BUDGET, FINANCE AND INVESTMENT COMMITTEE
BOARD OF TRUSTEES
UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE

A meeting of the Budget, Finance and Investment Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Friday, October 21, 2011 at 1:00 p.m. in the Silver Maple Ballroom, 401 Dudley H. Davis Center.

MEMBERS PRESENT: Chair Debbie McAneny, Vice Chair Samuel Bain, Interim President John Bramley, Ian Boyce, Carolyn Branagan, David Daigle, Joan Lenes, Kesha Ram, Brian Sozansky, and Mark Young

REPRESENTATIVES PRESENT: Faculty Representative Donald Ross, Alumni Representative Walt Blasberg, Staff Representative Jesse Bridges, Student Representatives William Vitagliano and Andrew Dougherty, and Graduate Student Representatives Jennifer Rousseau and Eduardo Cotilla-Sanchez

ABSENT: Faculty Representative Albert Joy, Alumni Representative Meg Guzewicz, and Staff Representative Eric Hoefel

OTHER TRUSTEES PRESENT: Board Chair Robert Cioffi

PERSONS ALSO PARTICIPATING: Vice President for Development and Alumni Relations Richard Bundy, Vice President for Finance and Administration Richard Cate, Associate Vice President for Budget and Resource Management Ted Winfield, Controller Claire Burlingham, and Director for Capital Planning & Management Robert Vaughan

Chair Debbie McAneny called the meeting to order at 1:06 p.m.

Chair McAneny began the meeting by acknowledging and welcoming the incoming undergraduate and graduate student representatives Will Vitagliano, Andrew Dougherty, and Jennifer Rousseau.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the May 20, 2011 meeting.

FY 2013 Budget Process

Vice President Cate provided an update on the planning that is underway to build the FY 2013 budget. Major components in the decision-making process are the recommended tuition rate of no more than 3.5% tuition increase; projected lower financial aid increase than in recent years, and the assumption of a salary increase for all faculty and staff. The FY 2012 exact total financial aid bill will not be known until February, after second-semester students' needs are identified. The administration continues to work with Noel Levitz to fine-tune estimating future needs.

Overall, there are no expected major changes and the University is in a more stable financial situation than the past few years. Interim President Bramley has requested a level-funded State Appropriations allocation and has foregone the University's State Capital Appropriations request in support of Tropical Storm Irene relief efforts. A draft budget will be presented for discussion at the BFI February meeting, with further follow-up in April and action in May.

The May 2011 resolution to provide a long-term plan to manage the level of tuition increases is addressed in two ways. The president's tuition recommendation provides a short-term solution and the Strategic Initiatives Project will address the longer term plan.

The Committee reviewed the FY 2011 General Fund Budget to Actuals Report which shows a positive outcome. Chair McAneny requested to see a more in-depth breakdown on final reappropriations once finalized. Trustee Daigle expressed concern that there may be an underinvestment in deferred maintenance.

Contract Approvals

Vice President Cate presented the following resolution:

> **<u>Resolution Approving RNW Contract</u>**
>
> BE IT RESOLVED, that the Vice President for Finance and Administration is authorized to enter into a contract with RNW Consulting to provide services related to the University's strategic initiatives project in the amount of up to $150,000 for a period through January 2012.

In response to a question about the contract, Vice President Cate indicated that the Strategic Initiatives Project will be ongoing, but without a continuing need for consulting assistance beyond the term of the contract being presented. This contract is to support the start-up process only.

A motion was made, seconded, and it was unanimously voted to approve the resolution for recommendation to the full Board.

Vice President Cate presented the following resolution, noting it had been amended to include, "for a total value of up to $1,800,000." :

> **<u>Resolution Approving Agreement with The Remi Group, LLC</u>**
>
> BE IT RESOLVED, that the Vice President for Finance and Administration is authorized to enter into a three-year Agreement with The Remi Group, LLC, for Equipment Maintenance Management Insurance, with an optional two-year extension <u>for a total value of up to $1,800,000.</u>

Per Trustee Young's inquiry, Vice President Cate will provide to the Committee more information on all entities that deliver external services for a fee to the University, including reporting authority designation.

A motion was made, seconded, and it was unanimously voted to approve the resolution, as amended, for recommendation to the full Board.

Approval of UVM Foundation Funding Proposal

With the planned January 1, 2012 full implementation date for the UVM Foundation (UVMF), funds need to be allocated for its operation. As a result of a discussion between BFI leadership and the Chairman of the Board, the recommendation is that $3 million of the current $8.5 million balance of the unrestricted loan fund be provided to the Foundation ($1.5 million in each of FY 2012 and FY 2013) to cover required additional staffing and operating campaign expenses. These one-time funds, plus the current general fund allocation of $7.29 million, will provide sufficient resources to support staff growth needed to meet aggressive fund-raising targets. In FY 2014, the general fund appropriation to the Foundation will increase $1.5 million in order to continue the same level of support for a few years, after which time it be reduced as reflected in Attachment 2/Appendix A presented to the Committee.

