

April 6, 2006

MEMORANDUM

TO: The Finance Committee:

W. Heywood Fralin, Chair
A. Macdonald Caputo
The Honorable Alan A. Diamonstein
Georgia Willis Fauber
Warren M. Thompson
John O. Wynne
Thomas F. Farrell, II, Ex Officio

and

The Remaining Members of the Board:

Daniel R. Abramson	Catherine S. Neale
Susan Y. Dorsey	The Hon. Lewis F. Payne
G. Slaughter Fitz-Hugh, Jr.	Don R. Pippin
Glynn D. Key	Gordon F. Rainey, Jr.
Vincent J. Mastracco, Jr.	E. Darracott Vaughan, Jr., M.D.

FROM: Alexander G. Gilliam, Jr.

SUBJECT: Minutes of the Finance Committee Meeting on
April 6, 2006

The Finance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 1:55pm, Thursday, April 6, 2006, in the Abbott Center at the Darden School; W. Heywood Fralin, Chair, presided. A. Macdonald Caputo, The Hon. Alan A. Diamonstein, Mrs. Georgia Willis Fauber, Warren M. Thompson, John O. Wynne, and Thomas F. Farrell, II, Rector, were present.

Also present were Daniel R. Abramson, G. Slaughter Fitz-Hugh, Jr., Gordon F. Rainey, Jr., and E. Darracott Vaughan, Jr., M.D.

Present as well were John T. Casteen, III, Leonard W. Sandridge, Alexander G. Gilliam, Jr., Paul J. Forch, Gene D. Block, Robert E. Reynolds, Jr., M.D., Ms. Yoke San L. Reynolds, Ms. Colette Sheehy, Robert D. Sweeney, Christopher J. Brightman, and Ms. Jeanne Flippo Bailes.

BECAUSE OF A BREAKDOWN IN THE RECORDING EQUIPMENT, THESE MINUTES ARE A RECONSTRUCTION

The Chair asked Mr. Sandridge, Executive Vice President and Chief Operating Officer, to present the Agenda.

The first two items constituted a Consent Agenda.

CONSENT AGENDA: University of Virginia Faculty and Staff Housing Rates, 2006-2007

Mr. Sandridge introduced Ms. Reynolds, Vice President for Finance, and asked her to present the proposed faculty and staff housing rates for 2006-2007; the rents for residential properties at Blandy Farm were included in the proposal.

Ms. Reynolds said the increase in rates over the current year averages about 3.48%

On motion, the Committee adopted the following resolution and recommended it to the full Board for approval:

RESOLVED that the faculty and staff housing rates are approved as indicated, effective July 1, 2006. The Executive Vice President and Chief Operating Officer is authorized to increase the rates to market level when a property is vacated.

