

**BOARD OF TRUSTEES  
UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE**

A meeting of the Board of Trustees of the University of Vermont and State Agricultural College was held on Saturday, February 1, 2025, at 11:00 a.m. in the Alumni House, Silver Pavilion, 61 Summit Street.

MEMBERS PRESENT: Chair Ron Lumbra, Vice Chair Cynthia Barnhart, Secretary Catherine Toll, Susan Brengle, Kevin “Coach” Christie<sup>1</sup>, Frank Cioffi, Matt Devost<sup>2</sup>, R. Stanton Dodge<sup>3</sup>, Carolyn Dwyer, Katelynn Giroux, Jodi Goldstein, Jennifer Ha, Stephanie Jerome, Donald McCree, Carol Ode, Ed Pagano, Kristina Pisanelli, Monique Priestley, Interim President Patricia Prelock, Lucy Rogers, Shap Smith, and Tristan Toleno

MEMBERS ABSENT: John Dineen, Governor Phil Scott and Samuel Young

ALSO PARTICIPATING: Acting Provost Linda Schadler<sup>4</sup>, Vice President for Finance & Administration Richard Cate<sup>4</sup>, Incoming Student Trustee McKenzie Hart<sup>4</sup>, Deputy General Counsel John Collins, Chief of Staff to the President Jonathan D’Amore, and Isaacson, Miller consultants: Vijay Saraswat and Greg Esposito<sup>5</sup>

<sup>1</sup> Participated in the meeting remotely.

<sup>2</sup> Participated in the meeting remotely and departed at 1:30 p.m.

<sup>3</sup> Departed the meeting at 1:37 p.m.

<sup>4</sup> Departed the meeting at 11:53 a.m.

<sup>5</sup> Participated in the meeting remotely.

Chair Ron Lumbra called the meeting to order at 11:19 a.m.

**Approval of previous minutes**

A motion was made, seconded and it was voted to approve the minutes from the October 26 2024, meeting as presented.

**Public comment**

There were no requests for public comment.

**Committee reports**

Audit Committee

Chair Shap Smith reported that the committee met on November 12, 2024, and received a presentation on the FY 2024 financial statement audit. There were no uncorrected misstatements, or reportable matters involving internal control over financial reporting or compliance. The committee accepted and recommended the FY 2024 audited financial statements to the full Board. Today's consent agenda includes a resolution accepting the FY 2024 audited financial statements.

The committee received an annual compliance update from Chief Privacy Officer Tessa Lucey and she and Chief Internal Auditor Bill Harrison presented their draft internal audit and compliance workplans.

The committee received a status update on open information technology audit recommendations. Mr. Harrison and Information Security Officer Scott Carbee continue to work together to close out recommendations. The committee will receive another update when they meet on February 6, 2025.

Lastly, Chair Smith shared that Chief Internal Auditor Bill Harrison will be leaving UVM to serve as the new Chief Audit Executive at the University of Arizona and thanked him for his many years of service.

#### Budget, Finance and Investment Committee (BFI)

Chair Don McCree reported that at yesterday's meeting, the committee conducted its annual review of the Debt Policy and unanimously endorsed non-substantive revisions included as appendix A to today's consent agenda.

The committee also endorsed and referred a contract for elevator and wheelchair lift maintenance for the Board's approval.

At 11:25 a.m. the meeting was disrupted by a handful of students wanting to address the Board on matters related to divestment. Following the Chair's reminder of the process for signing up for the designated public comment period, and several requests to respect the Board and behave in a manner that allows the Board to continue to meet and conduct business, the meeting was recessed at 11:30 a.m.

The meeting reconvened at 11:32 a.m.

Chair McCree next reported that the market value of the endowment as of year-end was \$881 million, up from \$861 at the end of last year.

