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, January 31, 2020 at 10:15 a.m., in the Silver Maple Ballroom, 401 Dudley H. Davis Center.

MEMBERS PRESENT: Chair Don McCree, Vice Chair Briar Alpert, President Suresh Garimella*, David Aronoff, Robert Brennan, Kevin Christie, Sidney Hilker, Bernard Juskiewicz, Ron Lumbra, Ed Pagano, and Tristan Toleno

REPRESENTATIVES PRESENT: Faculty Representative Donald Ross, Foundation Representative Richard Ader**, Alumni Representative Myron Sopher**, Staff Representatives Joshua Tyack and Renee Berteau, Student Representatives Sophie Smith and Lana Al-Namee, and Graduate Student Representatives Jessica Bocanegra and Avery Rasmussen

PERSONS ALSO PARTICIPATING: Vice President for Finance and Treasurer Richard Cate, University Controller Claire Burlingham, University Budget Director Shari Bergquist, and Vice President for Legal Affairs & General Counsel and Chief of Staff to the President Sharon Reich Paulsen

ABSENT: Faculty Representative Terri Donovan

*Departed the meeting at 10:50 a.m. and returned at 11:22 a.m.
**Participated via conference phone.

Chair Don McCree called the meeting to order at 10:35 a.m. He began by welcoming new undergraduate student representative Sophie Smith, and thanking outgoing member Sidney Hilker for her service.

Approval of minutes

A motion was made, seconded and voted to approve the minutes of the October 25, 2019 meeting.

Firestone Medical Research Building

Vice President for Finance and Treasurer Richard Cate presented supporting materials on the development and construction of the Firestone Medical Research Building, estimated at $49 million. President Garimella provided his strong support for this project, which will be funded as follows:

- $28,800,000 from dean’s reserves (reserves will be replenished as additional philanthropy for the project is received)
- $9,000,000 from University Medical Education Association (UMEA) inclusive of dean/CEO funds, UVM Medical Group, President’s fund and dean’s fund

- $1,000,000 from UMEA/University Health Center (UHC)/Larner College of Medicine general funds (representing contribution from each basic science and clinical department)
- $6,200,000 from philanthropy
- $4,000,000 from university general funds

The following resolution was presented to the committee for approval for recommendation to the board:

Resolution authorizing expenditures for the development and construction of the Firestone Medical Research Building project

WHEREAS, on June 11, 2018, the Executive Committee approved the University's recognition of Steven N. Firestone, M.D. '69 as naming gift donor for a project heretofore called the Firestone Medical Research Building; and

WHEREAS, on October 26, 2018, the Board of Trustees authorized the expenditure of $6 million to undertake the expenditures necessary to complete the project design, including construction drawings for the project; and

WHEREAS, on May 18, 2019, the Educational Policy & Institutional Resources Committee approved the project scope for the project and referred it to the Budget, Finance & Investment Committee for future financial review; and

WHEREAS, the administration has presented a plan for funding the project without debt;

THEREFORE, BE IT RESOLVED, that the Board of Trustees authorizes the administration to undertake the expenditures necessary to complete the design and construction of the project at a cost consistent with its report of this date, with the understanding that bids for the construction cost have not yet been received and the administration will seek further authorization from the Board, prior to commencing construction, should the project cost exceed $49 million; and

BE IT FURTHER RESOLVED, that the $49 million in funds for total expenditures for the project be drawn from gift funds, dean's reserves, university general fund reserves, and reserves of the University Medical Education Associates.

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

Recital Hall expansion and renovation project

The Executive Committee approved the construction of the Recital Hall expansion and renovation project on July 3, 2018. The Budget, Finance and Investment (BFI) committee agreed to increase the authorized expenditure amount for this project in order to reflect the actual project scope and bids, which resulted in a cost that exceeded the original gift amount of $3,300,000, by $1,004,000. Donors decided to increase their pledge by $247,000 in order to retain program priorities, and the UVM Foundation and the university will fund the remaining balance of $757,000 from existing reserves.

The following resolution was presented to the committee for approval for recommendation to the board:

> **<u>Resolution authorizing expenditures for the Recital Hall expansion and renovation project</u>**
>
> WHEREAS, on July 3, 2018, the Executive Committee approved the Recital Hall expansion and renovation project at a cost not to exceed $3,300,000;
>
> WHEREAS, the administration today reported on a revised expenditure and funding plan that would increase the project cost by an additional $1,004,000; and
>
> WHEREAS, the University has received a written pledge commitment that would fund $247,000 of the increase from additional gift funds, and the UVM Foundation and the University will provide the remaining $757,000 from available reserves;
>
> BE IT RESOLVED, that the Board of Trustees authorizes an additional $1,004,000 for the Recital Hall expansion and renovation project for a total expenditure of $4,304,000, to be expended in a manner consistent with the report made on this date.

This resolution supplements the resolution approved by the Executive Committee on July 3, 2018.