Vice President Bundy explained the Foundation's plan to use a Gift Administration Fee of 5% of actual receipts. The UVMF goal this year is set at $30.0 million in receipts, including pledges. He also explained that the Foundation's benefits structure is in line with the University's structure and reviewed the metrics that will be used to assess successful fund raising, including a 15% annual commitment increase.

Chair McAneny presented the following resolution to the committee for approval:

> **Resolution Approving UVM Foundation Funding Proposal**
>
> WHEREAS, the Board of Trustees has formed the UVM Foundation for the purpose of expanding the fund-raising capacity of the University and the Foundation is going into full operation on January 1, 2012; and,
>
> WHEREAS, additional staff and financial resources are necessary in order to support the upcoming capital campaign;
>
> NOW, THEREFORE, BE IT RESOLVED, that the Vice President for Finance and Administration and University Treasurer, or his successor or designee, is hereby authorized to transfer to the UVM Foundation: for FY 2012 – the unexpended balance of the FY 2012 Development and Alumni Relations (DAR) general fund operating budget, up to $1 million in DAR operating reserves, and $1.5 million in one-time funds from the University's unrestricted loan fund; for FY 2013 – $7.295 million from the general fund operating budget and $1.5 million from the unrestricted loan fund; and for FY 2014 – $8.795 million from the general fund operating budget; and thereafter – using the spreadsheet included as Appendix A as a reference guide, funds from the general fund

operating budget in the amount authorized by the Board in its approval of the annual operating budget.

BE IT FINALLY RESOLVED, that the Secretary or Assistant Secretary will provide certificates of incumbency, as required, showing the names and signatures of those people appointed to any of the positions heretofore mentioned, and further, that any officer of this corporation is hereby authorized to certify this resolution to whom it may concern.

A motion was made, seconded, and it was unanimously voted to approve the resolution for recommendation to the full Board.

Debt Policy & Ratio Annual Review

The Committee conducted its annual review of the University's Debt Policy. Vice President Cate recommended that the Committee reaffirm the policy as written. Controller Burlingham reminded the Committee that they revised some of the language of the Debt Policy last year, which did not affect the content of the policy. This year's debt burden ratio of 5.2% is in compliance with the policy which caps the ratio at 6%. This ratio measures the ability to repay debt. The policy calls for the ratio to be no more than 5% by FY 2017. UVM's viability ratio is currently 0.71 which is not in compliance with the policy, which calls for it to be at or above .8. Controller Burlingham explained that the University has been below target since 2008, however the gap is closing; the ratio was .62 in FY 2010.

Trustee Branagan asked if the Committee needed to vote on this policy. Chair McAneny provided a brief history of the Debt Policy to the new members and explained that the Committee was voting on reaffirming the policy, not the ratios.

Chair McAneny presented the following resolution to the committee for approval:

Annual Review of Debt Policy

WHEREAS, in September 2004, the Board adopted a Debt Policy to guide the portfolio management of debt, to be reviewed annually; and

WHEREAS, since its creation in 2006, the Budget, Finance, and Investment Committee has been charged with the annual review of the Debt Policy, which it revised most recently in October 2010;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby reaffirms the Debt Policy, appearing as Appendix B.

A motion was made, seconded, and it was unanimously voted to approve the resolution for recommendation to the full Board.

Approval of Summer Session Tuition Rates

Associate Vice President Winfield explained that as a basis to again encourage summer enrollment, the proposal for summer 2012 (FY 2013) is to increase the per credit hour cost by 5.8% above summer 2011. This increase will continue the 15% differential between summer credit hour cost and that of the balance of the year. The recommendation for Summer Session (summer 2012) is an increase of $25 (+5.8%) to $456 per credit hour for in-state students and $63 (+5.8%) to $1,151 per credit hour for out-of-state students.

Associate Vice President Winfield also provided an update on the US-Sino Pathways Program (USPP) at the University which is in its third year. UVM works in a consortium with three other universities. All USPP students attend a summer session to complete their preparation for studies in the U.S. UVM has elected to operate its own Bridge Program consisting of 10-12 credits over a 10-week period beginning May 27, 2012. A group of 45-55 Chinese students are anticipated with the majority majoring in business and engineering.

Upon successful completion of the Bridge Program, students enter UVM as second-year students. Students are enrolled in classes designed specifically to meet their needs, as well as participate in other summer courses to begin to integrate them into the UVM community. Chair McAneny asked to see a more detailed breakdown of the fee, the elements that are included and the basis for the pricing structure.

The following resolution was presented to the committee for approval:

> **<u>Summer Tuition Resolution</u>**
>
> RESOLVED, that the Board of Trustees hereby approves the change in tuition for the Summer Session from $431 to $456 per credit hour for in-state students and from $1,088 to $1,151 per credit hour for out-of-state students. The changes will become effective for the 2012 Summer Session.
>
> BE IT FURTHER RESOLVED, that the Board of Trustees hereby approves an all-inclusive fee for the US-Sino Pathway Program (USPP) Bridge Program for Summer 2012 of $15,250, pending re-approval of that academic initiative via the Educational Policy and Institutional Resources Committee.

A motion was made, seconded, and it was unanimously voted to approve the resolution for recommendation to the full Board.