ACADEMIC DIVISION

<u>Properties</u>	<u>Utilities Furnished</u>	<u>Rents 2005-06 Per Month</u>	<u>Amount of Increase</u>	<u>Percent of Increase</u>	<u>Prop. Rents 2006-07 Per Month</u>	<u>Utilities Paid By Occupant</u>
<u>Piedmont Estates</u>						
1 Bedroom Apt. (7)(F)	WS,E,G,C,T	\$609	\$26	4.27%	\$635	
2 Bedroom Apt. (16)(UF)	WS,E,G,C,T	\$741	\$31	4.18%	\$772	
Houses (3BR) (16)(UF)	WS,C,T	\$1,080	\$33	3.06%	\$1,113	E, G
Townhouses (3BR)(5)(UF)	WS,C,T	\$1,080	\$0		\$1,080	E, G
Farmhouse Apt. 1 (1BR)(F)	WS,E,G,C,T,AC	\$680	\$29	4.26%	\$709	
Farmhouse Apt. 2 (3 BR)(UF)	WS,E,G,C,T	\$692	\$29	4.19%	\$721	
Farmhouse Apt. 3 (1 BR)(F)	WS,E,G,C,T,AC	\$680	\$29	4.26%	\$709	
Farmhouse Apt. 4 (2 BR)(F)	WS,E,G,C,T,AC	\$760	\$32	4.21%	\$792	
<u>Sundry</u>						
Yyssotsky Cottage (3BR)(UF)	WS,T, AC	\$862	\$38	4.41%	\$900	E,G
McGuffey Cottage (Eff)(UF)	WS,E,V,T,AC,D	\$539	\$9	1.67%	\$548	
Upper Mews (1BR)(F)	WS,E,HP,C,T,AC,D	\$730	\$13	1.78%	\$743	
Lower Mews (1BR)(F)	WS,E,HP,C,T,AC,D	\$636	\$27	4.25%	\$663	
Monroe Hill Range (1BR)(UF)	WS,E,HVAC,T,V,D,C		\$811	\$31	3.82%	\$842
Brown College Apts. (2BR)(UF)	WS,E,HVAC,T,V,D,C		\$715	\$8	1.12%	\$723
Hereford Coll. Apts. (2BR)(UF)	WS,E,HVAC,T,V,D,C		\$828	\$8	0.97%	\$836
Hereford Coll.Princ.Res. (3BR)(UF)	WS,E,HVAC,T,V,D,C	\$1,030		\$19	1.84%	
		\$1,049				
102 Cresap Fac. Apt. (1BR)(F)	WS,E,G,T,HVAC,V,D,C		\$769	\$25	3.25%	\$794
Hedge House (2BR)(F)	WS,C,T,AC	\$799	\$33	4.13%	\$832	E,G
Orchard House (5RMS)(F)	WS,E,G,C,T,AC	\$378	\$20	5.29%	\$398	
118 Oakhurst, Upper (2BR)(UF)	WS,G,C, AC	\$703	\$30	4.27%	\$733	E,T
118 Oakhurst, Lower (2BR)(UF)	WS,G,C,AC	\$703	\$30	4.27%	\$733	E,T
409 Valley Road, (2BR)(F)	WS,E,G,C,AC	\$998	\$45	4.51%	\$1,043	T
411 Valley Road, (2BR)(F)	WS,E,G,C,AC	\$998	\$45	4.51%	\$1,043	T
503 Valley Road, (1BR)(UF)	C	\$563	\$24	4.26%	\$587	WS,E,G,T
424 MLLH, (1BR)(UF)	WS,E,G,C,HVAC,V,D		\$742	\$26	3.50%	\$768
423 MLLH, (2BR)(UF)	WS,E,G,C,HVAC,V,D		\$858	\$30	3.50%	\$888
004 Lewis, (1BR)(UF)	WS,E,G,C,HVAC,V,D		\$742	\$26	3.50%	\$768
<u>Birdwood Properties</u>						
Cottage (1BR)(UF)	WS,C,T	\$568	\$23	4.05%	\$591	E
Garage Apt.(2BR)(UF)	WS,C,T	\$826	\$37	4.48%	\$863	E,G
Cash House (3BR)(UF)	WS,C,T,AC	\$1,061	\$45	4.24%	\$1,106	E,G
Middleton House (4BR)(UF)	WS,C,T,AC	\$1,241	\$52	4.19%	\$1,293	E,G

<u>Properties</u>	<u>Utilities Furnished</u>	<u>Rents 2005-06 Per Month</u>	<u>Amount of Increase</u>	<u>Percent of Increase</u>	<u>Prop. Rents 2006-07 Per Month</u>	<u>Utilities Paid By Occupant</u>
<u>E & G Properties</u>						
Montebello (3BR/Garage)	WS,E,G,AC	\$784	\$31	3.95%	\$815	C,T
Big Morea (4BR)	WS,E,G,AC,T	\$1,090	\$40	3.67%	\$1,130	C
Little Morea (2BR)	WS,E,G,AC,T	\$834	\$31	3.72%	\$865	C
Sunnyside (4BR)	WS,E,O,AC	\$1,699	\$53	3.12%	\$1,752	C
Monroe Hill House (4BR)	WS,E,HVAC,T,V,D	\$1,009	\$38	3.77%	\$1,047	C
Pavilion I (5BR)	WS,E,HVAC,T,V	\$921	\$35	3.80%	\$956	C
Pavilion II (5BR)	WS,E,HP,T,V	\$686	\$28	4.08%	\$714	C
Pavilion III (5BR)	WS,E,HVAC,T,V	\$921	\$35	3.80%	\$956	C
Pavilion IV (5BR)	WS,E,HP,T,V	\$686	\$28	4.08%	\$714	C
Pavilion V (5BR)	WS,E,HVAC,T,V	\$921	\$35	3.80%	\$956	C
Pavilion VI (5BR)	WS,E,HVAC,T,V	\$921	\$35	3.80%	\$956	C
Pavilion VIII Upper (3BR)	WS,E,HVAC,T,V	\$600	\$26	4.33%	\$626	C
Pavilion VIII Lower (1BR)	WS,E,HVAC,T,V	\$313	\$13	4.15%	\$326	C
Pavilion IX (5BR)	WS,E,HVAC,T,V	\$921	\$35	3.80%	\$956	C
Pavilion X (5BR)	WS,E,HP,T,V	\$686	\$28	4.08%	\$714	C
<u>Blandy Farm</u>						
Curator's House	WS	\$0	\$0	0.00%	\$0	E,O
Green Farm House	WS	\$65	\$0	0.00%	\$65	E,O

