

**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, February 2, 2018 at 1:00 p.m., in the Silver Maple Ballroom, 401 Dudley H. Davis Center.

**MEMBERS PRESENT:** Chair Don McCree, Vice Chair Robert Brennan\*, President Thomas Sullivan\*\*, David Aronoff\*, John Bartholomew, Johannah Donovan, Ron Lumbrá, Ed Pagano, Soraiya Thura and Lisa Ventriss

**ABSENT:** Trustee Bernard Juskiewicz, Foundation Representative Richard Ader and Staff Representative Renee Berteau

**REPRESENTATIVES PRESENT:** Faculty Representatives Andrew Barnaby and Timothy Higgins, Alumni Representative Myron Sopher, Staff Representative Sonya Stern, Student Representatives Clark Deng and Reginah Mako, Graduate Student Representatives Michelle DiPinto and Joseph Campbell

**PERSONS ALSO PARTICIPATING:** Full Board Chair David Daigle\*\*, Vice President for Finance and Treasurer Richard Cate, University Controller Claire Burlingham, University Budget Director Alberto Citarella, UVM Foundation President & CEO Shane Jacobson, and Director of Capital Planning and Management Bob Vaughan

\*Participated by conference phone

\*\*Joined the meeting at 2:40 p.m.

\*\*Left meeting at 1:42 p.m. and returned at 2:44 p.m.

Chair Don McCree called the meeting to order at 1:08 p.m.

He began the meeting by noting this is Lisa Ventriss' and Sonya Stern's last meeting and thanked them for their service.

**Approval of Minutes**

A motion was made, seconded and voted to approve the minutes of the October 20, 2017 meeting.

**Debt Policy and Ratio Annual Review**

University Controller Claire Burlingham started the conversation by directing Committee members to Attachment 3 of the meeting materials, explaining there are two ratios in the Debt Policy, the viability ratio and the debt burden ratio.

In regards to the viability ratio, she reminded Committee members that GASB-45 is an accounting standard that requires the University to recognize on the balance sheet the future liability for paying employees' post-retirement medical benefits.

Controller Burlingham then reviewed the debt burden and viability ratios. The University's viability ratio was 0.60 as of December 31, 2017, below the policy target of 0.8, primarily due to the GASB 45 liability. Without this liability, the University's viability ratio would have been 1.01. The Debt Policy also requires that the University's debt burden ratio cap will not be greater than 5.75%, and that by 2023 it will not be greater than 5.0%. The debt burden ratio was 5.25% as of December 31, 2017 and was therefore in compliance with the current policy requirements.

Controller Burlingham explained that beginning with the current fiscal year, the accounting standard GASB-75 requires the University to recognize the entire post-retirement employment benefits liability, totaling \$340 million. With this liability, the University's viability ratio will decrease to 0.24 next year. She emphasized this will only occur next year and the ratio will adjust after that. Vice President for Finance and Treasurer Richard Cate added that all other Universities will experience the drop in their viability ratios next year and emphasized that the rating agencies understand this.

Controller Burlingham explained, per the requirements of the University's Debt Policy, the Committee is required to review the policy annually and approve any changes. She noted the University has met and spoken to the University's debt advisors, the Yuba Group, to review the Debt Policy. The Committee was asked to reaffirm the Debt Policy with no changes.

The following resolution was presented to the Committee for approval for recommendation to the Full Board:

**Resolution Reaffirming Debt Policy**

WHEREAS, in September 2004, the Board of Trustees 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 most recently revised in February 2017;

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

A motion was made, seconded, and the resolution was unanimously approved as presented.

**Report of the Investment Subcommittee (ISC)**

ISC Chair Robert Brennan began the conversation by walking Committee members through the performance update report prepared by Cambridge Associates. He noted that as of December 31,

2017, the value of the University's pooled endowment was \$528 million. He further noted that due to the growing economy, the endowment ended the year with growth stronger than expected.

Chair Brennan added that the portfolio had outperformed the benchmarks in the total real asset category, the marketable alternatives, fixed income, and developed markets equity, but had under-performed in the US equity portfolio.

Later this month, the ISC will meet in Boston to interview managers and discuss asset allocations after which any adjustments to the University's portfolio will be recommended to the Board.

Board Chair David Daigle noted that while the growth in the endowment is significant this year, there are still stresses on the University's budget and the growth of the endowment does not amount to excess funding for the budget. He noted that due to the volatility of the market, endowment growth could decrease over the years.