Distance Learning Status Update

Vice President Cate spoke about the University's history and future intentions with regards to distance learning and its correlation to the Strategic Initiatives Project. This growing industry will provide opportunities to those students who otherwise may never consider attending UVM. It is also a way to diversify revenue streams without making significant change to campus infrastructure. UVM has already contracted with Bisk Education, a private company and national leader in distance education to develop a non-degree certificate in sustainability. Building from this experience, the University is completing negotiations with this company to develop and manage online professional master's degree programs with a potential launch date of Fall 2012.

The Committee discussed the elements of the plan. The arrangement is built on revenue sharing between Bisk Education and the University. Bisk takes responsibility for marketing, initial identification and support of students to apply, and the translation/development of materials into an online format. UVM is responsible for course admissions decisions, course content and faculty management and leadership. Selection and development of likely programs will be done in conjunction with Bisk Education based on an extensive review of the strength of the programs and likely national/international markets. Intellectual property for the content of the courses will be owned by faculty and the University under current protocols. Ownership of online presentations of materials will be jointly owned by the University and Bisk Education. Given the depth of the partnership and the extent of marketing and market development required, the contract is built on a 10-year term. It is anticipated that a request for authorization to conclude negotiations and contract with Bisk Education will be brought to the Executive Committee in November.

Report of the Investment Subcommittee (ISC)

At the July 2011 meeting in New York, the Subcommittee interviewed four existing managers, and decided to move money from the S&P 500 to the S&P 100. Cambridge Associates continue to provide excellent service and Trustee Bain noted that the ISC will miss Trustee Ian Boyce's expertise after his term expires in March 2012. He noted that Susan Hudson-Wilson also served the subcommittee well with her real estate expertise. The ISC will be seeking replacements for both Boyce and Hudson-Wilson.

Annual Asset Reallocation Review

ISC Chair Bain discussed the Subcommittee's ongoing review of asset allocation targets in the Long-Term Pool. The current value of the endowment is $330M, April 2011value was $355M, and calendar year-end value was $333M. As of June 30, 2011 the portfolio was up 23%. Within Cambridge Associates' universe, UVM's performance (up 19%) is ahead of the average, due in large part to a well-diversified portfolio.

ISC Chair Bain informed the Committee that $10M was invested in real estate for inflation hedging and $5M in venture capital since it was under-invested. This brings the University closer to its target allocations: US Equity 23%, Non US Equity 23%, Hedge Funds 20%, Real Estate 12%, Venture Capital 12%, Bonds 8%, and Cash 3%, moving to 0%. Chair Bain reported that he was pleased with the past year's performance considering the volatility of the market and noted that asset allocation is within approved ranges. The next ISC review of asset allocation is scheduled for January 2012.

ISC Chair Bain brought forth the following resolutions for Committee approval, which, he noted, were endorsed by the Investment Subcommittee:

Resolution Reaffirming the Endowment Budget Policy

RESOLVED, that the *Endowment Budget Policy* is reaffirmed as reads below:

BE IT RESOLVED, that the annual budget for spending from Endowment be set at 4.5 percent of the average market value for the previous thirteen quarters ending December 31 of the prior calendar year; and

BE IT FINALLY RESOLVED, that the Investment Subcommittee will review and make recommendation to the Budget, Finance and Investment Committee regarding the reaffirmation or revision of the *Endowment Budget Policy* each year no later than October 31.

Adopted by: *Board of Trustees - May 13, 1995*
Reaffirmed: *Board of Trustees - September 8, 2007*
Board of Trustees - September 5, 2008
Board of Trustees - October 24, 2009
Board of Trustees – October 30, 2010
Board of Trustees – October 22, 2011

Resolution Reaffirming the Endowment Administration Fee Policy

RESOLVED, that the *Endowment Administration Fee Policy* is reaffirmed as reads below:

BE IT RESOLVED, that the Board of Trustees hereby approves a 0.25 percent fee applied to the University endowment for FY 2012 to cover reasonable costs associated with endowment administration, management and operation; and

BE IT FURTHER RESOLVED, that on a fiscal year basis, the fee will be reviewed and assessed annually as 0.25 percent of the average market value of the University endowment for the previous thirteen quarters ending December 31 of the prior calendar year; and

BE IT FINALLY RESOLVED, that the Investment Subcommittee will review and make a recommendation to the Budget, Finance and Investment Committee regarding the reaffirmation or revision of the *Endowment Administration Fee Policy* each year no later than October 31.

Adopted by: *Board of Trustees - September 13, 2003*
Reaffirmed: *Board of Trustees - September 8, 2007*
Board of Trustees - September 5, 2008
Amended: *Board of Trustees - October 24, 2009*
Reaffirmed: *Board of Trustees - October 30, 2010*
Board of Trustees – October 22, 2011

A motion was made, seconded, and it was unanimously voted to approve the resolutions for recommendation to the full Board.