Notes:

- *Italicized 2005-06 rents* indicate that a \$20 credit was granted for non-availability of high speed data service.

- In total six properties (five Piedmont Townhouses and the Monroe Hill Range) were brought to market this budget year.

- The (F) designates properties that are furnished. The (UF) designates properties that are unfurnished.

- Utility abbreviations are as follows: WS (water, sewer), E (electric), G (gas), O (oil), HP (heating plant), HVAC (heating, ventilating, and air conditioning), AC (window air conditioning), C (cable TV), V (voice), T (trash), and D (data).

CONSENT AGENDA: Approval of the Establishment of a School of
Medicine Quasi-Endowment - the Mellon Prostate Cancer Research
Fund

Ms. Reynolds spoke to this resolution as well.

She reminded the Committee that the Board of Visitors in June 1996 authorized the Executive Vice President and Chief Operating Officer to approve individual quasi-endowment transactions of less than \$2million. The Mellon Prostate Cancer Institute at the School of Medicine has requested the establishment of the Mellon Prostate Cancer Research Fund as a quasi-endowment of \$8million. The funds to be used are part of the Paul Mellon bequest received in August 2000 to establish the Institute.

The income from the new quasi-endowment will be used to support the Institute.

On motion, the Committee adopted the following resolution and recommended it to the full Board for approval:

WHEREAS, the Mellon Prostate Cancer Research Institute of the School of Medicine requests the establishment of a quasi-endowment fund for the benefit of the Mellon Prostate Cancer Research Institute; and

WHEREAS, the quasi-endowment will be funded with funds received from the bequest of Paul Mellon;

RESOLVED that the establishment of the Mellon Prostate Cancer Research Fund, a quasi-endowment fund in the initial amount of \$8 million is approved.

ACTION ITEMS: Contract Rates for Dining Services, 2006-2007

At Mr. Sandridge's request, Ms. Reynolds presented the proposed contract rates for Dining Services at the University and at The University of Virginia's College at Wise. These rates customarily are set at this Board meeting.

The average increase in University meal plan charges is 5.2%, with a 5% increase proposed at Wise.

On motion, the Committee adopted the following resolution and recommended it to the full Board for approval:

RESOLVED that the student contract rates for dining services are approved as shown below, effective beginning with the 2006-2007 session:

ACADEMIC DIVISION

	<u>Actual</u> <u>2005-2006</u>	<u>Amount of</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>	<u>Proposed</u> <u>2006-2007</u>
<u>Regular Meal Plans (1,2)</u>				
Unlimited Entry w/ \$150 Plus Dollars	\$3,100	\$170	5.5%	\$3,270
15 Meals per week w/ \$400 Plus Dollars	3,100	170	5.5%	3,270
13 Meals per week w/ \$500 Plus Dollars	3,100	170	5.5%	3,270
10 Meals per week (first year) w/ \$820 Plus Dollars	3,100	170	5.5%	3,270
10 Meals per week (upperclass) w/ \$350 Plus Dollars	2,640	160	6.1%	2,800
100 Meals per semester w/ \$350 Plus Dollars	1,770	90	5.1%	1,860
80 Meals per semester w/ \$350 Plus Dollars	1,540	80	5.2%	1,620
50 Meals per semester w/ \$390 Plus Dollars	1,170	60	5.1%	1,230

Residential College/Language House Meal Plans (1,2,3)