The administration presented key budget assumptions for FY 2026 and a multi-year strategy for the next three years. The budget planning includes:

- All units submitting plans for potential base budget reductions of 1%, 2%, and 3% and working to leverage other funding sources including gifts and endowments.
- The full-time active employee fringe rate will be 55.5% – a 6 percentage point increase over FY 2025's fringe rate.

Lastly, the committee received annual updates on the Energy Efficiency Revolving Loan Fund as well as notifications on professional services contracts, and real property transactions as required by the Board.

*Educational Policy and Institutional Resources Committee (EPIR)*

Chair Carolyn Dwyer reported that Acting Provost Linda Schadler provided highlights from her written report recapping the fall semester and encouraged all trustees to read the full written report included as attachment 2 in the meeting materials.

The committee endorsed the following curricular affair proposals for Board approval:

- The termination of the Master of Science in Teaching in Biology
- The termination of the B.S. in Agroecology and Landscape Design
- The creation of a B.S. in Agroecology
- The creation of a B.S. in Ecological Landscape Planning and Design
- The creation of an Undergraduate Certificate in Teaching Artist in Music
- The creation of a minor in Civic Engagement
- The creation of an Undergraduate Certificate of Autonomy and Robotics
- The creation of an Undergraduate Certificate in Speech Language Pathology Assistant

The committee also unanimously endorsed a proposal to establish the Center for Community News as a university-wide Center for referral to the Board for approval. The mission of the Center for Community News (CCN) is to grow university-led student reporting to strengthen local news outlets across the country and in Vermont. The CCN is leading a national movement to strengthen university-led reporting and is the only organization dedicated to this mission. The center has received significant financial support from major donors and foundations, and serves UVM in a variety of ways: it has collaborations in place with students, faculty, and staff across the university; the student reporting it supports strengthens civic life in Vermont which advances our land grant mission; and it has increased UVM's visibility on the national stage by being featured in more than 40 U.S. national and regional news stories in the last year alone.

Committee on Board Governance

Chair Frank Cioffi reported that the committee met twice since the last Board meeting to conduct the annual board and university officers' nomination process.

On November 18, 2024, a memo was issued to trustees reviewing the nominations process and advised the Board that the committee would convene on December 2, 2024 to initiate the process. Following that meeting, committee members reached out to individual trustees to solicit nominations.

The committee convened on December 16, 2024 to deliberate on the slate of officers, after which the trustees were notified of the following proposed slate of officers and next steps in the election process:

Chair: Cynthia Barnhart  
Vice Chair: Donald McCree  
Secretary: Catherine Toll  
Asst. Sec'y: Sharon Reich Paulsen

Following committee reports today, the Board will vote on the slate for Vice Chair, Secretary. Additionally, the following slate of university officers will be recommended:

Acting Provost & Senior Vice President: Linda Schadler  
Treasurer: Richard Cate

In accordance with the University Charter, the chair is elected at the first meeting after new trustees' terms begin. The election of chair will occur at a special Board meeting scheduled on March 3 at 1:00 p.m.

**Election of board and university officers**

Board Chair Lumbra thanked the Governance Committee Chair for summarizing the nominations development process and entertained a motion to nominate the following individuals:

Vice Chair: Donald McCree  
Secretary: Catherine Toll  
Asst. Sec'y: Sharon Reich Paulsen

An opportunity for additional nominations was offered. No further nominations were made.

A motion was made, seconded and trustees voted unanimously to elect the proposed slate of Board officers. Trustees McCree and Toll recused themselves from the vote on the positions of Vice Chair and Secretary, respectively.

Next, a motion was entertained for the appointment of the following University officers, by virtue of their office, for a one-year term beginning March 1, 2025, or until their successors take office:

Acting Provost & Senior Vice President:	<u>Linda Schadler</u>
Treasurer:	<u>Richard Cate</u>

A motion was made, seconded and trustees voted unanimously to elect the proposed slate of university officers.

Board Chair Lumbra recognized each member of the Governance Committee and thanked them for their work.

