as a school district or a housing authority.

1. Municipal Services Rule Board (“MSRB”)

As an issuer of municipal securities, the University is indirectly under the requirements of the Municipal Services Rule Board. The Municipal Securities Rulemaking Board was established in 1975 by Congress to develop rules regulating securities firms and banks involved in underwriting, trading, and selling municipal securities bonds and notes issued by states, cities, and counties or their agencies to help finance public projects. The Board, which is composed of members from the municipal securities dealer community and the public, sets standards for all municipal securities dealers. Like the New York Stock Exchange or the National Association of Securities Dealers, Inc., the Board is a self-regulatory organization that is subject to oversight by the Securities and Exchange
Commission (SEC). An example, of an MSRB indirect requirement to the university is that the MSRB requires that dealers must provide a purchaser of a new issue municipal security with a copy of the official statement if the issuer prepares one. The University thus must make sufficient Official Statement copies available within the MSRB deadline.

2. U.S. Securities and Exchange Commission (“SEC”)

The Securities and Exchange Commission is an agency of the United States created from the Securities Acts of 1933 and 1934. The SEC regulates the securities markets so that potential investors receive the benefits of a fair and level playing field. The SEC is concerned with the adequacy of initial and ongoing disclosure, or the lack thereof, provided by issuers and others. For many years, the SEC did not directly regulate the municipal market. In 1975, the Securities Acts Amendments provided for an expanded definition of the term “person” to include issuers of municipal securities. This change clarified that all municipal participants, including issuers, fall under the anti-fraud provisions of Section 10(b) of the 1934 Act.

Whether directly or indirectly, other SEC requirements do apply to the University. For example, the SEC was instrumental in creating, the Government Accounting Standards Board which in turn create the standards which the State and University must meet in their financial reports. Additionally, the University must make periodic informational filings with a Nationally Recognized Municipal Securities Information Repository (NRMSIR). The NRMSIR program was established under Rule 15c2-12 of the SEC secondary market disclosure rules and initiated July 1, 1995. In General, Rule 15c2-12 requires dealers, before underwriting municipal securities, to have a reasonable basis for believing in the accuracy of the information in the offering document. In addition, long standing antifraud provisions, including 10b-5, of the securities laws prohibit issuers, underwriters and other municipal market participants from making false or misleading material statements. SEC officials have warned that anyone who helped prepare an official statement has a responsibility to investigate when “red flags” are raised suggesting that certain key information may be false or misleading.


The University falls under the scope of the Internal Revenue Service regulations and requirements for tax-exempt issuers. The University must make certain filings including the 8038-G form; filings that may be applicable to the arbitrage rebate requirements for Special Obligation bonds; and the detailed Tax Regulatory Certificate for each bond issue. Additionally, the University is required to keep certain records and perform certain computations regarding bond proceeds.
The University established processes to meet all of the above restrictions and requirements. The issuance of tax-exempt bonds and the treatment of bond proceeds is a highly regulated, complex task that has considerable downside risk if not properly addressed. It is important to note that balancing all of the requirements of the debt management and cash management functions with the State and Federal and other regulations and requirements is a difficult process. It is often the case that one particular area cannot be optimized without falling out of compliance entirely in another. The State and Federal governments view the use of tax-exempt proceeds as a privilege. For example, the IRS has recently stated that it will audit some college student housing 501(c)(3) tax-exempt bond issues to see if they are actually a taxable use of proceeds. For non-sophisticated entities sometimes the only simple solution is not to use tax-exempt proceeds.

VII. SUMMARY

The University’s institutional growth relies largely on the renewal of its infrastructure. The infrastructure renewal in turn relies on the tax-exempt bond proceeds. Tax-exempt bonds are highly regulated. The tax-exempt debt field is highly complex and subject to change. The Federal and State Governments view access to the tax-exempt markets as a privilege that can be revoked for various reasons, including non-compliance with the tax-exempt regulations or Indentures. In the perspective of the financial markets, the reputation of the University is intertwined with that of the State of Connecticut. Therefore, it is in the interest of the people of the State of Connecticut, and the University, to prudently manage the UCONN 2000 Bond program.

The ability to issue tax-exempt bonds depends on the University’s continued commitment and expert professional ability to responsibly manage the debt management, cash management, and regulatory compliance processes for tax-exempt debt. It is in the University’s best interest to do so.

It is the mission of Treasury Services to professionally and prudently manage the bond issuance process; the investment and disbursement of bond proceeds; to administer the compliance process; to efficiently manage other assigned financial resources; and to promote public confidence in the University's Treasury Operations and Tax-exempt debt programs. This handbook represents Treasury Services mission to accomplish these tasks for the University.