Unlimited Entry w/ \$150 Plus Dollars	\$3,210	\$170	5.3%	\$3,380
15 Meals per week w/ \$400 Plus Dollars	3,210	170	5.3%	3,380
13 Meals per week w/ \$500 Plus Dollars	3,210	170	5.3%	3,380
10 Meals per week (first year) w/ \$820 Plus Dollars	3,210	170	5.3%	3,380
10 Meals per week (upperclass) w/ \$350 Plus Dollars	2,760	150	5.4%	2,910
100 Meals per semester w/ \$350 Plus Dollars	1,880	90	4.8%	1,970
80 Meals per semester w/ \$350 Plus Dollars	1,650	80	4.8%	1,730
50 Meals per semester w/ \$390 Plus Dollars	1,280	60	4.7%	1,340

Athletic Meal Plans

Unlimited Entry w/ \$150 Plus Dollars	\$3,210	\$170	5.3%	\$3,380
15 Meals per week w/ \$400 Plus Dollars	3,210	170	5.3%	3,380
13 Meals per week w/ \$500 Plus Dollars	3,210	170	5.3%	3,380
10 Meals per week (first year) w/ \$820 Plus Dollars	3,210	170	5.3%	3,380
10 Meals per week (upperclass) w/ \$350 Plus Dollars	2,760	150	5.4%	2,910
100 Meals per semester w/ \$350 Plus Dollars	1,880	90	4.8%	1,970
80 Meals per semester w/ \$350 Plus Dollars	1,650	80	4.8%	1,730

Other

Law School Dining Spending Account (4)	\$200	\$0		\$200
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- (1) Plus Dollars are credited to a student's identification card and may be used in the same manner as cash at any board dining hall and/or retail operation.
- (2) First-year students are required to purchase a 13-, 15-, or unlimited-meal plan during their first semester. During their second semester, they may switch to a 10-meal plan with \$820 Plus Dollars.
- (3) Some residential colleges and language houses have a dining requirement as part of their program.
- (4) Law School students are allowed to deposit a minimum \$200 per academic year into a dining spending account.

THE UNIVERSITY OF VIRGINIA'S COLLEGE AT WISE

	<u>Actual</u> <u>2005-2006</u>	<u>Amount of</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>	<u>Proposed</u> <u>2006-2007</u>
19 Meal Plan	\$2,712	\$136	5.0%	\$2,848
12 Meal Plan	2,438	122	5.0%	2,560

ACTION ITEMS: John Paul Jones Arena Short-Term Financing

The Board of Visitors approved a construction budget for the John Paul Jones Arena of \$129.8million, with \$75million to be financed with long-term bonds. Last September, the Board approved the issuance of up to \$20million in short-term loans to provide funding for the Arena in anticipation of pledged gift receipts.

Current projections, however, indicate that more than \$20million may be needed in short-term loans and that \$25million total probably is more accurate. The University proposes, therefore, the authorization of \$5million in addition to the \$20million previously authorized.

On motion, the Committee adopted the following resolution and recommended it to the full Board for approval:

WHEREAS, the Board of Visitors has approved a short-term loan, or loans, of up to \$20 million for a term of up to four years to provide short-term financing for the John Paul Jones Arena Project in anticipation of pledged gift receipts; and

WHEREAS, an increase of \$5 million in short-term loans is required to provide sufficient short-term financing for a similar term for the John Paul Jones Arena Project in anticipation of pledged gift receipts;

RESOLVED that the Board of Visitors approves a \$5 million increase in the amount of a short-term loan, or loans, totaling no more than \$25 million in aggregate, for a term of up to four years for the purpose of providing short-term financing for the John Paul Jones Arena Project to be used in anticipation of pledged gift receipts associated with this project.

ACTION ITEMS: Debt Policy and Interest Rate Risk Management Policy

At the January meeting of the Committee, there was a review of the University's draft debt policy and a discussion, with an eye toward soliciting comments and suggestions, of the draft interest rate risk management policy.

Comments made in January by the Committee and comments made by others have been incorporated into a final draft, which Ms. Reynolds reviewed with the Committee.

On motion, the Committee approved the Policies as outlined, adopted the following resolution and recommended it to the full Board for approval:

WHEREAS, the University employs a Debt Portfolio Management Program to provide external financing for its capital projects; and

WHEREAS, the Board has approved a policy to limit variable-rate debt to no more than 40 percent of the University's total debt financing;

RESOLVED that the Board of Visitors approves the University's Debt Policy, enumerated in Attachment A; and

RESOLVED FURTHER that the Board of Visitors approves the University's Interest Rate Risk Management Policy, enumerated in Attachment B.