Socially Responsible Investing Work Group Update (SRIWG)

Work Group Leader and University Controller, Claire Burlingham offered a brief update on the activities of the SRIWG. Controller Burlingham advised the Committee that the SRIWG continues to review administrative issues. In the spring the Work Group undertook a self-evaluation to determine what worked and what needed improvement. Leadership asked that the Work Group look into best practices which they continue to do so by researching 16 other public and private institutions. ISC Leader Bain pointed out that the process around SRI needs to be fine-tuned and that the SRIWG, who reports to BFI, take this very seriously. More dialogue on this is expected to come and he expects positive changes will be made.

Capital Project

Vice President Cate presented the following resolution for approval:

Mason/Simpson/Hamilton Renovation - Phase II Resolution

WHEREAS, the Educational Policy and Institutional Resources Committee has carefully reviewed the program, scope, and preliminary estimate of $4,000,000 for the Mason/Simpson/Hamilton Renovation – Phase II (the "Project") and found it an institutional priority, consistent with the *Strategic Capital Plan* and worthy of further consideration; and,

WHEREAS, the Educational Policy and Institutional Resources Committee has endorsed the Project and remitted it to the Budget, Finance, and Investment Committee for financial review and approval; and,

WHEREAS, the Division of Student and Campus Life has budgeted $4,000,000 of its unrestricted plant funds for Phase II of this project;

NOW, THEREFORE, BE IT RESOLVED, that the Vice President for Finance and Administration and University Treasurer, or his successor or designee, is hereby authorized to utilize the Student and Campus Life unrestricted plant funds to finance the $4,000,000 Mason/Simpson/Hamilton Renovation - Phase II; and,

BE IT FINALLY RESOLVED, THAT THE Secretary or Assistant Secretary will provide certificates of incumbency, as required, showing the names and signatures of those people appointed to any of the positions heretofore mentioned, and further, that any officer of this corporation is hereby authorized to certify this resolution to whom it may concern.

A motion was made, seconded, and it was unanimously voted to approve the resolution for recommendation to the full Board.

Vice President's Report

Vice President Cate updated the Committee on the FY 2011 External Audit which is in its final stages. The KPMG opinion date is scheduled for October 28, 2011. To date, there are no audit adjustments. The Financial Report and Management Letter findings will be presented at the Audit Committee meeting on November 14, 2011.

Vice President Cate is in the process of evaluating options for funding energy efficiency projects, an initiative being undertaken by a number of other institutions.

Adjournment

There being no further business, the meeting was adjourned at 3:02 p.m.

Respectfully submitted,

Debbie McAneny, Chair

UVM FOUNDATION OPERATING BUDGET

— For Discussion Purposes Only —

REVENUES		**FY2012**	**FY2013**	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**
Agreements	UVM General Fund	7,295,000	7,295,000	8,795,000	8,795,000	8,707,000	8,576,000	8,405,000	8,152,000	7,826,000	7,435,000
	UVM One-Time Funds	1,500,000	1,500,000	0	0	0	0	0	0	0	0
	UVM Units	759,000	759,000	759,000	759,000	752,000	740,000	725,000	704,000	676,000	642,000
	Subtotal Agreements	9,554,000	9,554,000	9,554,000	9,554,000	9,459,000	9,316,000	9,130,000	8,856,000	8,502,000	8,077,000
Fundraising	Gift Administration Fee	425,000	1,052,000	1,253,000	1,505,000	1,885,000	2,058,000	2,193,000	2,506,000	2,755,000	2,980,000
	Endowment Management Fee	0	74,000	109,000	165,000	259,000	431,000	640,000	903,000	1,209,000	1,538,000
	Short-Term Investments	50,000	57,000	64,000	72,000	82,000	92,000	104,000	118,000	133,000	150,000
	Subtotal Fundraising	475,000	1,183,000	1,426,000	1,742,000	2,226,000	2,581,000	2,937,000	3,527,000	4,097,000	4,668,000
General	Event Ticket Sales	125,000	128,000	130,000	133,000	135,000	138,000	141,000	144,000	146,000	149,000
	Affinity Card	50,000	51,000	51,000	52,000	52,000	53,000	53,000	54,000	54,000	55,000
	Gifts	10,000	10,000	11,000	11,000	11,000	12,000	12,000	12,000	13,000	13,000
	Endowment Income	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
	Other	75,000	76,000	77,000	77,000	78,000	79,000	80,000	80,000	81,000	82,000
	Subtotal General	263,000	268,000	272,000	276,000	279,000	285,000	289,000	293,000	297,000	302,000
GRAND TOTAL REVENUES		**10,292,000**	**11,005,000**	**11,252,000**	**11,572,000**	**11,964,000**	**12,182,000**	**12,356,000**	**12,676,000**	**12,896,000**	**13,047,000**
EXPENSES											
Salaries		4,776,000	5,258,000	5,606,000	5,718,000	5,833,000	5,950,000	6,069,000	6,190,000	6,314,000	6,440,000
Benefits		1,968,000	2,235,000	2,411,000	2,459,000	2,537,000	2,588,000	2,640,000	2,708,000	2,762,000	2,817,000
Operating	Vice President's Office	120,000	121,000	121,000	122,000	123,000	123,000	124,000	125,000	25,000	26,000
	Constituent Programs	235,000	242,000	249,000	257,000	264,000	272,000	281,000	289,000	298,000	307,000
	Central Programs	111,000	114,000	117,000	120,000	124,000	117,000	121,000	124,000	128,000	132,000
	College of Medicine	366,000	377,000	388,000	400,000	412,000	424,000	437,000	450,000	464,000	478,000
	Donor & Alumni Programs	10,000	10,000	11,000	11,000	11,000	12,000	12,000	12,000	13,000	13,000
	Alumni Relations	499,000	471,000	500,000	544,000	514,000	530,000	546,000	562,000	579,000	596,000
	Annual Giving	527,000	497,000	531,000	521,000	537,000	553,000	570,000	587,000	604,000	622,000
	Donor Relations & Stewardship	140,000	227,000	560,000	352,000	335,000	323,000	326,000	278,000	201,000	104,000
	Communications	80,000	62,000	103,000	85,000	76,000	78,000	80,000	81,000	63,000	65,000
	DARIS	281,000	308,000	406,000	324,000	272,000	280,000	288,000	297,000	306,000	315,000
	Research	12,000	12,000	13,000	13,000	14,000	14,000	14,000	15,000	15,000	16,000
	Gift Records	162,000	161,000	271,000	171,000	176,000	181,000	207,000	192,000	198,000	204,000
	Administration	1,338,000	673,000	689,000	755,000	572,000	589,000	607,000	625,000	644,000	663,000
	Subtotal Operating	3,881,000	3,275,000	3,959,000	3,675,000	3,430,000	3,496,000	3,613,000	3,637,000	3,538,000	3,541,000
GRAND TOTAL EXPENSES		**10,625,000**	**10,768,000**	**11,976,000**	**11,852,000**	**11,800,000**	**12,034,000**	**12,322,000**	**12,535,000**	**12,614,000**	**12,798,000**
Operating	*Start Balance*	*1,000,000*	*667,000*	*904,000*	*180,000*	*(100,000)*	*64,000*	*212,000*	*246,000*	*387,000*	*669,000*
Reserves	*Operating Surplus / (Deficit)*	*(333,000)*	*237,000*	*(724,000)*	*(280,000)*	*164,000*	*148,000*	*34,000*	*141,000*	*282,000*	*249,000*
	Ending Balance	*667,000*	*904,000*	*180,000*	*(100,000)*	*64,000*	*212,000*	*246,000*	*387,000*	*669,000*	*918,000*

