

**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 1, 2019 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, Bernard Juskiewicz, Ron Lumbra, Caitlin McHugh, Ed Pagano, and Tristan Toleno*

REPRESENTATIVES PRESENT: Faculty Representative Donald Ross and Terri Donovan, Foundation Representative Richard Ader*, Alumni Representative Myron Sopher, Staff Representatives Joshua Tyack and Renee Berteau, Student Representative Larry McCarthy*, Graduate Student Representatives Michelle DiPinto and Joseph Campbell

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

ABSENT: Student Representative Clark Deng

*Participating via conference phone.

**Departed the meeting at 1:20 p.m. and returned at 1:29 p.m.

Chair Don McCree called the meeting to order at 1:06 p.m. He began by welcoming the new Faculty Representatives, Donald Ross and Terri Donovan.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the October 26, 2018 meeting.

Debt Policy and Ratio Annual Review

University Controller Claire Burlingham directed 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 Governmental Accounting Standards Board (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.

The University's viability ratio was 0.21 as of December 31, 2018, 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 1.10. The Debt Policy also requires that the University's debt burden ratio will not be greater than 5.75%, and that by 2023 it will not be greater than 5.0%. As of December 31, 2018, the debt burden ratio was 4.94% with GASB 45/75 and 5.17% without GASB 45/75. It was therefore in compliance with the current policy requirements.

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 proposed revisions to the policy include reporting the Viability Ratio as a Leverage Ratio calculated as Spendable Cash and Investments to Debt as well as changing the Leverage Ratio limit from 0.8 to 1.0.

Controller Burlingham then directed Committee members to the additional Leverage Ratio Comparisons handout distributed at the beginning of the meeting. This handout was created to show the Leverage Ratio calculations under the current Debt Policy statement and how said calculations differ using the new methodology proposed by the changes to the Debt Policy.

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

Resolution Approving Revisions to the 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 accepts revisions to 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 by reviewing the performance update report prepared by Cambridge Associates. He noted that as of December 31, 2018, the value of the University's pooled endowment was \$497.3 million, 6.2% less than December of 2017. He further noted that the declines in the fourth quarter led to negative calendar year returns.

Chair Brennan added that the portfolio had outperformed the benchmarks in the US equity portfolio, the marketable alternatives, the emerging markets, private equity portfolio and real

assets categories, but had under-performed in the developed markets and fixed income categories.

Next month, the ISC will meet in New York City to discuss asset allocations after which any adjustments to the University's portfolio will be recommended to the Board.

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

Resolution Approving Revisions to the Cash Management and Liquidity Policy

WHEREAS, in September 1993, the Board of Trustees adopted the Cash Management Policy to govern the investment of UVM pooled cash; and

WHEREAS, in February 2016, the Board of Trustee revised and re-named the scope of the Cash Management Policy as the Cash Management and Liquidity Policy to establish a minimum liquidity target for the University comprised of liquid funds that are unrestricted, unencumbered general fund net assets; and

WHEREAS, the Investment Subcommittee is charged with an annual review of the Cash Management and Liquidity Policy; and

WHEREAS, on December 19, 2018, the Investment Subcommittee reviewed revisions to the Cash Management and Liquidity Policy, as appended;

THEREFORE, BE IT RESOLVED, that the Investment Subcommittee hereby recommends that the Board of Trustees adopt the amended Cash Management and Liquidity Policy, appearing as Appendix B to this document.

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

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 January 31, 2019, the Foundation had secured \$11.6 million in non-debt funding. The remaining non-debt goal is \$14.4 million.

In regard to Ifshin Hall, as of January 31, 2019, \$9.6 million of the \$10.7 million non-debt goal and total project cost has been committed.

Vice President's Report

- **Budget to Actuals**

Budget Director Alberto Citarella reviewed the revised first quarter budget to actuals handout distributed at the beginning of the meeting. He explained the budget is on track to have a surplus of \$1.0 to \$4.0 million after reappropriations.

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

- Undergraduate net tuition is projected to come in \$2.5 to \$3.6 million better than budget.
- Net summer tuition is expected to come in at budget.
- Sponsored Facilities & Administration is expected to end the year \$3.0 to \$3.5 million better than budget.
- Operating Investment Income is projected to come in roughly \$500,000 better than budget.

