THE UNIVERSITY OF CHICAGO

PRIVATE BUSINESS USE

TAX-EXEMPT BOND COMPLIANCE

2021

Tax-Exempt Debt

- The University of Chicago is eligible to borrow funds on a tax-exempt basis because it is a 501(c)(3) entity

- By July 2021, the University will have $1.55 billion in outstanding tax-exempt debt
  - Tax-exempt debt, such as tax-exempt bonds, is used because it provides lower borrowing costs for projects involving a public or charitable purpose
  - Tax-exempt projects may include new construction of facilities, renovation and repairs of existing facilities, campus utility, and infrastructure projects

- Because of this cost-saving benefit, federal tax law restricts:
  - Private business use ("PBU") of facilities financed with tax-exempt bonds
  - The financing of projects that may benefit non-governmental/non-501(c)(3) entities

- Therefore, the University must track and report PBU to the IRS every year

PBU: Restrictions on Use & Consequences of Non-Compliance

Restrictions

- Property financed with tax-exempt bond proceeds must be owned by the University
- A small percentage of direct or indirect use of the property can be PBU
- Certain de minimis private use is allowable and certain exceptions (or "safe harbors") apply
- Any direct or indirect use of tax-exempt financed property at the University, other than by the University for its exempt purposes, will result in PBU

Consequences of Violating Federal Laws

- Retroactive loss of tax-exempt status for existing bonds
- Significant financial liability to the IRS and/or bondholders
- Reputational damage
- The inability to access the tax-exempt bond market in the future

Types & Examples of Private Business Use

Types of PBU Arrangements

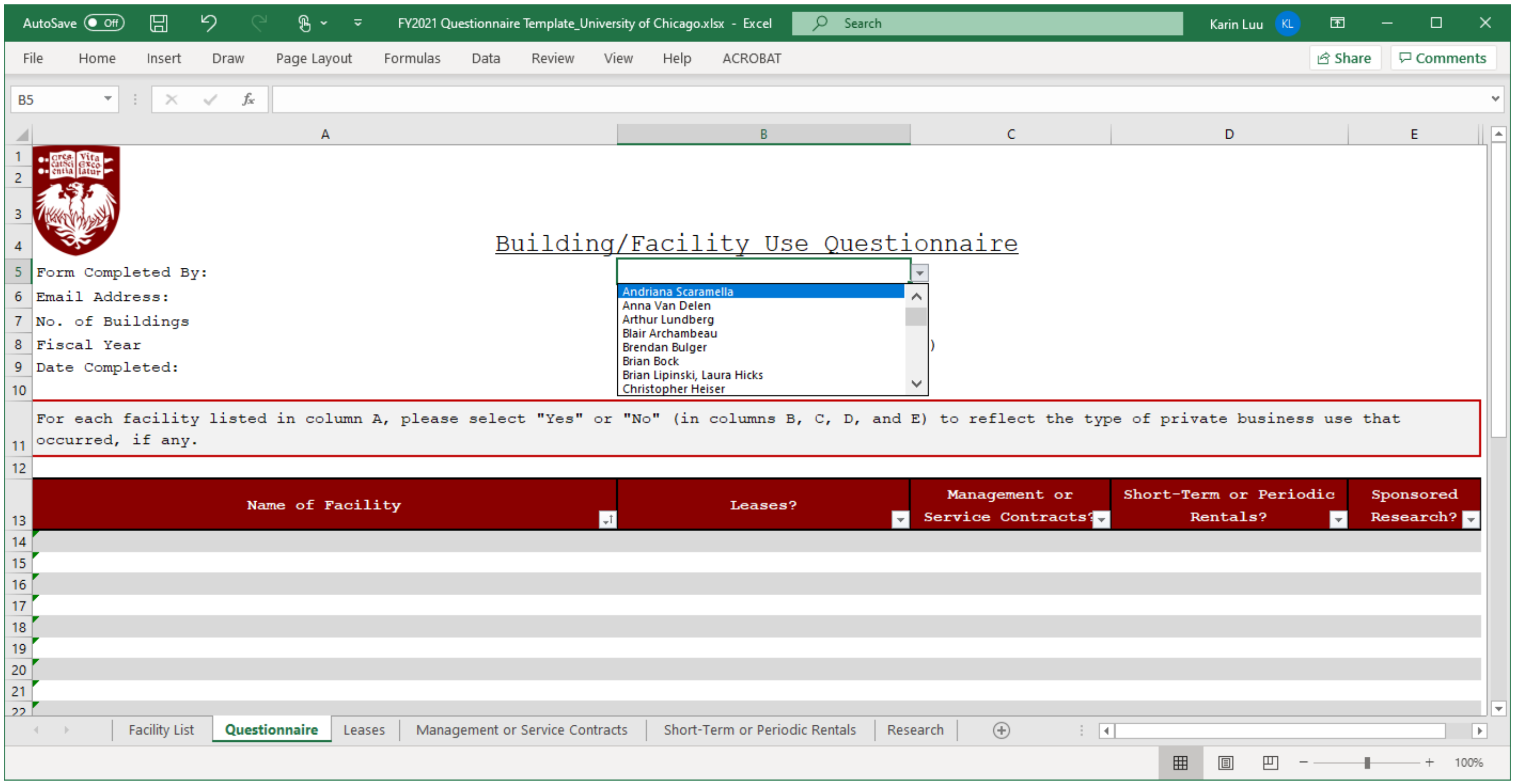
- Leases
- Management or service contracts (unless it qualifies for an exception)
- Short-term or periodic rentals
- Sponsored research agreements (unless it qualifies for an exception)
- Special legal entitlements to use of financed property (for example, priority rights)
- Unrelated trade or business
- Any other actual and beneficial use by a non-governmental/non-501(c)(3) person