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

Debt policy and annual financial ratios

Controller Claire Burlingham explained, per the requirements of the university's Debt policy (attachment 2, appendix A of the meeting materials), that the committee is required to approve any recommended changes, or to reaffirm the policy.

Citing attachment 4, she provided an update on the latest leverage, and debt burden ratio calculations.

The Debt policy also requires that the university's spendable cash and investments to debt ratio be greater than 1.0, and the debt burden ratio not be greater than 5.75%. As of December 31, 2019, spendable cash and investments to debt ratio was 1.33, and the debt burden ratio was 4.87%. The university is therefore in compliance with the current policy requirements.

In regards to the viability ratio, Controller Burlingham reminded 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, 2019, below the policy target of 0.8, primarily due to the GASB 75 liability. Without this liability, the university's viability ratio would have been 1.10.

The following resolutions were presented to the committee for approval for recommendation to the board:

<u>Resolution reaffirming the Debt policy</u>

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 2019;

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 briefed the committee on ISC activities since the last board meeting. He began by reviewing the performance update report prepared by Cambridge Associates, noting due to the strong U.S. economy, the market had a remarkable year. ISC Chair Brennan added that every category returned positive results, which is a rarity. As of December 31, 2019, the value of the university's pooled endowment was $565 million. It was noted that the UVM Foundation has $31 million in assets not invested in the endowment, which further supports philanthropic resources to support UVM.

While no changes were presented on the two endowment-related resolutions, ISC Chair Brennan stated that it would be prudent to revisit both of them in the near future.

The following resolutions were presented to the committee for approval for recommendation to the board:

<u>Resolution reaffirming the Endowment Budget policy</u>

WHEREAS, on October 30, 2019, the Investment Subcommittee met, reviewed, and discussed the Endowment Budget policy;

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

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

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

Adopted by: Board of Trustees - May 13, 1995

Reaffirmed: Board of Trustees - September 8, 2007
Board of Trustees - September 5, 2008
Board of Trustees - October 24, 2009
Board of Trustees - October 30, 2010
Board of Trustees - October 22, 2011
Board of Trustees - November 8, 2012
Board of Trustees - October 26, 2013
Board of Trustees - October 18, 2014
Board of Trustees - October 3, 2015
Board of Trustees - October 22, 2016
Board of Trustees - October 20, 2017
Board of Trustees - October 27, 2018
Board of Trustees -

Resolution reaffirming the Endowment Administration Fee policy

WHEREAS, on November 19, 2019, the Investment Subcommittee met, reviewed and discussed the Endowment Administration Fee policy;

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

BE IT FURTHER RESOLVED, that the Board of Trustees hereby approves a 0.25 percent fee applied to the University endowment for Fiscal Year 2020 to cover reasonable costs associated with endowment administration, management and operation; and

BE IT FURTHER RESOLVED, that calculation of the 0.25 percent fee will be based on the average market value of the University endowment for the previous thirteen quarters ending December 31 of the prior calendar year; and

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

Adopted by: Board of Trustees - September 13, 2003
Reaffirmed: Board of Trustees - September 8, 2007
Board of Trustees - September 5, 2008
Amended: Board of Trustees - October 24, 2009
Reaffirmed: Board of Trustees - October 30, 2010
Board of Trustees - October 22, 2011
Board of Trustees - November 8, 2012
Board of Trustees - October 26, 2013
Board of Trustees - October 18, 2014
Board of Trustees - October 3, 2015
Board of Trustees - October 22, 2016
Board of Trustees - October 21, 2017
Board of Trustees -

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

Vice President's report

- **Budget to actuals**
  University Budget Director Shari Bergquist reviewed the budget to actuals handout. She explained that operational results through the second quarter of the fiscal year indicate that the university will meet its revenue budget this year.

  Overall, general fund revenue is at 84% of budget, and general fund expenses are at 53% of budget as of December 31, 2019. This is to be expected as the majority of the expenses are personnel-related and the university recognizes expenses on a monthly basis.

- **Sources and uses update for capital projects**
  Vice President Cate referred members to the capital projects sources and uses of funds spreadsheet, included as Appendix A to attachment 5. This spreadsheet acts as a master tracking guide to ensure there is enough liquidity to support projects, and provides transparency regarding the variety of funding mechanisms the university uses for different activities.

- **Net assets annual review**
  University Controller Burlingham referred members to the annual report on the university's net assets, included as Appendix B in attachment 5, noting the university net assets totaled $290.5 million at the end of FY 2019. In keeping with the amendments to the university's Cash Management and Liquidity policy, which is more conservative than many other institutions, the unencumbered unrestricted liquidity pool exceeds the minimum required amount of $30 million by $4.6 million.

- **Green revolving loan fund annual report**
  The green revolving loan fund balance as of November 30, 2019 is $10.4 million.

- **Fundraising update on capital projects**
  To date, the UVM Foundation has commitments totaling $33.2 million for the on-campus multipurpose center (OCMC), and projects to have cash receipts for the project totaling $15.6 million by December of 2021.