On the expense side, he noted:

- The Athletics department is currently at 70% of budget and is projected to come in slightly above budget.
- The Graduate College is currently at 30% of budget.
- The Office of General Counsel is currently at 33% of budget, primarily driven by more in-house work being done this year.
- The General University budget is anticipated to come in at budget. It is currently at 80% of budget because 100% of the debt service expense is recognized in the first quarter.

- **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 \$232.1 million at the end of FY 2018. In keeping with the amendments to the Cash Management Policy, the unencumbered unrestricted liquidity pool exceeds \$30 million by \$4.9 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.

- **Green Revolving Loan Fund Annual Report**

As detailed in Appendix C to Attachment 4, Controller Burlingham noted that the University has committed \$4,512,481.00 and received \$239,564.00 in rebates from the utility companies for a net cost of \$472,917.00. Utilities saving from the Chiller Plant expansion has already resulted in \$600,000.00 of utility savings which has been paid back to the fund in 2018. The balance in the fund as of November 30, 2018 is \$9,461,875.00.

Approval of Funding for the Fiscal Year 2019-2020 Deferred Maintenance Projects and Declaration of Official Intent of the University to Reimburse Certain Expenditures from Proceeds of Indebtedness

Vice President Cate explained that consistent with the deferred maintenance funding concept previously endorsed by the Board in February 2017, the administration is seeking authorization to either issue \$4.0 million in permanent debt or use savings from bond refunding to fund FY 2019-2020 deferred maintenance projects.

The proposed resolution also authorizes the administration to reimburse the general fund for project expenditures made before the bonds are either issued or refunded.

Chair McCree added that the goal of the concept introduced in 2017 was to stem the increase in the cost of deferred maintenance and build it into the general operating budget.

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

Approval of Funding for the Fiscal Year 2019-2020 Deferred Maintenance Projects and Declaration of Official Intent of the University to Reimburse Certain Expenditures from Proceeds of Indebtedness

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 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 each year for the next four years; and

WHEREAS, the deferred maintenance projects for FY 2019 and FY 2020 will require \$4,000,000 in funding; and

WHEREAS, the University expects to pay certain expenditures (the “Reimbursement Expenditures”) for deferred maintenance projects included on the Deferred Maintenance Fiscal Year 2020 Plan (as it may be amended from time to time) (the “Project”) before the issuance of indebtedness for the purpose of financing costs associated with the Project on a long-term basis; and

WHEREAS, the University reasonably expects that debt obligations in an amount not expected to exceed \$4 million will be issued, or that present value savings from a bond refunding will be available, and that certain of the proceeds of such debt obligations or savings will be used to reimburse the Reimbursement Expenditures; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the University to declare its reasonable official intent to reimburse prior expenditures for the Project with proceeds of a subsequent borrowing;

THEREFORE, BE IT RESOLVED, that the Board of Trustees authorize \$4,000,000 in expenditures to fund the FY 2019 and FY 2020 deferred maintenance projects, and;

BE IT FURTHER RESOLVED, that the University hereby declares:

Section 1. The University finds and determines that the foregoing recitals are true and correct.

Section 2. This declaration is made solely for purposes of establishing compliance with the requirements of Section 1.150-2 of the Treasury Regulations. This declaration does not bind the University to make any expenditure, incur any indebtedness, or proceed with the Project.

Section 3. The University hereby declares its official intent to use proceeds of indebtedness to reimburse itself for Reimbursement Expenditures.

Section 4. This declaration shall take effect from and after its adoption.

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

Annual Strategic Financial Plan Update

Vice President Cate reminded Committee members that at the May 2017 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. 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 presented the Strategic Financial Planning slides, and explained that the FY 2019 total operating budget is \$683 million; the general fund gross revenue is \$520 million; and the general fund gross expense is \$520 million.

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. Another indicator that is being monitored is the degree of budget reduction necessary to balance the budget in any given year.

The alternative scenario assumptions, presented for scenario generation purposes, included the following components: 3.0% annual salary increase; no growth in Non-degree, Graduate, and Summer enrollments; growth of 100 full-time enrollees per year; and annual increases of \$2.0 million in deferred maintenance.