University of Vermont
Debt Policy
As Adopted by the Board of Trustees
September 2004, revised November 2005,
Revised, November 2006,
Revised, November 2007,
Reaffirmed, December 2008,
Revised, October 2009
Revised, October 2010
Reaffirmed, October 2011

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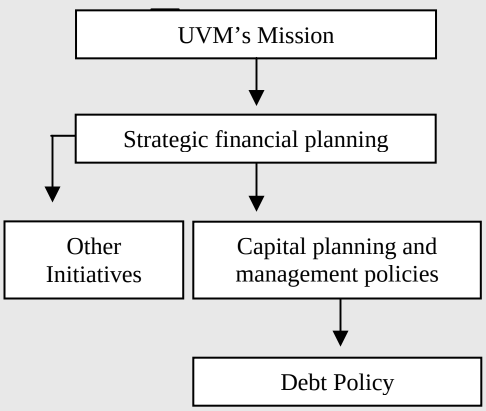
OVERVIEW

Purpose

1. Articulate the role of UVM's debt policy within the strategic planning process.



The University of Vermont's strategic planning is a long-term process that establishes University-wide priorities as well as University and divisional programmatic objectives. The University's strategic plan identifies specific goals and initiatives, including capital plans that identify necessary and desired University facility investments. To fund its plan, the University will continue to utilize a mix of financing sources including State and Federal sources, philanthropy, internal reserves, and external University-supported debt.

This policy, in conjunction with the strategic and capital planning, will aid management in ensuring that an appropriate mix and types of funding sources are utilized and that the University's debt capacity is allocated strategically. A UVM-specific debt policy is appropriate to ensure adequate financial strength to service existing and proposed debt, maintain leverage within an acceptable risk tolerance while investing in priority capital projects, maintain a strong financial profile to ensure a competitive position relative to its peers, and maintain the budgetary capacity to invest in other initiatives.

Management and the Board of Trustees, acting through the appropriate Board of Trustee committee, will assess this policy on an ongoing basis to ensure that it remains responsive to UVM's evolving academic, research and strategic priorities and financial position.

The University believes that financial discipline is a critical component of long-term debt management and that the Board and management, operating through the appropriate Board of Trustee committee should establish a limited number of financial ratios and limits in order to manage debt within acceptable ranges consistent with UVM's objectives. These measures will be monitored and reported on in light of UVM's evolving strategic initiatives and capital needs.

INTRODUCTION AND OBJECTIVES

Purpose

1. Articulate UVM's philosophy regarding debt.
2. Establish objectives for debt policy.
3. Provide for regular review and potential update of policy to reflect evolving needs.

Just as investments represent an integral component of assets, debt is viewed to be a long-term component of liabilities that therefore should be managed on a long-term portfolio-basis consistent with the institution's policy objectives, with an overarching objective of managing the balance sheet.

The objectives of the policy are to:

(i) Maintain the University's access to capital. Management will utilize and issue debt in order to provide timely access to capital to fund project priorities that have been approved by the Board;

(ii) Manage the University's credit to meet its long-term strategic objectives while maintaining creditworthiness consistent with the most favorable relative cost of capital and borrowing terms.

(iii) Limit risk of the University's debt portfolio. Debt will be managed on a portfolio, rather than a transactional or project-specific, basis. Management's continuing objective of incurring the lowest achievable long-term risk-adjusted cost of capital will be balanced with the goal of appropriately limiting exposure to market shifts within acceptable budgetary parameters. Various types of debt structures and financial instruments will be considered, monitored, and managed within the framework established in this policy and according to internal management procedures; and

(iv) Permit the optimization of the investment of the University's working capital and cash balances. Management will explore various options and alternatives to internal cash holdings regarding the optimal funding mechanism for short-term equipment needs, bridge financing and cash requirements. Management recognizes that working capital requirements, debt management, and the investment of cash/net assets should be viewed comprehensively in order to optimize overall funding and investment return strategies.

In addition to establishing a framework relating to the administration of debt, the policy provides for periodic updates pertaining to UVM's debt capacity and financial management to both internal and external parties.

Oversight

Purpose

1. Provide mechanism for oversight and review on periodic basis.
2. Provide management flexibility to make ongoing financing decisions within the framework of the policy.

By adopting this policy and regularly reviewing it with the appropriate Board of Trustee committee, management will follow and report on guidelines and requirements regarding debt utilization. With appropriate authorizations consistent with the policy, management will have flexibility to implement specific financial transactions and utilize approved financing vehicles in accordance with stated procedures.

The Office of the Vice President for Finance and Administration and University Treasurer will manage all funding sources, including debt, for capital projects authorized by the Board. The structure of any individual transaction (e.g., maturity, interest rate mode, use of derivative products, other financing structures) will be based upon overall University needs to ensure that (i) long-term costs to the University and its operating units are minimized consistent within the context of other strategic objectives and (ii) overall risk does not exceed acceptable levels as defined in this policy.

Because this debt policy is a living document, the appropriate Board of Trustee committee will review this policy on an annual basis and report any recommended changes or revisions to the Board of Trustees. This review process is necessary to ensure that the policy remains consistent with the University's objectives and responsive to evolving practices, competitive pressures in the external environment, and financial indicators.

Policy Ratios

Purpose

1. Identify core ratios.
   a. Operating Statement—Debt Burden Ratio.
   b. Balance Sheet Leverage—Viability Ratio.
2. Clearly communicate with key parties such as rating agencies the University's philosophy regarding debt and management's ongoing assessment of debt capacity and affordability.

This policy establishes limits to measure the total amount of outstanding debt compared to University balance-sheet resources and the annual operating budget. These ratios can be derived from the financial statements and other information and are subject to review periodically.

The policy identifies ratios that (i) are based on current GAAP requirements and (ii) are consistent with ratios utilized in the higher education industry to permit benchmarking.

In addition to the two policy ratios below, the University may consider tracking other ratios in addition to the policy ratios. Listed below are the policy ratios and limits that will be followed.

Ratio 1 – Debt Burden Ratio

This ratio measures the University's ability to repay debt service associated with all outstanding debt and the impact on the overall budget and includes all activities of the University. The defined limit for this ratio is intended to maintain the University's long-term operating flexibility to fund existing requirements and new initiatives, although the University may target a desired ratio below this limit.

$$\frac{\text{ANNUAL DEBT SERVICE}}{\text{TOTAL EXPENSES}} \quad <6\% \quad *.$$

The measure is based on aggregate operating expenses as opposed to operating revenues because expenses typically are more stable (e.g., no one-time operating gifts, investment return, variability of State funding) and better reflect the operating base of the University. Management recognizes that a growing expense base would make this ratio appear more attractive. The limit for this ratio is not to be greater than 6.0%. If more than 6.0% of the University's annual budget were committed to debt service expense, flexibility to devote resources to fund other objectives could be diminished. This ratio will be adjusted to include the impact of non-amortizing or non-traditional debt structures that could result in significant single year fluctuations, as well as an assumption of an appropriate variable rate.
**As adopted by the Board of Trustees, December 1, 2007:*
"That the Board directs the Administration to develop and implement a plan to lower the debt burden ratio to 5% by 2017"

Ratio 2 - Viability Ratio (also called Expendable Financial Assets to Debt)

This ratio indicates one of the most basic determinants of financial health by measuring the availability of liquid and expendable net assets compared to aggregate debt. The ratio measures the medium to long-term health of the University's balance sheet and debt capacity and is a critical component of universities with the highest credit quality.

Many factors influence the viability ratio, affecting both the assets (e.g., investment performance, philanthropy) and liabilities (e.g., timing of bond issues), and therefore the ratio is best examined in the context of changing market conditions so that it accurately reflects relative financial strength. For example, a viability ratio that is acceptable and entirely appropriate in one market condition may be relatively stronger or weaker in other market environments.

