University Of Vermont & State Agricultural College

Credit Profile

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Many issues are enhanced by bond insurance.

Rationale

Standard & Poor’s Ratings Services affirmed its ‘A+’ standard long-term rating and underlying rating (SPUR) on the University of Vermont and State Agricultural College’s revenue bonds and its ‘A-1’ short-term rating on the university’s commercial paper (CP) notes. The outlook is stable.

The ‘A+’ rating reflects the university’s general obligation (GO) pledge, which is supported by:

- Its role as the state of Vermont’s (AA+/Stable) only major public university;
- Growing enrollment and improving student demand, with relatively high student quality;
- Adequate financial resources for the rating category; and
- Recent success in fund-raising efforts.
Offsetting factors include:

- A relatively low level of state support and high reliance on tuition revenues for a public university;
- Weak operating performance in 2008 and expected structural deficits until 2011;
- Rapid pace of increase in debt in the past three years and more debt plans in the short term;
- Significant nonpension, postemployment liabilities.

Standard & Poor's based its short-term rating on the university's history of positive market access and underlying credit strengths. The 'A-1' CP rating also reflects the sufficiency of the high-quality, short-term, fixed-income assets pledged by the university, which is providing its own liquidity for up to $30 million of its CP program. The university has established clear and detailed procedures to meet its liquidity obligations on a full and timely basis. To supplement its own cash and securities, the university secured a $50 million line of credit with Landesbank Hessen-Thurigen Girozentrale (Helaba), which also provides the advances necessary in the event of a failed remarketing. We monitor the liquidity and sufficiency of the fixed-income assets pledged by the University of Vermont on a monthly basis.

As of fiscal 2008, the university had roughly $434 million in total debt outstanding including $405 million in long-term debt and $12 million in CP outstanding. The university has debt plans for next year of roughly $80 million for the construction of a new science building as well as expansion of the medical school.

Founded in 1791, the University of Vermont is the fifth-oldest university in New England and Vermont's only comprehensive research university. Its 954-acre main campus is very attractive, situated between Lake Champlain and the Green Mountains in Burlington. The institution offers a wide array of programs ranging from bachelor's to doctoral degrees and medical education. Clinical activities for the medical school are provided in conjunction with Fletcher Allen Health Care, Vermont's only tertiary-care facility, and a separate 501(c)3 corporation.

**Outlook**

The stable outlook reflects our expectation that the university's improving demand trends will continue and financial resources remains adequate. The university experienced a significant deficit in 2008 and expects more deficits in the next three fiscal years. The university has a plan in place to reduce its deficits and return to a balance budget in fiscal 2012. Inability to show progress toward a balanced budget could put downward pressure on the current rating. In addition, the university has debt plans and Standard & Poor's will evaluate the new debt when it comes.

**Significant Increase In Demand**

Despite its role as the state's land grant and primary research institution, the university is considerably more dependent on tuition revenues than state support for its operating budget. Accordingly, student demand is an important factor for the rating on the university's debt. Recent demand trends at the university have been positive, with first year student applications increasing by 101% since fall 2003. Given the impressive growth in student applications, the selectivity rate has also improved substantially and was 65% for fall 2008, compared with 75% in fall 2003. For fall 2008, the university accepted
71% of in-state applications and 64% of out-of-state applications. Reflecting the significant competition that the university faces and its unusual geographic draw (more than 66% of undergraduates are from out of state), matriculation rates at 18% for fall 2008, which are much lower than those for most public universities. The matriculation rate for in-state students is much higher and was 42% in fall 2008 compared with 15% for out-of-state students. Management indicates that both early action applications for in-state and out-of-state students are up by 8%. Student quality and retention rates have been well above the national average; and for fall 2008, the average SAT score for freshmen was 1,186, while the freshman-to-sophomore-student retention rate was 86%.

The university enrolled 12,800 students in fall 2008, and approximately 77% of those were full-time undergraduates. Since fall 2003, undergraduate enrollment has increased by more than 1,900 students and was 9,867 including 9,513 full-time undergraduate students. Graduate and professional admissions range from selective to highly competitive. Graduate applications have also been increasing in the past five years and for fall 2008, the overall selectivity and matriculation rates were strong at 47% and 51%, respectively. For a public university, University of Vermont has little tuition flexibility, given its very high student charges ($21,378 for residents and $38,216 for nonresidents). However, the tuition discount rate has been very high and was 45% for in-state students and 35% for out-of-state students. Tuition, room, board, and fees are the largest sources of revenue for the university at roughly 55%.

**Structural Operating Deficits Projected Until 2012**

University of Vermont receives the highest portion of state higher education funding, which was roughly $44.6 million in 2008, but still a very low level of support on a per full-time equivalent (FTE) basis of $4,042. The high number of nonresident students attending the university also skews these levels. On a FTE basis, the support would be much higher for resident students. Unlike many states across the nation, state appropriations in Vermont have remained fairly stable, with steady increases each year during the past 10 years. However, for fiscal year 2009, the state appropriation was reduced to $42.3 million and more recently, the governor announced an additional $3 million and maybe more rescission to come. The governor announced these cuts as the university was already dealing with a significant structural deficit of $16 million for fiscal year 2009. The board and senior management has a new plan in place and is now working on base-expenditure cuts in this year’s budget and for next year, to minimizing the deficits. At this time, the university is expecting more cuts in fiscal year 2010 and management does not expect to have a balanced budget until 2012. Management expects to fund these with internal reserves built up over times from previous years of surpluses. We are monitoring the progress of these deficits and failure to achieve current plan could have negative rating implication.

For fiscal 2008, total net assets decreased about $48.3 million on an adjusted revenue base of $496 million, of which $432 million were operating revenues, $54 million were nonoperating revenues, and $10 million were from capital appropriations and gifts. Unrestricted net assets decreased $26.6 million in fiscal 2008 to $85 million. The significant decrease in unrestricted net assets is primarily due to the accrual of $26.3 million of expenses for postretirement benefits. Including an additional $28.5 million of quasi endowment assets and unrestricted net assets of component units, adjusted unrestricted net assets represented an adequate 22% of operating expenses.
**Significant Increase In Debt And More To Come**

As of June 30, 2008, the university had roughly $434 million in total debt, and adjusted unrestricted net assets available to pay debt will be about 29% of debt. The university issued CP in 2004 with an authorization of $100 million, and as of June 30, 2008, only $12 million were outstanding. Maximum annual debt service relative to adjusted operating expenses remains adequate and is roughly 4% of adjusted 2008 operating expenses. This burden is alleviated by the self-supporting nature of 53% of the debt. The university is currently finishing two large projects including a new science building and renovation of the College of Medicine building. The university plans to issue an additional $80 million next calendar year to fund these two large projects.

Effective this fiscal year, the university is required to account for postretirement benefits in accordance to Governmental Accounting Standards Board statement 45. The university recognized $36.8 million of other postretirement employee benefits cost in fiscal 2008. The actuarial accrued liability at the measurement date of July 1, 2007, was $320.1 million. The university currently pays for medical benefits on a pay-as-you-go basis and the actual university contribution in 2008 was $10.5 million. The university is exploring alternatives to control these costs.

**Weak Investment Return Year To Date**

The university’s current endowment (including only the long-term pool) had a market value of approximately $243 million as of Oct. 31, 2008, down 25% in the fiscal year-to-date period. The endowment was invested roughly as follows: 43% in global equities, 23% in marketable alternative, 17% bonds, 14% inflation hedging and 3% in others. The University of Vermont annualized trailing five-year return is currently 4.7%. The current spending policy is very reasonable at a budgeted allocation of 4.5% of the previous 13 quarters’ average market value of endowment.

**Successful Capital Campaign**

Fundraising efforts at the university have been lagging some of the nation’s flagship universities, as it did not complete its first major capital campaign until 1993. However, the university completed a comprehensive fundraising campaign during fiscal 2007, raising $278.5 million, above the goal of $250 million. Campaign priorities included student aid, the faculty, facilities, the endowment, and other objectives. Annual giving has been stable over the past few years, as the university received roughly $14 million in gifts in fiscal 2008, while the alumni-participation rate had hovered around 18.0%.

**Contact**

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