Using the base case and alternative scenarios, Vice President Cate outlined how the three ratios would be affected with these components.

Vice President Cate then explained what the figures indicate regarding the scenarios. Of note:

- A 3.0% annual tuition increase is not adequate to balance the budget without applying other strategies.
- Revenue growth each year, via multiple strategies, will continue to be essential to balancing the budget.
- Salary increases must be constrained.
- Investments in facilities must be limited to projects that either preserve the existing infrastructure and/or enhance revenue growth.
- Every effort must be made to become more efficient and eliminate redundancies.
- Retention will be even more important in an era of limited capacity to grow enrollment.

Vice President Cate explained that the University's tuition is high compared to other public institutions. Therefore, UVM needs to find new and different ways to generate revenue.

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

President Sullivan noted that when looking at peer institutions, many state schools receive higher state appropriations than UVM. This places the University at a disadvantage.

Board Chair David Daigle added that the value-proposition for out-of-state students needs to be addressed through thoughtful discussions and initiatives put in place over time.

FY 2020 Budget

Budget Director Citarella reviewed Attachment 5A of the meeting materials, which depicts a selection of comparator and aspirant institutions. Of note:

- UVM's tuition is high compared to public comparator institutions and on the low end compared to private institutions.
- UVM's five-year growth rate in tuition and fees is below the median growth rate for both private and public institutions in this comparator and aspirant group.
- UVM's room and board rates are relatively lower than those of the comparator and aspirant group, even with the rate increase.

Director Citarella reminded Committee members that at the October 2018 meeting, they were asked to set the room and meal plan rates for Fiscal Year 2020. They are now being asked to set the Comprehensive Fee, Student Government Association (SGA), and Inter Residence Association fees for Fiscal Year 2020.

Director Citarella then reviewed the revised student fees handout distributed at the beginning of the meeting. He explained that this year, the SGA is proposing an increase of \$8.00, an increase of 3.7%, to accommodate increased club membership, the Food Pantry project, and forecasted costs of rental space. There are several activities within the Comprehensive Fee proposing no increases. All those components for which the administration is requesting increases seek to cover basic inflationary costs. There are a few components whose proposed increases are over

3.0% for Fiscal Year 2019: the Center for Health and Wellbeing, the Center for Academic Success, and the Career Center. These increases are intended to add capacity to serve students in each of these areas. At the request of the students, there is an additional Identity Center Fee of \$5.00 to support activities within the identity centers on campus.

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	\$222
UG Inter Residence Association (IRA) Fee	\$30
Comprehensive Fee	\$2,188

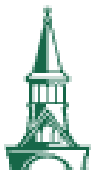
A motion was made, seconded, and the resolution was unanimously approved as presented.

Adjournment

There being no further business, the meeting adjourned at 2:51 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
[Revised, February 2019](#)

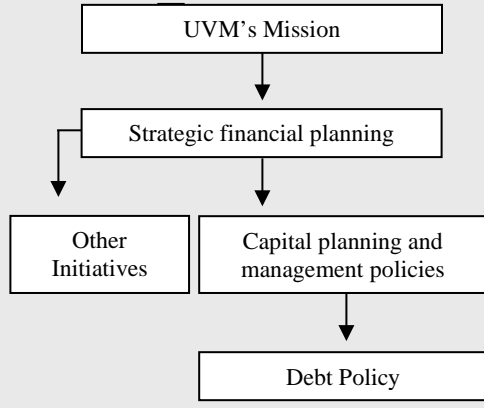
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OVERVIEW

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"> 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 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"> 1. Identify core ratios. <ol style="list-style-type: none"> a. Operating Statement—Debt Burden Ratio. b. Balance Sheet Leverage—Viability <u>Leverage</u> 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 ratios are to be calculated using annual audited financial statements of the University and should not include “Discretely Presented Component Units” of the University such as the University’s associated fundraising foundation.