Fiscal year (FY) 2021 budget

President Suresh Garimella's announcement (attachment 6) on November 14, 2019, stated there will be no increase in comprehensive fees with the exception of the athletic/recreation fee ($130 per semester beginning fall 2020, and an additional $70 per semester beginning in fall 2021), which was approved at the May 2019 board meeting for the OCMC. President Garimella stressed that holding tuition at 0% increase is not an easy task, but it is the right thing to do.

Vice President Cate reviewed attachment 7, which outlines the room and meal plan rates for FY 2021, as well as the comprehensive fee, Student Government Association (SGA), and Inter Residence Association fees for FY 2021.

Due to clerical errors in attachment 2, he requested the following amendments to the proposed resolutions:

- Comprehensive fee, student government association and inter residence association fees for the FY 2021 resolution – change the comprehensive fee from $2,188 to $2,448, and add a $10 Graduate Student fee.
- Room and meal plan rate approval for the FY 2021 resolution – change residential unlimited access points from 100 to 150, and change the flex plan from +900 points to $900.

These revisions do not impact the final total of the proposed fees.

The following amended resolutions were presented to the committee for approval for recommendation to the board:

Resolution setting the comprehensive fee, student government association, graduate student and inter residence association fees for fiscal year 2021

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

Student Government Association (SGA) Fee	$222
Inter Residence Association (IRA) Fee	$30
Comprehensive Fee	$2,448
Graduate Student Fee	$10

Resolution approving room and meal plan rates for fiscal year 2021

BE IT RESOLVED, that the Board of Trustees hereby approves room and meal plan rates for fiscal year 2021 as follows:

Room Rates Per Year

Private Single with Bath	$10,942
Private Double with Bath	$9,720
Private Triple with Bath	$8058
Suite Single with Shared Bath	$10,500
Suite Double with Shared Bath	$9,168
Suite Triple with Bath	$7,664
Traditional Single	$10,094
Traditional Double	$8,756
Traditional Triple	$6,934
Traditional Quad	$5,870

Meal Plan Rates

Retail Dining	$4,568
Residential Unlimited Access (+150 Points per Semester)	$4,568
Flex Plan (160 meals with $900 Points per Semester)	$5,104

A motion was made, seconded, and the resolutions were unanimously approved as amended.

Executive session

At 11:35 a.m., Chair McCree entertained a motion to enter executive session for the purpose of discussing the appointment of advisors to the Investment Subcommittee. The following persons were invited to remain: Trustees, Vice President Cate and Vice President for Legal Affairs & General Counsel and Chief of Staff to the President Sharon Reich Paulsen.

The meeting was reopened to the public at 11:45 a.m.

The following resolution was presented for approval for recommendation to the board:

> **Resolution approving appointment of Investment Subcommittee advisors**
>
> BE IT RESOLVED, that the Board of Trustees approves the appointments of H. Whitney Wagner and David A. Daigle as advisors to the Investment Subcommittee, for a one-year period commencing March 1, 2020, subject to the terms and conditions reported on this date.

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

Adjournment

There being no further business, the meeting adjourned at 11:47 a.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
Reaffirmed, January 2020

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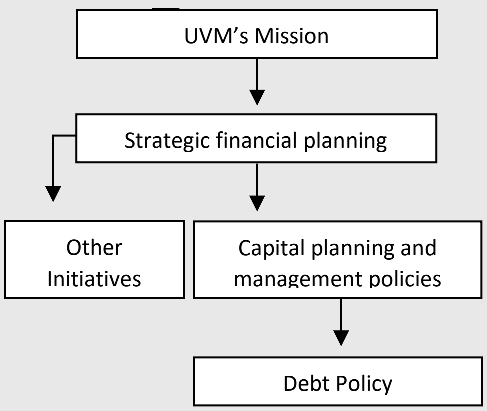
OVERVIEW

Purpose

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



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

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

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

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

Introduction and Objectives

Purpose

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

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

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

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

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

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

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

OVERSIGHT

Purpose

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

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

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

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

POLICY RATIOS

Purpose

1. Identify core ratios.
   a. Operating Statement—Debt Burden Ratio.
   b. Balance Sheet Leverage—Leverage 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.

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

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 - Leverage Ratio (calculated as 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 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 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 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 1.0 to ensure that sufficient balance sheet strength is maintained at all times.

$$\frac{\text{CASH \& INVESTMENTS – PERMANENTLY RESTRICTED NET ASSETS + PLEDGES CLASSIFIED AS PERMANENTLY RESTRICTED NET ASSETS}}{\text{AGGREGATE DEBT}} > 1.0\text{x}$$

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

The 1.0x 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 1.0x

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. 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

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

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

Variable Rate Debt

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

i) take advantage of repayment/restructuring flexibility;

ii) benefit from historically lower average interest costs; and

iii) diversify the debt portfolio; and,

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

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

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

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

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

GLOSSARY

Annual Debt Service – refers to the planned principal and interest paid 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.