### **Fundraising Update on Capital Projects**

UVM Foundation President & CEO Shane Jacobson updated the Committee on fundraising progress on capital projects, including the STEM Complex and Ifshin Hall. He began his presentation by explaining the different categories into which funding from the Capital Campaign are allocated.

President and CEO Jacobson explained that the STEM Complex will be funded by a mix of private gifts and non-debt funding. As of December 31, 2017, the Foundation had already secured \$10.5 million in non-debt funding. The remaining non-debt goal is \$15.5 million.

In regard to Ifshin Hall, as of December 31, 2017 \$8.1 million of the \$11 million non-debt goal and total project cost has been raised in non-debt funding.

Mr. Jacobson noted that two members of the Foundation team are focusing on increasing foundation and major corporate giving. They have partnered closely with faculty on campus and are using research portfolios of the University's faculty and graduate students to engineer conversations about investments in technology, scholarships, women in STEM, and more.

He also announced the UVM Foundation's new CFO, Charlie Feeney will begin in March of this year.

### **Vice President's Report**

- **Net Assets Annual Review**

University Controller Burlingham referred Committee members to the annual report on the University's net assets included as Appendix A in Attachment 4 of the meeting materials noting the University Net Assets totaled \$225.2 million at the end of FY 2017. In keeping with the amendments to the Cash Management Policy, the unencumbered unrestricted liquidity pool exceeds \$30 million by \$7 million.

- **Sources and Uses Update for Capital Projects**

University Controller Burlingham next referred Committee members to the Capital Projects Sources and Uses of Funds spreadsheet included as Appendix B to Attachment 4. This spreadsheet was created to provide transparency regarding the variety of funding mechanisms the University uses for different activities.

Ms. Burlingham noted she met with the UVM Foundation's Interim CFO and Controller Mark Metivier and reconciled the UVM Foundation cash with the cash receipts as of November 2017, which is reflected in the Sources and Uses Spreadsheet.

Chair McCree applauded the Foundation's fundraising successes.

- **Green Revolving Loan Fund Annual Report**

As detailed in Appendix C to Attachment 4, Controller Burlingham noted that the University has committed \$712,481.00 and received \$239,564.00 in rebates from the utility companies for a net cost of \$472,917.00. In addition, Committee members were reminded that the Board approved using \$3.0 million of the fund to help finance the Chiller Plan Expansion and \$800,000.00 for metering project for tracking and monitoring utilization and costs.

- **Budget to Actuals**

Budget Director Alberto Citarella reviewed the first quarter budget to actuals included as Appendix D to Attachment 4. The first quarter general fund budget to actuals report indicates that 45% of budgeted revenue has been received and 29% of budgeted expenses have been expended. The budget is on track to hit its targets.

In regards to the major components of revenue, he noted:

- Undergraduate net tuition is projected to come in approximately \$1.8 million under budget.
- Non-Degree net tuition is projected to come in roughly \$1.0 million under budget.
- Graduate Summer tuition is at 122% of budget, or \$447,000 over budget.
- Sponsored Facilities & Administration is currently at 24% of budget and is expected to end the year \$500,000 to \$800,000 over budget.
- Operating Investment Income is projected to come in roughly \$1.0 million over budget.

On the expense side, he noted:

- The Athletics department is currently at 39% of budget and is projected to come in slightly above budget.
- Vice President of University Relations and Administration is currently at 35% of budget.
- The General University budget is anticipated to come in at budget. It is currently at 78% of budget because 100% of the debt service expense is recognized in the first quarter.

When asked about the consequences for the University of the new federal tax laws, Vice President Cate explained the only thing effected is recruitment, as relocation costs now have to be treated as taxable.

## Annual Strategic Financial Plan Update

Chair McCree reminded Committee members that at the May 2017 Committee meeting, consultants from Kaufman Hall discussed the financial details of the planning model developed to assess the University's likely financial condition given numerous operating assumptions and strategic assumptions.

Vice President Cate explained that as the Board makes decisions regarding investments, this model enables his team to put all the data in a central place and project outcomes of said potential investments.

He then walked Committee members through his Multi-year Strategic Financial Planning presentation slides.

He explained the three financial ratios are used to judge the University's financial standing: operating margin, operating cash flow margin, and debt service to operations.