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 primary 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-Leverage Ratio (also called calculated as Expendable Financial Assets-Spendable Cash and Investments 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-leverage~~ 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-leverage~~ 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 ~~0.81.0~~ to ensure that sufficient balance sheet strength is maintained at all times.

$$\frac{\text{CASH \& INVESTMENTS - PERMANENTLY RESTRICTED NET ASSETS + PLEDGES CLASSIFIED AS PERMANENTLY RESTRICTED NET ASSETS}}{\text{UNRESTRICTED NET ASSETS + TEMPORARILY RESTRICTED NET ASSETS - EQUITY IN PLANT}} > \text{0.81.0x}$$

AGGREGATE DEBT

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

The ~~0.81.0x~~ 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 ~~0.81.0x~~

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.

To further evaluate the leverage of the University, the Vice President of Finance will report the University's Expendable Financial Assets to Debt ratio. This ratio will be reviewed relative to prior years, peers and rating



agency medians and will be calculated with and without the Governmental Accounting Standards for Other Post Retirement Benefits. The Vice President for Finance will report to the appropriate Board of Trustee committee on any existing conditions that cause notable year-over-year changes in this ratio, particularly relative to peers and rating medians.

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

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
<ol style="list-style-type: none"> 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. <ol style="list-style-type: none"> 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 planned principal and interest paid 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.



UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE**BOARD OF TRUSTEES****CASH MANAGEMENT AND LIQUIDITY POLICY****Introduction**

This Cash Management and Liquidity Policy governs the investment of UVM pooled cash and sets the minimum liquidity target for the University. The pooled cash includes all funds of the University other than the funds that are held in the University endowment and certain plant, restricted and loan reserves, for which separate investment guidelines have been established. This statement will be subject to periodic review and possible modification by the Budget, Finance and Investment Committee, as the Committee considers necessary to achieve cash management and investment and liquidity requirements.

I. Cash Management**Investment Objectives**

University pooled cash for purposes of investment allocation shall be divided into three asset groups as follows:

- Short-term pool: Cash that is expected to be needed for normal operating expenditures within a one-year period. The primary objective is preservation of principal and liquidity. Maximization of investment income without undue exposure to risk is a secondary objective.
- Intermediate-term pool: Cash that is expected to be needed within a period of one year to six years. The primary objectives are preservation of principal and maximization of investment income without undue exposure to risk.
- Long-term pool: Cash that is not expected to be needed for operational purposes for a period exceeding six years and/or that may be designated as a permanent core. The primary investment objective is to achieve consistent long-term growth of the pool with limited exposure to risk.

Maturity Guidelines

- Short-term pool: The average weighted maturity for a short-term portfolio shall be between one day and one year.

Intermediate-term pool: The average weighted maturity for intermediate-term portfolio shall be between one year and six years.

Long-term pool: Permanent core cash may be invested in any investment that is allowable under the University's *Statement of Objectives and Policies* for the Endowment Fund and that meets the overall objective of achieving consistent long-term growth of the pool with limited exposure to risk.

Performance Objectives

Short-term pool: The benchmark for the short-term portfolio shall be total return that meets or exceeds the yield of three-month U. S Treasury securities.

Intermediate-term pool: The benchmark for intermediate-term portfolio shall be total return that meets or exceeds the Bloomberg Barclays 31-5 Year U.S. Treasury Bond Index.

Long-term pool: The benchmark for the investment of the long-term pool shall correspond to the benchmarks for each asset class as specified in the University's *Statement of Objectives and Policies* for the Long Term Investment Pool, including the Endowment Fund.

Allowable Investments for Asset Groups

For all of the asset groups described below, the Treasurer will develop in conjunction with the Board of Trustees Investment Subcommittee (ISC) a list of approved funds and fund managers from which the Treasurer may select managers as appropriate. This list will be reviewed and approved annually by the ISC.

Short-term and

Intermediate-term Pool: Investments in the short-term and intermediate-term portfolio are restricted to U.S. Treasury and government agency securities, money markets, high quality corporate and asset-backed securities, and commercial and bank paper, where as the intermediate-term pool may have maturities up to six years. Investments shall be in marketable securities of the following types and with the noted credit ratings:

1. Debt securities rated Aaa, Aa, A or Baa by Moody's Investor's Service, Inc. or AAA, AA, A or BBB by Standard & Poor's Corporation.
2. Obligations of, or guaranteed by, the United States of America, its agencies or instrumentalities.