### **Approval of consent agenda**

Chair Lumbra introduced the consent agenda for approval. He reminded trustees that all resolutions will be voted on as a consent agenda unless there is a request for a separate vote on a particular resolution.

The following consent agenda was presented for approval:

#### **AUDIT COMMITTEE**

##### **1. Resolution accepting fiscal year 2024 audited financial statements**

WHEREAS, the financial statements of the University of Vermont and State Agricultural College for the fiscal year ended June 30, 2024, have been audited by KPMG LLP, Certified Public Accountants, in accordance with 16 V.S.A. Section 2281(a);

WHEREAS, the audited financial statements for the fiscal year 2024 were presented to the Audit Committee of the Board of Trustees at the Audit Committee's November 12, 2024 meeting;

WHEREAS, the Audit Committee approved a resolution recommending acceptance of the FY 2024 audited financial statements;

BE IT RESOLVED, that the Board of Trustees hereby accepts the fiscal year 2024 audited financial statements as recommended by the Audit Committee.

**EDUCATIONAL POLICY AND INSTITUTIONAL RESOURCES COMMITTEE**

2. **Resolution approving the termination of the Master of Science in Teaching in Biology in the Graduate College in conjunction with the College of Arts & Sciences**

BE IT RESOLVED, that the Board of Trustees approves the termination of the Master of Science in Teaching in Biology in the Graduate College in conjunction with the College of Arts & Sciences, as approved and advanced by the Acting Provost on December 17, 2024 and Interim President on December 18, 2024.

3. **Resolution approving termination of the B.S. in Agroecology and Landscape Design in the College of Agriculture & Life Sciences**

BE IT RESOLVED, that the Board of Trustees approves the termination of the B.S. in Agroecology and Landscape Design in the College of Agriculture & Life Sciences, as approved and advanced by the Acting Provost on December 17, 2024 and Interim President on December 18, 2024.

4. **Resolution approving the creation of a B.S. in Agroecology in the College of Agriculture & Life Sciences**

BE IT RESOLVED, that the Board of Trustees approves the creation of a B.S. in Agroecology in the College of Agriculture & Life Sciences, as approved and advanced by the Acting Provost on December 17, 2024 and Interim President on December 18, 2024.

5. **Resolution approving the creation of a B.S. in Ecological Landscape Planning and Design in the College of Agriculture & Life Sciences**

BE IT RESOLVED, that the Board of Trustees approves the creation of a B.S. in Ecological Landscape Planning and Design in the College of Agriculture & Life Sciences, as approved and advanced by the Acting Provost on December 17, 2024 and Interim President on December 18, 2024.

6. **Resolution approving the creation of an Undergraduate Certificate in Teaching Artist in Music in the College of Arts & Sciences**

BE IT RESOLVED, that the Board of Trustees approves the creation of an Undergraduate Certificate in Teaching Artist in Music in the College of Arts & Sciences as approved and advanced by the Acting Provost and Interim President on November 19, 2024.

7. **Resolution to establish the Center for Community News as a University-wide Center**

WHEREAS, in 2019, the Community News Service was created in the College of Arts & Sciences as a partnership between UVM and Vermont community newspapers to provide support to local news outlets and high-impact learning experiences for students; and

WHEREAS, the potential for growth and impact of the Community News Service inspired the creation of the Center for Community News to support universities across the country in their efforts to support local news; and

WHEREAS, the vision and mission of the Center for Community News is to serve as a national resource for colleges and universities that provide student reporting to local news outlets and to grow and support partnerships between college reporting programs and local news outlets; and

WHEREAS, the Center for Community News has demonstrated the ability to garner significant external support and has established collaborations with faculty across the university; and

WHEREAS, elevating the Center for Community News to a university-wide center reflects the nature and stature of its work, will further its service across the university, will raise its visibility nationally with donors and other organizations, will help advance the University’s land grant mission, and will help establish UVM as a national leader in civic information and discourse; and

WHEREAS, the Faculty Senate, Acting Provost Linda Schadler, and Interim President Patricia Prelock have endorsed the creation of the Center for Community News;

BE IT RESOLVED, that the Board of Trustees approves the establishment of the Center for Community News at the University of Vermont.