The base case scenario assumptions presented for scenario generation purposes included the following components: 2.0% annual salary increase; slight growth in enrollment; 3.0% annual growth in student credit hours; 3.0% annual tuition increase; no increase in the number of faculty and staff; and no increase in debt. Using this base case scenario, he walked Committee members through how the three ratios would be affected with these components.

Vice President Cate explained what the ratio analyses indicate regarding the base case scenario. Of note:

- The base case would not be enough and would result in a negative operating margin within five years.
- Any salary increase over 2.0% would result in a decline in Operating Margin and Operating Cash Flow.
- Without continuous growth in student credit hours and improved retention, operating margins will decline further.

Vice President Cate then presented a potential long-term strategy option, which included:

- Growing residential undergraduate enrollment incrementally for each of the next five years to 10,900 in FY 2023.
- Maintain salary increases at sustainable levels.
- Continue to seek out ways to contain and avoid costs in administrative and academic units.
- Increase student credit hours at least 3.0% per year.
- Continue to keep tuition affordable and competitive, as well as adequate to maintain a balanced budget.
- Use the next five years to implement strategies that result in continuous revenue growth, while meeting the goals of affordability and enhanced educational quality.

Chair McCree emphasized that the Board has been discussing the challenges Vice President Cate described for years. This tool will help the University address these challenges.

When asked about increasing student enrollment online and in non-traditional ways, Vice President Cate explained that there are many opportunities to do this, while also maintaining the quality of the program. He noted that Incentive-based Budgeting (IBB) has motivated units to look at opportunities to do just this.

Chair McCree called for a break 2:24 p.m.

Chair McCree reconvened the meeting at 2:41 p.m.

### **FY 2019 Budget**

Budget Director Citarella reviewed attachment 5A of the meeting materials, which shows a selection of comparator institutions. Of note:

- UVM's tuition is on the high end compared to other public institutions.
- UVM's 10-year growth rate in tuition and fees is slightly below the median growth rate for both private and public institutions in this comparator group.
- With room and board rates, UVM is on the low side, even with the rate increase.

He then directed Committee members to the two additional charts distributed at the meeting. Of note:

- The cost of attendance for in-state students is \$28,878.00. The net price for the University after gift aid is \$17,303.00.
- The cost of attendance for out-of-state students is \$51,942.00. The net price for the University after gift aid is \$35,315.00.

Director Citarella reminded Committee members that at the October 2017 meeting, they were asked to set the room and meal plan rates for Fiscal Year 2018. They are now being asked to set the Comprehensive Fee, SGA, and IRA fees for Fiscal Year 2018.

Director Citarella explained that this year, the SGA is proposing an increase of \$10.00, an increase of 4.9% to accommodate salary and benefits and an increase in club funding. The maximum proposed comprehensive student fee, excluding the SGA and IRA fees, reflects a 4.6% increase. This year, a \$38 fee was added to cover a new payment that the University is making to contribute to a new capital projects plan in the City of Burlington.

The following resolution was presented to the Committee for approval for recommendation to the Full Board:

#### **Resolution Setting the Comprehensive Fee, SGA and IRA Fees**

RESOLVED, that the Board of Trustees hereby sets the following fee rates:

UG Student Government Association (SGA) Fee	\$214
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UG Inter Residence Association (IRA) Fee	\$30
Comprehensive Fee	\$2,126

A motion was made, seconded, and the resolution was unanimously approved as presented.

### **Short-Term Borrowing for Deferred Maintenance**

Chair McCree started the discussion by reminding Committee members that, at the February 2017 meeting, there was a discussion about deferred maintenance. At that meeting the Committee and the Full Board endorsed the funding concept and authorized the administration to borrow \$4.0 million for deferred maintenance funding for FY 2017 and FY 2018. The administration was instructed to return each year to seek subsequent borrowing authorizations, all of which will eventually be converted to long-term fixed-rate debt.

Vice President Cate explained that it was not necessary to borrow any funds in FY 2018 because the bond refunding last year provided the required \$4.0 million in present value savings, which was used to fund the deferred maintenance. This year, the administration is requesting authority to borrow \$4.0 million for FY 2019 (some projects will begin in FY 2018) in accordance with the plan that was presented last year.

Vice President Cate noted that if the Board followed this 10-year plan, by 2027, the University would have enough funding in the operating budget to invest at a level of \$19 million/year.

He added that since 1992, 1.0% of the cost of every project on campus has been put into the endowment and when needed, taken out for deferred maintenance.

A resolution reflecting amendments made since the meeting materials were issued was distributed and presented to the Committee for approval for recommendation to the Full Board:

#### **Resolution Authorizing Short-Term Borrowing for Deferred Maintenance**

WHEREAS, the Board of Trustees approved the deferred maintenance funding concept, presented by the administration, at its meeting on February 4, 2017 (the “2017 Resolution”); and

WHEREAS, the ~~concept called for the issuance of \$4 million of short term debt to fund deferred maintenance projects in FY 19-2017~~ Resolution directed the administration to seek authorization for additional funding, consistent with goals of the deferred maintenance funding concept, at the winter meeting of the Board of Trustees in each of the next four years;

THEREFORE, BE IT RESOLVED, that the Board of Trustees authorizes \$4,000,000 of short-term borrowing to fund deferred maintenance projects for FY 18 and FY 19 with the understanding that the debt will eventually be converted to long-term, fixed-rate debt, the terms of such short-term borrowing to be approved by the Executive Committee of the Board of Trustees.

A motion was made, seconded, and the resolution was unanimously approved as presented.

### **Multipurpose Project Design Development and Permits**

Vice President Cate opened the conversation by reminding Committee members that at its February 2017 meeting, the Board of Trustees authorized the expenditure of \$750,000 from the Capital Projects Pre-construction Fund to fund the schematic design of the proposed Multipurpose Center. At its October 20, 2017 meeting, the Board further authorized the expenditure of \$1.0 million of private gift funds for the next phase of design development. In order to make the most efficient use of time and minimize design costs, the next phase of funding is now required.

At this point, the Foundation has raised \$2.6 million in cash receipts and unconditional pledges for the project, \$1.0 million of which the Board obligated at its October meeting. The total amount that has been raised for the project, including conditional pledges, is \$6 million. The cost of the remaining design development, consultants, permitting, and construction drawings and documents is estimated to be \$3.5 million.

Vice President Cate explained the administration is proposing that the remaining project development work be accomplished and funded in two phases as follows:

- The first phase would include the completion of design development and the initial permit applications, for which the Board could authorize funding at its upcoming meeting with a not-to-exceed amount of \$1.5 million. This work would be funded by the remainder of the cash receipts and pledges that the Foundation has received to date.
- The funding for the second phase would pay for the other components described above and would amount to \$2.0 million. This remaining work would not be authorized until the Foundation has secured a total of at least \$4.5 million (includes the \$1.0 million already authorized for expenditure) in cash receipts and unconditional pledges for the project.

The goal is for the Foundation to accomplish this by the May 2018 Board meeting so that the second phase can be authorized at that time and the project development can continue on schedule. Project approval will not be sought until adequate private funding has been committed.

A resolution reflecting amendments made since the meeting materials were issued was distributed and presented to the Committee for approval for recommendation to the Full Board:

#### **Resolution Authorizing Expenditures for ~~Completion of the Multipurpose Project Development Design Construction Drawings and Permitting~~**

WHEREAS, on February 4, 2017, the Board of Trustees authorized the administration to take steps relating to an on-campus Multipurpose Center (Project), including initiation of the schematic design phase and generation of a Project cost estimate and funding plan; and

WHEREAS, on October 20, 2017 the Board authorized the expenditure of \$1 million of private funds for the first phase of design development for the project; and  
WHEREAS, \$1.5 million is required to fund the next phase of design development and permitting;



THEN, BE IT RESOLVED, that the Budget, Finance & Investment Committee hereby recommends to the Board that it authorize the administration to undertake the next phase of design development and permitting for the Multipurpose Center project; and

BE IT FURTHER RESOLVED, that up to \$1,500,000 of private gift funds be used to fund this work.

A motion was made, seconded, and the resolution was unanimously approved as presented.

### **Capital Projects**

Director of Capital Planning and Management Robert Vaughan was invited to present two capital project requests. He began by describing the Billings Building Envelope Restoration Project. The estimated cost of the project is \$3.0 million, which will be drawn from unrestricted deferred maintenance funds that currently exist in the Physical Plant budget.

He next described the Torrey Building Envelope Restoration Project. The estimated cost of the project is \$2.9 million, which will be drawn from unrestricted deferred maintenance funds that currently exist in the Physical Plant budget.

Vice President added that both of these projects have benefitted from the Board's increase in amount given to deferred maintenance efforts.

The following resolutions for Committee approval and recommendation to the full Board:

#### **Resolution Approving Final Expenditures for Billings Building Envelope Restoration**

WHEREAS, the administration today reported on the estimated cost for the Billings Building Envelope Restoration Project and presented a funding plan,

THEN, BE IT RESOLVED, that the Committee hereby recommends to the Board that it authorize \$3,000,000 in project expenditures, to be expended in a manner consistent with the report made on this date; and

BE IT FURTHER RESOLVED, that the \$3,000,000 of funds for such expenditures be drawn from the unrestricted plant funds from Physical Plant.

#### **Resolution Approving Final Expenditures for Torrey Building Envelope Restoration**

WHEREAS, the administration today reported on the estimated cost for the Torrey Building Envelope Restoration Project and presented a funding plan,

THEN, BE IT RESOLVED, that the Committee hereby recommends to the Board that it authorize \$2,900,000 in project expenditures, to be expended in a manner consistent with the report made on this date; and

BE IT FURTHER RESOLVED, that the \$2,900,000 of funds for such expenditures be drawn from the unrestricted plant funds from Physical Plant.

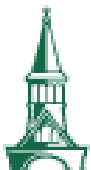
A motion was made, seconded, and Trustees voted unanimously to approve the two resolutions as presented.

**Adjournment**

There being no further business, the meeting adjourned at 3:05 p.m.

Respectfully Submitted,

Don McCree, 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  
Revised, February 2014  
Revised, February 2015  
Reaffirmed, February 2016  
Revised, February 2017  
Reaffirmed, February 2018

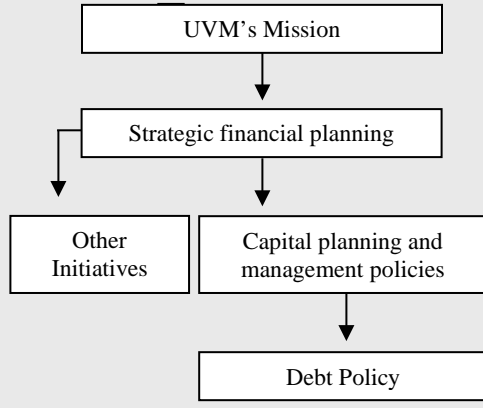
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**OVERVIEW**

**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
<ol style="list-style-type: none"> <li>1. Provide mechanism for oversight and review on periodic basis.</li> <li>2. Provide management flexibility to make ongoing financing decisions within the framework of the policy.</li> </ol>

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 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
<ol style="list-style-type: none"> <li>1. Identify core ratios.               <ol style="list-style-type: none"> <li>a. Operating Statement—Debt Burden Ratio.</li> <li>b. Balance Sheet Leverage—Viability Ratio.</li> </ol> </li> <li>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.</li> </ol>

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.

$$\frac{\text{ANNUAL DEBT SERVICE}}{\text{TOTAL EXPENSES}} < 5.75\%$$

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 5.75% until June 30, 2023 and will revert to 5% thereafter. 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.

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 0.8 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 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. The Vice President of Finance will also report the ratio results showing the effect with and without the Governmental Accounting Standards for Other Post Retirement Benefits. 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"> <li>1. Review of all potential funding sources for projects.</li> <li>2. Maximize tax-exempt University-issued debt.</li> <li>3. Commercial Paper program.                             <ol style="list-style-type: none"> <li>a. Provide bridge funding.</li> <li>b. Provide continual access to capital.</li> <li>c. Issuance on a taxable or tax-exempt basis.</li> </ol> </li> <li>4. Manage derivative products, including swaps.</li> <li>5. Consider other financing sources.                             <ol style="list-style-type: none"> <li>a. Management will explore securitizations, joint ventures and other financial structures to provide for the optimal funding for any project.</li> </ol> </li> </ol>

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.





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*Derivative Products*

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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.

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*Other Financing Sources*

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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
<ol style="list-style-type: none"> <li>1. Permit decisions regarding debt issuance and structure to be made on a portfolio basis, rather than on a per-project basis.</li> <li>2. Manage variable rate exposure of the debt portfolio.                             <ol style="list-style-type: none"> <li>a. Limit variable rate exposure.</li> <li>b. Manage the overall liquidity requirements associated with outstanding debt.</li> <li>c. Target overall variable rate debt exposure.</li> </ol> </li> <li>3. Evaluate exposure to other financing vehicles and third parties on a portfolio-wide basis.</li> </ol>

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.

**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.