3. Obligations of, or guaranteed by, national or state banks or bank holding companies rated B or better. No more than 20% of the funds held in the cash pool shall be invested in debt obligations of institutions within any single holding company.

4. Asset-backed securities (ABS) rated Aaa by Moody's Investor's Service, Inc. or AAA by Standard & Poor's Corporation.

4.5. Commercial paper rated A-1 or higher by Standard and Poor's or Prime-1 (P1) by Moody's Investor's Service, Inc.

5.6. Bankers' acceptances or negotiable certificates of deposit issued by banks rated B or better. No more than 20% of the funds held in the cash pool shall be invested in certificates of deposit, bankers' acceptances or floating rate notes of the institutions within any single holding company.

6.7. Repurchase agreements of banks having Fitch ratings no lower than B secured by the U.S. government and federal agency obligations with market values of at least 100% of the amount of the repurchase agreement.

7.8. Commingled funds may be used if they are in compliance with the above guidelines.

89. The Commonfund, a non-profit provider of investment products for colleges and universities.

Long-term pool:

Investment of the long-term pool shall be restricted to those that are allowable under the University's *Statement of Objectives and Policies* for the Endowment Fund and that meet the overall objective of achieving consistent long-term growth of the pool with limited exposure to risk.

Moral, Ethical and Social Considerations

Cash balances will be invested consistently with the moral, social and ethical criteria adopted by the Board of Trustees on recommendation of its Budget, Finance and Investment Committee as related to the Long Term Investment Pool, including the Endowment Fund. Criteria for socially responsible investing shall include, where advisable and consistent with investment quality, return, and safety guidelines, the use of community and State institutions for investment purposes. Where returns are reasonably equal (within 10 basis points), preferences will be given to Vermont-based financial institutions.

Investment Management Responsibility and Structure

Cash management and investment responsibility resides with the Vice President for Finance and Treasurer through the Controller.

1. Investments may be made internally using allowable instruments and institutions; OR,
2. Investment managers may be engaged to invest University assets consistent with this Policy. Subject to this Policy and a written agreement between the University and the investment manager, the investment manager will be given discretion to select individual securities and to make adjustments to the structure of the portfolio.

I. Liquidity

This Cash Management and Liquidity Policy establishes a Minimum Liquidity Target for the University of \$30 million, subject to future modification by the Budget, Finance, and Investment Committee. Liquid funds that are unrestricted, unencumbered General Fund Net Assets (as such capitalized term is used in the audited financial statements of the University) shall be used to satisfy the Minimum Liquidity Target. For the purposes of this Policy, General Fund Net Assets that are restricted in their use, or otherwise encumbered by Board or administrative action, shall not be available to satisfy the Minimum Liquidity Target. The objective of this policy is to ensure that the University operates with an adequate level of institutional liquidity to minimize risk associated with temporary, unforeseen liquidity needs.

II. Administration and Reporting

- A. The Treasurer will report to the Budget, Finance and Investment Committee annually, the following:
 1. Cash balances in each asset group;
 2. Investments in each asset group by manager and investment type or fund; and
 3. Performance of each individual investment type within each asset group.
 4. A schedule of unrestricted, unencumbered General Fund Net Assets compared to the Minimum Liquidity Target.
- B. As delegated by the Board of Trustees through its resolutions, specified University officials, including the Treasurer, are authorized to open accounts with banks, investment firms, or commercial paper institutions, and/or to execute purchases and sales, in order to implement this Cash Management and Liquidity Policy.
- C. This Cash Management and Liquidity Policy will be subject to annual review by the Investment Subcommittee and the elements of the policy related to liquidity will be subject to annual review by the Budget, Finance, and Investment Committee.

Adopted by the Board of Trustees, October 15, 1993
Revised by the Board of Trustees October 12, 2002
Revised by the Board of Trustees August 27, 2005
Revised by the Board of Trustees November 11, 2006
Revised by the Board of Trustees February 5, 2010
Revised by the Board of Trustees October 3, 2015
Revised by the Board of Trustees: February 6, 2016
Revised by the Board of Trustees: February 4, 2017
Revised by the Board of Trustees: