

**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 State and Agricultural College was held on Friday, May 17, 2013 at 9:45 a.m., in the Silver Maple Ballroom, 401 Dudley H. Davis Center.

MEMBERS PRESENT: Chair Debbie McAneny, Vice Chair David Daigle, President Tom Sullivan, Carolyn Branagan, Robert Brennan, Joan Lenes, Dennis Mahoney, Dale Rocheleau, Lisa Ventriss, Jeff Wilson

REPRESENTATIVES PRESENT: Faculty Representatives Albert Joy and Donald Ross, Alumni Representative Afi Ahmadi, Foundation Representative Richard Ader*, Staff Representatives Eric Hoefel and Tobey Clark and Graduate Student Representative Elizabeth Pope

OTHER TRUSTEES PRESENT: Board Chair Robert Cioffi

PERSONS ALSO PARTICIPATING: Interim Provost Bob Low, Vice President for Finance and Administration Richard Cate, University Budget Director Alberto Citarella and Controller Claire Burlingham

ABSENT: Trustees Samuel Bain and Mark Young, Graduate Student Representative Jennifer Rousseau, and Student Representatives Samantha Holland and Andrew Dougherty

*via conference phone

Chair McAneny called the meeting to order at 9:54 a.m.

Chair McAneny opened her remarks by acknowledging David Daigle as the new Vice Chair of the Budget, Finance and Investment (BFI) Committee and thanked Trustee Bain for his valued service as the former Vice Chair.

She also welcomed new committee members Trustee Jeff Wilson and Foundation Representative Richard Ader as well as Dale Rocheleau and Dennis Mahoney who previously served on the Educational Policy and Institutional Resources committee (EPIR). She reminded the committee that Kesha Ram is now serving on EPIR and thanked Kesha for her service to BFI.

Chair McAneny congratulated and recognized the service of outgoing Graduate Student Elizabeth Pope and Student Representatives Samantha Holland and Andrew Dougherty who are all graduating this year.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the April 8, 2013 meeting.

FY 2014 Proposed Student Fees and Rates

Chair McAneny reminded members that the FY 2014 budget approval process is postponed until June to allow for the most up-to-date enrollment data to be incorporated into the revenue projection. This delay is due to a higher number of potential first-time, first-year students waiting longer to make their final enrollment decisions.

Chair McAneny invited University Budget Director Alberto Citarella to review the tuition and student fees proposals. Mr. Citarella stated that there were no changes in any of the rates or fees since last reviewed by the Committee in April. He did point out that the Room and Meal Plan Rates, Fiscal Year 2014 resolution reflected a point count of +250 for the Residential Unlimited Access meal plan when the count is +300 points. The listed rate of \$3,976 is correct.

An overall 3% increase in the cost of attendance was proposed. In-state and out-of-state tuition, and housing rates were raised by 2.9%. The range of tuition fees for online classes increased at the same rate. Actual rates are determined by the Provost, based on demand for the program and assessment of the national market place for similar online programs.

Trustee Rocheleau inquired about how distance education is now administered. Vice President Cate answered that Continuing Education is now managing the staff and budget; however, academic control remains with the academic schools and colleges.

In conjunction with the Student Government Association, the administration proposed a 4.2% increase in meal plan rates. Student fees will see a 2.6% increase. Graduate fees will stay at \$20 and the graduate continuing registration fee will again range from \$100 to \$300.

Considering the delay in approving the FY 2014 general fund operating budget, Trustee Brennan sought confirmation that the proposed rates were firm. Vice President Cate said the administration is committed to these rates regardless of the final budget.

President Sullivan reminded the Committee that the proposed 2.9% tuition increase is the lowest increase in the last 36 years. The additional \$1.2 million state appropriation this year will negate the tuition increase for in-state students. It is exclusively for scholarships for all Vermont students, regardless of their prior financial aid status, and, therefore, does not add or subtract any dollars to the operating budget.

The following resolutions were presented:

Tuition Charges for Fiscal Year 2014

RESOLVED, that the Board of Trustees hereby approves increases in the following tuition rates effective with the 2013-2014 academic year:

- a. In-state tuition from \$13,344 to \$13,728 per year, or \$572 per credit hour.
- b. Out-of-state tuition from \$33,672 to \$34,656 per year, or \$1,444 per credit hour.
- c. Medical student in-state tuition from \$30,070 to \$30,940 per year.

- d. Medical student out-of-state tuition from \$52,630 to \$54,160 per year.

Online Tuition Rate

RESOLVED, that the Board of Trustees hereby approves the continuation of variable tuition rates for programs that are offered exclusively online. Consistent with the Board resolution in 2011, online tuition rates for the fall 2013 semester are set at a minimum rate of \$572 and a maximum rate of \$1,444 per credit hour for the 2013-14 academic year. The rate will be determined by the Provost, based on demand for the program and assessment of the national market for similar online programs.

Room and Meal Plan Rates, Fiscal Year 2014

RESOLVED, that the Board of Trustees hereby approves room and meal plan rates for Fiscal Year 2014 as follows:

	<u>per year</u>
Private Single with Bath	\$8,544
Private Double with Bath	\$8,346
Suite Single with Shared Bath	\$8,078
Suite Double with Shared Bath	\$6,978
Traditional Single	\$7,882
Traditional Double	\$6,844
Traditional Triple	\$5,458
Retail Dining	\$3,558
Residential Unlimited Access (+100 Points)	\$3,558
Residential Unlimited Access (+ 250 <u>300</u> Points)	\$3,976

Student Fees for Fiscal Year 2014

RESOLVED, that the Board of Trustees approves increases to student fees from \$1,940 to \$1,990 effective with the 2013-2014 academic year.

Graduate Student Senate Fee for Fiscal Year 2014

RESOLVED, that the Board of Trustees approves a continuation of the Graduate Student Senate fee in the amount of \$20 for the academic year.

Graduate Continuous Registration Fee for Fiscal Year 2014

RESOLVED, that the Board of Trustees approves a continuation of a varying Graduate Continuous Registration fee, effective with the 2013-2014 academic year, as follows:

Less than half-time	\$100 per semester
Half to full-time	\$200 per semester
Full-time	\$300 per semester

A motion was made, seconded, and it was voted unanimously to approve all budget resolutions, including the Room and Meal Plan Rates, Fiscal Year 2014 resolution revision to the point count for Residential Unlimited Access from +250 to +300, for recommendation to the full Board.

Debt Policy

Chair McAneny reminded members that based on discussions at February's and April's BFI meetings, further sensitivity analyses were requested from the University's debt advisor, The Yuba Group. She then asked Vice President Cate to highlight the revisions to the April presentation.

Vice President Cate stressed that members were being asked to modify the Debt Policy, and that the administration was not asking for authorization to take on more debt at this time. He then directed members to the scenarios on pages 12 – 18 of Attachment 4, particularly to those that were based on annual expense increase assumptions of 1%, 2% and 3%.

New members were provided a brief history of the Debt Policy, which is revisited annually, typically at the fall meeting. In 2007, the BFI Committee approved a debt burden ratio increase from 5% to 6% to address major capital construction needs, and a 2017 sunset on the increase was put in place.

Under the current policy, if the University were to take on more debt, it would likely result in a debt burden ratio higher than the 5% limit in 2017. Therefore, the administration is proposing a 5.75% debt burden ratio cap with a sunset provision that would bring the cap back to 5% in 2023.

Chair McAneny reiterated how pleased she was with the depth to which the Committee has taken this decision process. The proposed debt burden ratio would allow for this borrowing if the President and the Board wished to do so and there were adequate identified resources to pay the debt service. Continuing with a sunset provision gives future generations the same opportunity to thoroughly review the process.

Trustee Lenes appreciated the thorough analysis provided, but expressed concern about balancing taking advantage of historically low interest rates with putting the University's credit ratings in jeopardy if too much debt is incurred.

Vice President Cate assured the Committee that The Yuba Group made it clear that this is a safe ratio range and that the proposed debt ratio cap should not have any impact on the University's credit rating. Rating agencies generally consider the University of Vermont as fairly conservative and are more focused on an institution's overall level of budgetary responsibility. He also stated that there is no proposal to alter the viability ratio cap.

Trustee Rocheleau said he looks forward to having similar deliberations on the revenue side.

The Committee was presented with the following resolution for vote:

Annual Review of Debt Policy

WHEREAS, in September 2004 the Board adopted a University Debt Policy to guide the portfolio management of debt, to be reviewed annually; and since its creation in 2006, the Budget, Finance, and Investment Committee has been charged with the annual review of the Debt Policy, which it most recently reaffirmed in October 2011; and

WHEREAS, the University Debt Policy states that the debt ratio will not exceed 6%; the current debt ratio is 5.22%; and on December 1, 2007, the Board of Trustees adopted the following statement: “*That the Board directs the Administration to develop and implement a plan to lower the debt burden ratio to 5% by 2017*”; and

WHEREAS, the University’s Strategic Action Plan and Capital Project Priorities Plan call for addressing facilities needs for which the administration anticipates that some debt will be required;

NOW, THEREFORE, BE IT RESOLVED, that the University Debt Policy be amended to adjust the debt burden limit to 5.75% until June 30, 2023, after which time the limit will be 5%;

BE IT FURTHER RESOLVED, that the Board hereby reaffirms the Policy, as amended, appearing as Appendix A to this document.

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

Bond Refunding

Vice President Cate stated that since The Yuba Group’s revised presentation was published an increase in municipal borrowing rates has taken approximately \$500,000 off the present value savings from refunding the bonds.

Due to the complexity of the bond refunding decision-making and the fluidity of the capital markets, Chair McAneny asked for and received the Committee’s consensus to assign Sam Bain, David Daigle, Mark Young, and herself to a working group to further research bond refunding/issuance options. All recommendations will be brought to the full Board, or Executive Committee, as appropriate, for approval.

Report of the Investment Subcommittee (ISC)

- **Endowment Performance Update**

In ISC Chair Sam Bain’s absence, ISC Vice Chair Rob Brennan provided a brief overview of endowment market values.

The S&P 500 was up in the first quarter of 2013. U.S. Equities gained more than emerging markets and bonds stayed relatively the same. As of March 31, 2013, the

University's endowment was up 13.0%, or \$3.71 million. Trustee Brennan said that the full fiscal year looks promising.

- **Asset Allocations**

At its February 27th meeting in Boston, the ISC Committee approved the following changes to target allocations:

	Current Policy Target (%)	New Target (%)	Effective Change (%)
US Equity	22.5	23.0	+0.5
Global ex-US – Developed	10.5	11.0	+0.5
Global ex-US – Emerging Mkts	12.0	13.0	+1.0
Marketable Alternatives	22.0	20.0	-2.0
Venture Capital/Private Equity	11.0	11.0	0.0
Real Assets	14.0	14.0	0.0
Fixed Income	8.0	8.0	0.0
Cash	0.0	0.0	0.0
	100%	100%	0.0

Socially Responsible Investing Advisory Council (SRIAC) Update

Socially Responsible Investing Advisory Council leader Claire Burlingham updated the Committee on Council activities since the last full Board meeting.

Graduate student Elizabeth Palchek and Council members are researching the proposal made by the Vermont Student Climate Culture Club to divest from fossil fuel companies. The Council will present a report to the Vice President for Finance and Administration by June 1, 2013, summarizing the research conducted, including potential impacts on the endowment, and providing recommendations for strategic investments in the energy sector. After review, the Vice President will bring forth his recommendations to the ISC, and will brief the BFI Committee in the fall.

Improvements and updates to the SRIAC web site (<http://www.uvm.edu/~sri/>) continue. The Council considers this web site as its primary mode of communication and it will become a more interactive and educational tool. The SRIAC will reconvene in the fall and will hold its second Town Hall meeting in early October 2013.

Ms. Burlingham then outlined the review process of the resolution reaffirming divestiture from Sudan. The student group that originally brought forth this issue has disbanded. However, present conditions in the Sudan were evaluated by the SRIAC by reaching out to University faculty in the History and Political Science Department. The review concluded that violence and conflict remain in that region; therefore, the SRIAC reaffirmed its recommendation for divestment from the Sudan.

The ISC-approved resolution reflects two revisions. It recognizes the dissolution of the Social Investing Working Group and the appointment of the SRIAC. It also includes Trustee Bain's

previous recommendation to lengthen the BFI review period from annually to an as-needed timeline.

Through the SRIAC's continued annual review, the University will not lose sight of this critical issue. If conditions change drastically in that part of the world the Council will inform the ISC and the BFI Committee.

Chair McAneny presented to the Committee the affirmation resolution as brought forth by the ISC.

Reaffirm Divestiture from Sudan

WHEREAS, the Board of Trustees approved a resolution for Divestment from Sudan on May 20, 2006;

WHEREAS, the resolution was amended by the Executive Committee on June 12, 2006, to include annual review and reaffirmation;

WHEREAS, the Committee on Socially Responsible Investing was dissolved as part of a new committee structure approved by the Board in September 2006 and implemented in November 2006; ~~and~~

WHEREAS, the Board established a Socially Responsible Investing (SRI) Work Group in September 2008; ~~and~~

WHEREAS, in November 2012 the Board dissolved the SRI Work Group and authorized the creation of the Socially Responsible Investing Advisory Council;

NOW, THEREFORE BE IT RESOLVED, that the Board of Trustees reaffirms its Resolution for Divestment from Sudan, as ~~re~~-stated below;

BE IT FURTHER RESOLVED, that the Budget, Finance and Investment Committee, will review this resolution on an annual basis.

Resolution for Divestment from Sudan

WHEREAS, the University's Policy Statement on Moral, Social and Ethical Considerations in Investment and Shareholder Resolutions holds that the primary objective of investment by the University is to provide a satisfactory return on investment for the support of University operations based upon the Prudent Investor Rule; and

WHEREAS, the Policy Statement also holds, however, that the policy of fiscal prudence shall not preclude the University from considering moral, ethical, and social criteria in determining companies in which to invest; and

WHEREAS, a balanced group of the University community has been convened as the Committee on Socially Responsible Investing and has studied the issue of genocide in the Darfur region of Sudan and has made recommendations to the Investment Committee of the Board of Trustees;

THEREFORE, BE IT RESOLVED, that the University adopt and implement a policy of targeted divestment from companies doing business with or otherwise aiding the governing regime of Sudan based on the model developed by the Sudan Divestment Task Force;

BE IT FURTHER RESOLVED, that the University implement its divestment policy to the fullest extent consistent with its fiduciary responsibilities; and

BE IT FURTHER RESOLVED, that the ~~Committee on~~ Socially Responsible Investing Advisory Council will review and, if appropriate, reaffirm this resolution on an annual basis.

The Committee voted unanimously to reaffirm the resolution to the full Board.

Third-Quarter General Fund Budget to Actuals

The Committee reviewed the FY 2013 budget to actual report as of March 31, 2013 distributed at the meeting. Overall revenue and expenses are still tracking at levels consistent with prior years. University Budget Director Alberto Citarella reported that after taking into consideration anticipated revenues and expenses there should be a very modest positive balance of \$0 - \$2 million at the end of the fiscal year.

Vice President's Report

Vice President Cate noted that his written report included previously requested information regarding unencumbered net assets and information about the University's insurance program.

The University's unencumbered net assets amount to just under \$40 million, which, Vice President Cate feels is not enough for an organization the size of the University. When other encumbered assets that could be available are included, this amount is almost doubled. Much of this is restricted by accounting terms, but could be used in emergency situations.

These unencumbered net assets are reserved to manage risks, such as a pandemic or a natural disaster that may deter students from coming to campus and could create a barrier for the University's revenue stream. The funds would also allow for investment opportunities without incurring additional debt.

President Sullivan mentioned that the University's enterprise risk management process is enabling the identification of campus wide risks as well as opportunities, which will then allow the Board to focus on areas of strategic importance.

Vice President Cate noted that he has seen some comparable public institutions setting aside 2-8% of their operating budgets for net assets; private institutions are less transparent. He has yet to find an industry best practice standard for unencumbered cash reserves, but continues to look.

Vice President Cate referred to an attached overview of the University's insurance program, prepared by Director of Risk Management and Safety Mary Dewey, which he believes is a strong model that balances risks with costs. The University finances its various risks through a combination of self-insurance and commercial insurance purchased in the name of the University.

Other Business

Chair McAneny invited members to raise topics of interest for future agendas.

Trustee Jeff Wilson requested a deeper financial discussion on deferred maintenance. The administration will provide a 10-year comparison on what has been taken care of and what still needs attention.

Trustee Rocheleau is interested in how the University is complying with the Affordable Care Act and how this is financially impacting the institution.

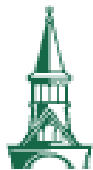
Chair McAneny thanked members for these excellent recommendations which will be worked into the Committee's annual work plan.

Adjournment

There being no further business, the meeting adjourned at 11:18 a.m.

Respectfully Submitted,

Debbie McAneny, Chair



University of Vermont
Debt Policy
As Adopted by the Board of Trustees
September 2004, revised November 2005,
Revised, November 2006,
Revised, December 2007,
Reaffirmed, December 2008,
Revised, October 2009
Revised, October 2010
Reaffirmed, October 2011
Revised, May 2013

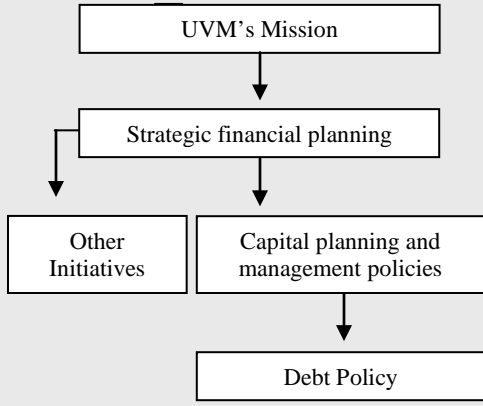
TABLE OF CONTENTS

Overview.....	1
Introduction and Objectives	2
Oversight.....	3
Policy Ratios.....	3
Types of Financings	5
Portfolio Management of Debt.....	7

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.

$$\frac{\text{ANNUAL DEBT SERVICE}}{\text{TOTAL EXPENSES}} < 65.75\%$$



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 6.05.75% until June 30, 2023 and will revert to 5% thereafter. ~~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.

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

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

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
<ol style="list-style-type: none"> 1. Review of all potential funding sources for projects. 2. Maximize tax-exempt University-issued debt. 3. Commercial Paper program. <ol style="list-style-type: none"> 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. <ol style="list-style-type: none"> 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.

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

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.

