

UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE

BOARD OF TRUSTEES

DEBT MANAGEMENT POLICY

I. Overview

The University's debt will be managed by Treasury Operations in accordance with the following Debt Management Policy. (Treasury Operations encompasses the working activities of the Treasurer's office within the University.) This policy is a supplement to the University's Debt Policy.

II. Objectives

1. To clarify the role of Treasury Operations as it relates to the overall management of the University's debt including, but not limited to, external debt payments, internal debt payments and processes, the investment of excess funds, debt covenant monitoring, and financial reporting and performance measures.
2. To provide an appropriate corporate governance structure for (i) the investment and/or use of excess funds held by Treasury Operations and related to the University's debt service payments (both internal and external), and (ii) to the establishment of a blended rate to be utilized internally for budgeting and collecting debt service payments at the operating unit level, and (iii) for the regular monitoring and reporting of all matters related to the University's debt.

III. Payments

External

Treasury Operations is responsible for making external debt payments. External payments of interest and principal will be made according to schedules established by the respective debt instruments.

Internal

- a) Treasury Operations is also responsible for the collection of debt service payments from internal operating units. Internal operating units will make debt service payments annually to Treasury Operations in accordance with a Memorandum of Understanding between the operating unit and Treasury Operations. A Memorandum of Understanding shall be established for each

internal loan detailing a specific debt payment schedule. The debt payment schedule shall be determined by utilizing a blended interest rate. Internal debt service payments will be structured as level debt service payments of principal and interest, amortized over a period shorter than or equal to the useful life of the project as defined under the University's policy for capital assets, but in no event will the period be longer than the term of the external debt. The Debt Subcommittee may authorize an alternative payment schedule for a project if circumstances warrant it.

The rate will be recalculated following each new long-term debt issue, retirement of debt, or annually in the absence of a new debt issue. The blended rate will be reviewed at least annually (as part of the budget process) by the Debt Subcommittee **and** the Finance and Budget Committee and adjusted as needed. Any other adjustments in the blended rate for any reason whatsoever shall follow the same approval process.

IV. Liquidity and Investments

Investment

1. Debt Proceeds

- a) Proceeds from issuance of long-term debt will be held in separate construction funds and accounted for separately.

2. Treasury Operations Cash

- a) Treasury Operations will maintain a forecast of cash requirements needed to meet external debt service obligations and operating costs. The forecast will recognize liquidity needs to meet those obligations and costs together with the source of funds by which they will be met. The forecast will be updated at least twice a year and will look forward on a rolling 18-month basis. The forecast will demonstrate the sources for meeting projected payments during that 18-month period (see reporting below).
- b) Treasury Operations, as a part of the forecast of cash requirements, will be responsible for determining short-term liquidity needs for external payments or other approved use. These funds will be invested in the Limited Term Investment Pool in accordance with the *University of Vermont Statement of Objectives & Policies Related to Cash Balances* ("Cash Policy") of the Board of Trustees.
- c) The balance of net assets held in Treasury Operations will be invested by purchasing shares in the Consolidated Long Term Investment Pool with the consent of the Investment Committee. Similar to a term endowment, **all** earnings will be re-invested. Shares may be liquidated as needed within the standards for

notice of withdrawal as defined from time to time by the Investment Committee. The forecast of cash requirements will provide a plan for liquidation of shares to the Investment Committee as required to meet the defined payment obligations and meeting notice of withdrawal requirements.

- d) All capital projects for which management seeks internal debt financing will be subject to the same internal approvals as externally-financed projects in accordance with the parameters established by the Board for project approval.

V. Planning, Reporting and Monitoring

Planning

Planning for debt service payments shall be an integral part of the planning and forecasting process for the Strategic Financial Plan. The debt service schedules utilized to forecast the liquidity needs will be incorporated into each new iteration of the financial planning model. It is Treasury Operations' responsibility to monitor debt service liquidity needs as part of the financial planning and budgeting processes.

Investment performance

The investment performance of all net assets held and invested by Treasury Operations shall be reviewed quarterly by the Investment Committee and the Debt Subcommittee. Investment performance shall be reported by category (long term, short term, or internal loan, and totals), by quarter, by year-to-date and since inception (of performance reporting).

Accounting and Reporting

1. Accounting: All transactions for external debt and internal loans will be recorded in the general ledger of the University and will be reported in accordance with generally accepted accounting principles.
2. University Financial Statements: All Board of Trustees members will be provided annually with a copy of the audited University of Vermont Annual Financial Statements.
3. Treasury Operations Financial Statements: Unaudited financial statements will be presented showing the position and changes in net assets of Treasury Operations on a semi-annual basis (December 31 and June 30).
4. Statement of Changes for the Consolidated Long Term Investment Pool: The Treasurer will provide this statement quarterly to the Investment Committee.

5. Treasury Operations Investments: The Treasurer will provide reports on the investment of Treasury Operations-managed funds and net assets to the Investment Committee at each meeting.
6. Commercial Paper Update: The Treasurer will provide a quarterly update on the Commercial Paper program to the Debt Subcommittee.
7. Refinancing/Repayment Opportunities: At least annually, the Treasurer will report to the Debt Subcommittee and Finance and Budget Committee regarding the financial situation of the University, in conjunction with the debt, and will recommend any beneficial opportunities to refinance the debt, restructure the debt, or accelerate principal payments.
8. Forecast of Cash Requirements: Twice a year, the Treasurer will prepare and present a forecast of cash requirements to both the Debt Subcommittee and the Investment Committee. The forecast will define payment requirements and sources to meet all payment obligations for the coming 18 months.

Monitoring debt covenants

Treasury operations shall be responsible for monitoring the compliance with all debt covenants and immediately reporting any and all matters of non-compliance to the Debt Subcommittee.

Continuing Disclosure Agreement: The University will deliver certain financial and operating information relating to the University, including audited financial statements, and to report certain events relating to the Bonds (*e.g.*, principal and interest payment delinquencies) to the nationally-recognized municipal securities information repositories, rating agencies, bond insurers, and liquidity providers.

This policy shall be reviewed annually by the Debt Subcommittee and amended from time to time as appropriate.

Approved by Board of Trustees: May 20, 2006.