Examples

- Private rental of Gerald Ratner Athletic Center or dormitory rooms for summer camps
- Management contracts with Bon Appetit for food service in dining halls or cafés
- Leasing of space to a café like Starbucks
- Sponsored research agreement where work occurs in a tax-exempt bond financed facility and the resulting intellectual property is contracted to belong to a corporate sponsor or the federal government
- Use or rental of a facility by a third-party user for a non-University purpose, even if there was no fee charged
- Use or rental of a facility by a University-user for a non-University purpose
- Certain naming rights
- Sale of a building

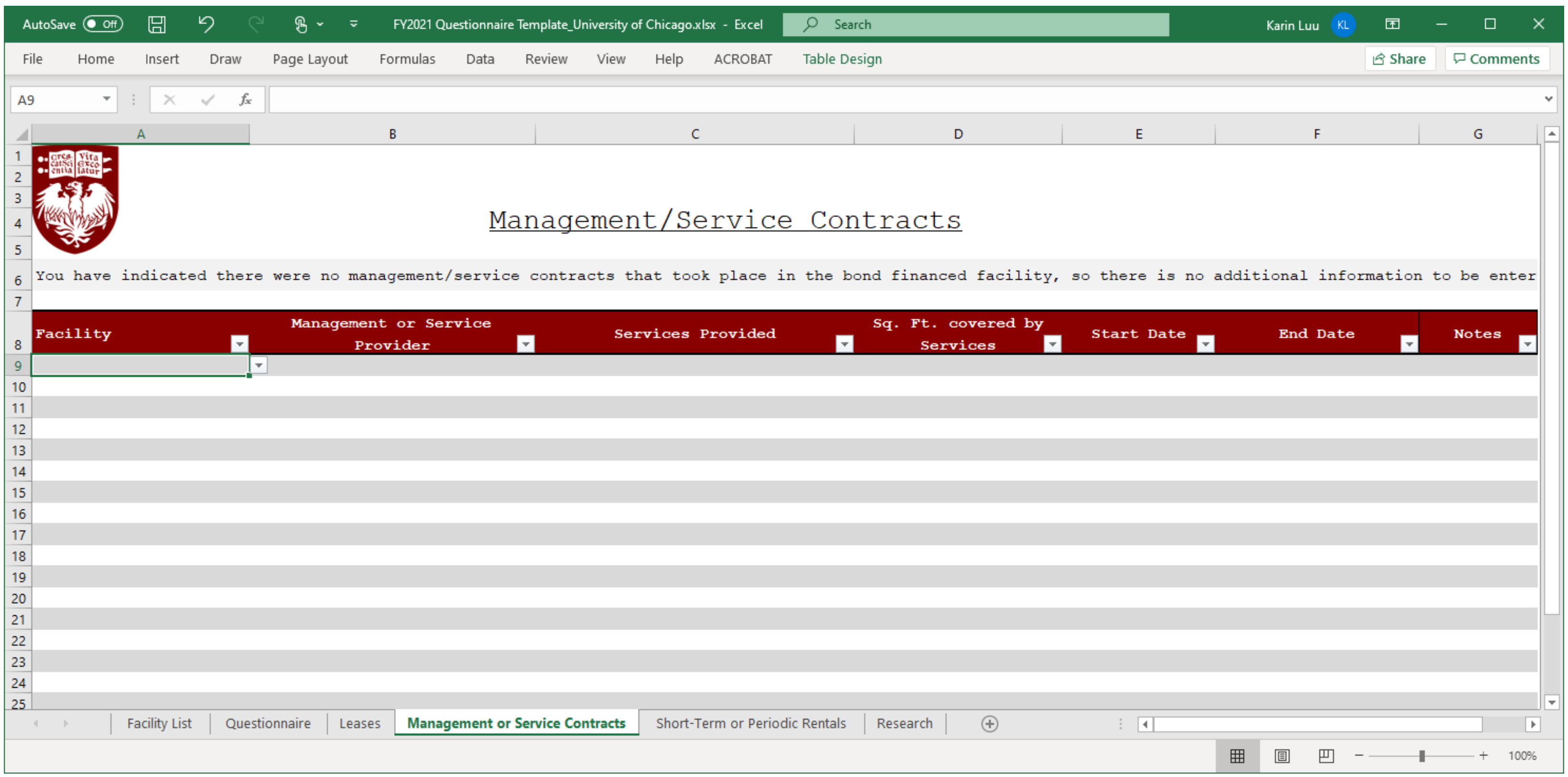
Completing the PBU Questionnaire

- In the Questionnaire tab, scroll to your name in the “Form Completed By:” drop-down field
- The questionnaire will prefill the list of facilities requiring tracking and reporting
- If a facility is not listed, you do not need to report PBU for that facility
- For each facility, answer “yes” or “no” if PBU occurred for each category
- For any categories with “yes,” proceed to those respective tabs to provide additional information
- Responders submitting incomplete questionnaires will be requested to complete and re-submit, or provide additional information



Measuring Private Business Use

- Private Business Use can be measured in multiple ways:
  - Square feet of the area used
  - Revenue or unrelated business income
  - Days/hours of use
  - Other reasonable form of measurement



Contact Information

Please submit your completed questionnaire to Karin Luu for Fiscal Year 2021. You may contact Karin Luu with any questions or comments.

Karin Luu, Assistant Director of Treasury Operations

E-mail: karin22@uchicago.edu

Anna Mairink, Director of Treasury Operations

E-mail: amairink@uchicago.edu