This policy establishes a debt policy limit (floor) for this ratio of 1.0x to ensure that sufficient balance sheet strength is maintained at all times.

$$\frac{\text{UNRESTRICTED NET ASSETS + TEMPORARILY RESTRICTED NET ASSETS – EQUITY IN PLANT}}{\text{AGGREGATE DEBT}} > 0.8x$$

This ratio will include any financings that impact the University credit, including guarantees of third-party debt.

The 0.8x limit is recognized as a limit, and not a long-term objective. Over time, to remain competitive and retain the flexibility to invest in future strategic initiatives, UVM will want to target and maintain a ratio above 0.8x

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Annually, based on the results of the audited financial statements, the Vice President for Finance and Administration will report to the appropriate Board of Trustee committee on the actual ratio results and any existing conditions that put the University out of compliance with this policy. In the event that the University is out of compliance with the policy, the appropriate Board of Trustee committee will take up the matter for consideration and make recommendations it deems appropriate to the Board of Trustees.

Ratios as a Credit Factor

The University has established its ratios and associated ratio limits based on internally-established guidelines. The ratios and limits are not intended to provide a long-term target or track a specific rating, but rather will enable the maintenance of the University's competitive financial profile and complement the capital planning process.

The debt policy will be shared with external credit analysts and other third parties in order to provide them with the context regarding UVM's assessment of self-determined debt capacity and affordability, which is subject to ongoing review.

TYPES OF FINANCINGS

Purpose

1. Review of all potential funding sources for projects.
2. Maximize tax-exempt University-issued debt.
3. Commercial Paper program.
    a. Provide bridge funding.
    b. Provide continual access to capital.
    c. Issuance on a taxable or tax-exempt basis.
4. Manage derivative products, including swaps.
5. Consider other financing sources.
    a. Management will explore securitizations, joint ventures and other financial structures to provide for the optimal funding for any project.

The University recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, risks, and costs. All potential funding sources will be reviewed by management within the context of the debt policy and the overall portfolio to ensure that any financial product or structure is consistent with UVM's objectives. Regardless of what financing structure(s) is(are) utilized, a full understanding of the transaction, including (i) quantification of potential risks and benefits, and (ii) analysis of the impact on University creditworthiness and debt capacity, will be required. Any financial transaction which, in management's opinion utilizes the University's credit, will be subject to the limits set forth in this policy regardless of source.

Tax-Exempt Debt

The University recognizes that debt will remain a long-term component of the University's capitalization over the foreseeable future due in part to its continued need for capital and the substantial economic benefits associated with tax-exempt debt. Therefore, financial transactions will be managed on a portfolio basis with a long-term perspective. (In all circumstances, however, individual projects must continue to be identified and tracked to ensure compliance with all tax and reimbursement requirements).

Debt will be structured to meet the University's comprehensive long-term objectives, and each project being financed will be required to provide a sound business plan, including the source of repayment for the debt and appropriate and realistic repayment terms. Among other things, the repayment terms will require that the loan term is no greater than the expected componentized useful life of the asset financed. Additionally, the financed project will be required to budget and fund principal payments on a fully amortized basis.

Taxable Debt

While all of the University's capital projects may not qualify for tax-exempt debt, taxable debt should only be used in appropriate cases as it generally represents a more expensive source of capital relative to tax-exempt issuance.

Commercial Paper

The CP program can provide substantial financial flexibility to the University including the ability to manage and optimize cash balances, and provide an alternative to lease transactions, and other purposes. CP can offer the University interim financing for capital projects in anticipation of the receipt of funding either in the form of future philanthropy or the issuance of long-term debt for permanent financing, as well as offer greater flexibility regarding the timing and structuring of individual bond transactions.

Derivative Products

Management recognizes that derivative products may enable more opportunistic and flexible management of the debt portfolio. Derivative products, including interest rate swaps, may be employed primarily to manage or hedge the University's interest rate exposure for a specific period of time. The University will utilize a framework to evaluate potential derivative instruments through consideration of (i) its variable rate allocation, (ii) market and interest rate conditions, (iii) impact on future financing flexibility, and (iv) the compensation for assuming risks, or the costs for eliminating certain risks and exposure. In addition, the University will analyze and quantify the cost/benefit of any derivative instrument relative to achieving desirable long-term capital structure objectives. Under no circumstances will a derivative transaction be utilized that is not understood fully by management or that imposes inappropriate risk on the University. Risks include but are not limited to tax risk, interest rate risk, liquidity risk, counterparty credit risk, basis risk, and any other potential risks either imposed or removed through the execution of any transaction. In addition, management will consider and disclose the potential impact of any derivative product on the University's financial statements and the appropriate treatment in calculating the debt policy ratios. The University will regularly report on the status and performance of its derivative products, if any, to the appropriate Board of Trustee committee. Given the risks and complexity associated with derivative products, they will be considered more seriously only when: (i) conventional financing sources are relatively more expensive (e.g. exceed the portfolio blended interest rate, and (ii) can achieve desired financial objectives more efficiently or at a significantly lower risk-adjusted cost than traditional structures. Management is required to present any recommended derivative product to the appropriate Board of Trustee committee and must receive Board approval prior to execution.

Other Financing Sources

The University recognizes that a variety of transactions, not limited to debt insured directly by UVM, may impact the University's credit while the University's limited debt capacity and substantial capital needs require the consideration of various financing alternatives, including possible opportunities for alternative and non-traditional transaction structures. The University recognizes these types of transactions may also impact the University's credit and also often can be more expensive than traditional University debt structures.

Therefore all non-traditional financing structures including guarantees and third party debt can only be considered once the economic benefit and the likely impact on the University's debt capacity and credit has been determined. Specifically, for any third-party or developer based financing, management will ensure the full credit impact of the structure is evaluated and quantified to the extent possible prior to execution and the analysis must be presented to the appropriate Board of Trustee committees and must receive Board approval prior to execution.

PORTFOLIO MANAGEMENT OF DEBT

Purpose

1. Permit decisions regarding debt issuance and structure to be made on a portfolio basis, rather than on a per-project basis.
2. Manage variable rate exposure of the debt portfolio.
   a. Limit variable rate exposure.
   b. Manage the overall liquidity requirements associated with outstanding debt.
   c. Target overall variable rate debt exposure.
3. Evaluate exposure to other financing vehicles and third parties on a portfolio-wide basis.

The University considers its debt portfolio holistically; that is, it optimizes the portfolio of debt for the entire University rather than on a project-by-project basis, and takes into account the University's cash and investments.

Variable Rate Debt

It is recognized that a degree of exposure to variable interest rates within the University's debt portfolio may be desirable in order to:

(i) take advantage of repayment/restructuring flexibility;

(ii) benefit from historically lower average interest costs; and

(iii) diversify the debt portfolio; and,

(iv) provide a hedge to short-term working capital balances

Management will monitor overall interest rate exposure, analyze and quantify potential risks, and coordinate appropriate fixed/variable allocation strategies. The portfolio allocation to variable rate debt may be managed or adjusted through (i) the issuance of debt (potentially new issues and refunding), (ii) and the use of interest rate swaps and other derivative products. While the utilization of commercial paper impacts the University's variable rate exposure, outstanding CP will not be included in the ratio, given the expected interim financing purpose.

Recognizing the desire to manage interest rate risk, the amount of variable rate debt outstanding shall not exceed 35% of the University's outstanding debt. This limit is based on the University's desire to (i) limit annual variances in its debt portfolio, (ii) provide sufficient structuring flexibility to management, (iii) keep the University's variable rate allocation within acceptable external parameters, (iv) utilize variable rate debt (and/or swaps) to optimize debt portfolio allocation and minimize costs, and (v) take into account liquidity needs and exposures for the portfolio, including consideration of the commercial paper program.

$$\frac{\text{VARIABLE RATE AND LIQUIDITY EXPOSURE}}{\text{TOTAL LONG-TERM DEBT OUTSTANDING}} \quad <35\%$$

The University will exclude from this calculation project-related commercial paper used in advance of expected long-term financing since this commercial paper is used for interim purposes and should not be included in the University's desired long-term variable rate allocation calculation. The numerator, *Variable Rate and Liquidity Exposure*, is defined as including all variable rate debt, not adjusted for any floating to fixed swaps, if any, and plus any fixed to floating swaps, if any. Thus, any variable rate debt that is affected by floating-to-fixed interest rate swaps will be considered variable rate debt for the purposes of this calculation since it impacts the University's liquidity requirements and exposes the institution to counterparty credit exposure. Note that this ratio measures interest rate exposure and liquidity exposure/requirements directly.

GLOSSARY

Annual Debt Service – refers to the principal and interest due on long-term debt in a fiscal year.

Bridge Financing – refers to any type of financing used to "bridge" a period of time. For universities, it generally refers to financings that provide funding in advance of a long-term bond issue or the receipt of gift funding.

Capital Project – refers to physical facilities or equipment or software that may be capitalized.

Commercial Paper – an alternative to bank line for stronger rated borrowers, commercial paper is short-term promissory notes issued on the open market as an obligation of the borrower. The maturity of commercial paper is less than 270 days, and for most universities, the average maturity of all paper is between 30-50 days. Registration and disclosure for commercial paper is significantly less than traditional university bonds.

Derivative Products – generally referred to transactions which are an exchange of specified cash flows for a period of time. The most common types of derivatives are floating-rate-to-fixed-rate or fixed-rate-to-floating-rate swaps.

GAAP – refers to Generally Accepted Accounting Principles.

GASB 34/35 – Government Accounting Standards Board Statement Nos. 34 and 35. These statements dramatically changed the reporting format for the University effective Fiscal 2002 by consolidating fund balances into net assets and consolidating university-wide activity instead of distinct fund groups. The Statements also require a statement of cash flows and a change in representation of state appropriation and investment income.

Leverage – long-term debt as a component of the total assets of the University. "High leverage" indicates an institution that has a considerable portion of its assets that are debt financed.