8. **Resolution approving the creation of a minor in Civic Engagement in the Patrick Leahy Honors College in collaboration with the College of Arts & Sciences**

BE IT RESOLVED, that the Board of Trustees approves the creation of a minor in Civic Engagement in the Patrick Leahy Honors College in collaboration with the College of Arts & Sciences, as approved and advanced by the Acting Provost and Interim President on January 28, 2025.

9. **Resolution approving the creation of an Undergraduate Certificate of Autonomy and Robotics in the College of Engineering & Mathematical Sciences**

BE IT RESOLVED, that the Board of Trustees approves the creation of an Undergraduate Certificate of Autonomy and Robotics in the College of Engineering & Mathematical Sciences, as approved and advanced by the Acting Provost and Interim President on January 28, 2025.

10. **Resolution approving the creation of an Undergraduate Certificate in Speech Language Pathology Assistant in the College of Nursing & Health Sciences**

BE IT RESOLVED, that the Board of Trustees approves the creation of an Undergraduate Certificate in Speech Language Pathology Assistant in the College of Nursing & Health Sciences, as approved and advanced by the Acting Provost and Interim President on January 28, 2025.

**BUDGET, FINANCE & INVESTMENT COMMITTEE**

11. **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 2024;

BE IT RESOLVED, that the Board of Trustees hereby the accepts revisions to the policy, appearing as Appendix A to this document.

12. **Resolution approving contract with Mack Brothers Elevator, LLC**

BE IT RESOLVED, that the Vice President for Finance and Administration, or his successor or designee, is hereby authorized to execute a contract with Mack Brothers Elevator, LLC for elevator and wheelchair lift maintenance services beginning January 1, 2025 through December 31, 2027, with two optional one-year renewals, for an amount not to exceed \$2,700,000.

Chair Lumbra offered an opportunity for questions. There being none, a motion was made, seconded, and the consent agenda of resolutions was unanimously approved as presented.

**Executive session**

At 11:42 a.m., Chair Lumbra entertained a motion to enter into executive session to discuss the appointment or evaluation of a public officer. He noted the session would last for approximately 90 minutes and no action is anticipated following. Everyone was excused from the meeting except for Trustees, Deputy General Counsel John Collins, Chief of Staff to the President Jonathan D'Amore, and Isaacson, Miller consultants: Vijay Saraswat and Greg Esposito.

Interim President Patricia Prelock was excused for the remainder of the meeting.

The motion to enter into executive session was seconded, and approved.

The Chair called for a 10-minute break.

At 11:53 a.m. the meeting resumed in executive session.

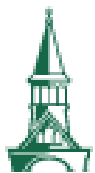
The meeting re-opened to the public at 1:47 p.m.

**Adjournment**

There being no further business, the meeting was adjourned.

Respectfully submitted,

Ron Lumbra, 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

Reaffirmed, February 2021

Revised, February 2022

Revised, February 2023

Revised, February 2024

**Revised, February 2025**

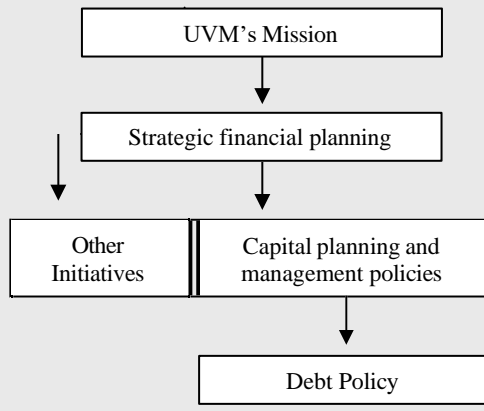
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**OVERVIEW**

**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, public-private partnerships, and external University-supported debt, including leases [and subscription-based information technology arrangements \(SBITAs\)](#).

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) Manage risk of the University's debt portfolio within acceptable limits. 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~~

~~(iii)~~(iv) Permit the University to engage in refunding/restructuring of its outstanding debt for cashflow and/or net present value savings, within acceptable limits and aligned with IRS and regulatory guidelines. The University will evaluate debt service and net present value savings/costs of individual maturities and the overall transaction to determine whether certain maturities should be included/excluded and the tradeoffs of certain structuring decisions. The University will consider the overall debt portfolio and budgetary needs to align decisions to long-term financial health and strategic purposes.

~~(iv)~~(v) 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**

<b>Purpose</b>	
<ol style="list-style-type: none"> <li>1. Provide mechanism for oversight and review on periodic basis.</li> <li>2. Provide management flexibility to make ongoing financing decisions within the framework of the policy.</li> </ol>	<p>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.</p> <p>The Office of the Vice President for Finance and Administration 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.</p> <p>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.</p>

**POLICY RATIOS**

<b>Purpose</b>	
<ol style="list-style-type: none"> <li>1. Identify core ratios.             <ol style="list-style-type: none"> <li>a. Operating Statement—Debt Burden Ratio.</li> <li>b. Balance Sheet Leverage—Leverage Ratio.</li> </ol> </li> <li>2. Clearly communicate with key parties such as rating agencies the University’s philosophy regarding debt and management’s ongoing assessment of debt capacity and affordability.</li> </ol>	<p>This policy establishes limits to measure the total amount of outstanding debt, <del>and</del> leases, and SBITAs compared to University balance-sheet resources and the annual operating budget.</p> <p>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.</p> <p>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.</p> <p>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.</p> <hr/> <p><i>Ratio 1 – Debt Burden Ratio</i></p> <p>This ratio measures the University’s ability to repay debt service associated with all outstanding debt, <del>and</del> leases, and SBITAs 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.</p> $\frac{\text{ANNUAL DEBT SERVICE}}{\text{TOTAL EXPENSES}} < 5.75\%$ <p>The measure is based on aggregate operating expenses as opposed to operating revenues because expenses typically are more stable (e.g., no one-</p>



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%. 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 Total Cash and Investments to Debt)*

This ratio indicates one of the most basic determinants of financial health by measuring University resources 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 1.25x to ensure that sufficient balance sheet strength is maintained at all times.

$$\frac{\text{TOTAL CASH \& INVESTMENTS}}{\text{AGGREGATE DEBT, LEASES, \& SBITAs}} \geq 1.25x$$

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

The 1.25x 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 1.25x.

Annually, based on the results of the audited financial statements, the Vice President for Finance and Administration 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.

*Ratios as a Credit Factor*

The University has established its ratios and associated ratio limits based on internally established guidelines. The ratios and limits are not intended to provide a long-term target or track a specific rating, but rather will enable the maintenance of the University's competitive financial profile and complement the capital planning process.

The debt policy will be shared with external credit analysts and other third parties in order to provide them with the context regarding UVM's assessment of self-determined debt capacity and affordability, which is subject to ongoing review.



**TYPES OF FINANCINGS**

Purpose
<ol style="list-style-type: none"><li>1. Review of all potential funding sources for projects.</li><li>2. Maximize tax-exempt University-issued debt.</li><li>3. Commercial Paper program.<ol style="list-style-type: none"><li>a. Provide bridge funding.</li><li>b. Provide continual access to capital.</li><li>c. Issuance on a taxable or tax-exempt basis.</li></ol></li><li>4. Manage derivative products, including swaps.</li><li>5. Consider other financing sources.<ol style="list-style-type: none"><li>a. Management will explore securitizations, joint ventures and other financial structures to provide for the optimal funding for any project.</li></ol></li></ol>

The University recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, risks, and costs. All potential funding sources will be reviewed by management within the context of the debt policy and the overall portfolio to ensure that any financial product or structure is consistent with UVM’s objectives. Regardless of what financing structure(s) is(are) utilized, a full understanding of the transaction, including (i) quantification of potential risks and benefits, and (ii) analysis of the impact on University creditworthiness and debt capacity, will be required. Any financial transaction which, in management’s opinion, utilizes the University’s credit, will be subject to the limits set forth in this policy regardless of source.

*Tax-Exempt Debt*

The University recognizes that debt will remain a long-term component of the University’s capitalization over the foreseeable future due in part to its continued need for capital and the substantial economic benefits associated with tax-exempt debt. Therefore, financial transactions will be managed on a portfolio basis with a long-term perspective. (In all circumstances, however, individual projects must continue to be identified and tracked to ensure compliance with all tax and reimbursement requirements).

Debt will be structured to meet the University’s comprehensive long-term objectives, and each project being financed will be required to provide a sound business plan, including the source of repayment for the debt and appropriate and realistic repayment terms. Among other things, the repayment terms will require that the loan term is no greater than the expected componentized useful life of the asset financed. Additionally, the financed project will be required to budget and fund principal payments on a fully amortized basis.

*Taxable Debt*

While all of the University’s capital projects may not qualify for tax-exempt debt, taxable debt should only be used in appropriate cases as it generally



represents a more expensive source of capital relative to tax-exempt issuance. Examples of appropriate cases to utilize taxable debt include timing, fees and rates relative to tax-exempt rates, the nature of the project being funded, and private use, among others.

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*Commercial Paper (CP) & Lines of Credit (LOCs)*

The CP program and lines of credit 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 and LOCs can offer the University interim financing for capital projects in anticipation of the receipt of funding either in the form of future philanthropy or the issuance of long-term debt for permanent financing, as well as offer greater flexibility regarding the timing and structuring of individual bond transactions.

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*Derivative Products*

Management recognizes that derivative products may enable more opportunistic and flexible management of the debt portfolio. Derivative products, including interest rate swaps, may be employed primarily to manage or hedge the University's interest rate exposure for a specific period of time. The University will utilize a framework to evaluate potential derivative instruments through consideration of (i) its variable rate allocation, (ii) market and interest rate conditions, (iii) impact on future financing flexibility, and (iv) the compensation for assuming risks, or the costs for eliminating certain risks and exposure. In addition, the University will analyze and quantify the cost/benefit of any derivative instrument relative to achieving desirable long-term capital structure objectives. Under no circumstances will a derivative transaction be utilized that is not understood fully by management or that imposes inappropriate risk on the University. Risks include but are not limited to tax risk, interest rate risk, liquidity risk, counterparty credit risk, basis risk, and any other potential risks either imposed or removed through the execution of any transaction. In addition, management will consider and disclose the potential impact of any derivative product on the University's financial statements and the appropriate treatment in calculating the debt policy ratios. The University will regularly report on the status and performance of its derivative products, if any, to the appropriate Board of Trustee committee. Given the risks and complexity associated with derivative products, they will be considered more seriously only when: (i) conventional financing sources are relatively more expensive (e.g. exceed the portfolio blended interest rate), and (ii) can achieve desired financial objectives more efficiently or at a significantly lower risk-adjusted cost than traditional structures. Management is required to present any recommended derivative product to the appropriate Board of Trustee committee and must receive Board approval prior to execution.

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*Other Financing Sources*

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;
- (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 service, (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.

VARIABLE RATE AND LIQUIDITY EXPOSURE >35%  
 TOTAL LONG-TERM DEBT OUTSTANDING

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, [principal and interest payments on Leases](#), and [principal and interest payments on SBITAs](#) 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 [short-term](#) 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 lines 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.