ACTION ITEMS: Capital and Operating Reserves Policy

Also at the January meeting, there was a discussion of the University's capital and operating reserves policy, particularly the need for a new central policy: because of the decentralized nature of the University, deans and heads of departments hold discretionary funds that serve as reserves. The proposed policy, among other things, sets reserve requirements which are uniform and which are keyed to operating expenses and the replacement value of buildings and equipment.

On motion, the Committee adopted the following resolution approving the policy and recommended it to the full Board for approval:

WHEREAS, the University currently has a variety of capital and operating reserve policies that differ among individual departments and schools; and

WHEREAS, it is reasonable to believe that the overall financial strength of the University can be enhanced by more formalized operating and capital reserve policies, especially for some of the University's business operations; and

WHEREAS, the University wishes to ensure, from a stewardship standpoint, that there is not a large deferred maintenance requirement for the institution and that the operations for each program are financially able to withstand a significant downturn in the generation of revenues;

RESOLVED that the Board of Visitors approves the University's Capital and Operating Reserves Policy as follows: Financially self-sufficient programs will have these reserve requirements: (a) operating reserves equivalent to three months of operating expenses and (b) annual capital expenditures or contributions to capital reserves of at least 1.5 percent of replacement value of buildings and equipment. The exact percentage should be based on the capital requirements unique to the program. The Executive Vice President and Chief Operating Officer may approve alternative reserve policies where appropriate; and

RESOLVED FURTHER that institution-wide programs, such as self-insurance programs and the capital funding program, will continue to have unique reserve requirements that best meet the individual program's needs.

Comments by the Executive Vice President and Chief Operating Officer

Mr. Sandridge told the Committee that because the General Assembly had recessed without passing a budget, the setting of tuition and fees for the forthcoming academic year probably will be delayed.

Report on the Endowment

Mr. Brightman, the Chief Executive Officer of the University of Virginia Investment Management Company, gave his customary report on the Endowment.

Executive Session

On motion, the Committee went into Executive Session at 2:45 p.m.

That the Finance Committee of the Board of Visitors of the University of Virginia go into Executive Session to consider and discuss with legal counsel gift development charges and donor communications in connection with Capital Campaign planning, as provided for in Section 2.2-3711 (A) (7) and (8) of the Code of Virginia.

The Committee resumed its meeting in Open Session, adopted a resolution attesting that its discussions in Executive Session had been conducted in accordance with the exemptions permitted by the Virginia Freedom of Information Act, and, on further motion, adjourned at 4:35 p.m.

That we vote on and record our certification that, to the best of each Board member's knowledge, only public business matters lawfully exempted from open meeting requirements and which were identified in the motion(s) authorizing the closed session, were heard, discussed or considered in closed session.

AGG:jb

These minutes have been posted to the University of Virginia's Board of Visitors website.

<http://www.virginia.edu/bov/financeminutes.html>

ATTACHMENT A

UNIVERSITY'S DEBT POLICY



University of Virginia Debt Policy

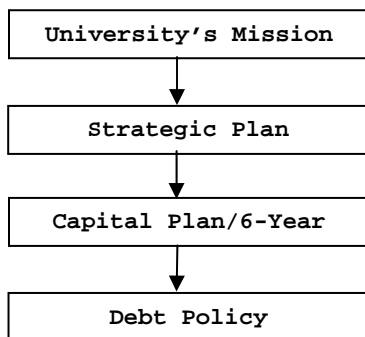
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- VII. Strategic Debt Allocation
- VIII. Central Loan Program Management
- IX. Approval Process

I. Overview

Purpose

1. Articulate the role of the University's Debt Policy within the strategic planning process.



Overview

In support of its mission, the University of Virginia maintains a long-term strategic plan. The strategic plan establishes University-wide priorities as well as University-wide and divisional programmatic objectives. The University develops a capital plan to support these priorities and objectives.

The University's use of debt plays a critical role in ensuring adequate funding for the capital plan as well as providing a cost-effective source of funding for other purposes. By linking the objectives of its Debt

Policy to its strategic objectives, the University ultimately increases the likelihood of achieving its mission.

The Debt Policy is intended to be a "living" document that will evolve over time to meet the changing needs of the University.

II. Scope and Objectives

Purpose

1. Define what activities are subject to the policy.
2. Define the objectives for the Debt Policy.
3. Establish debt management goals.

Scope

The Debt Policy covers all forms of debt including long-term, short-term, fixed-rate, and variable-rate debt. It also covers other forms of financing including both on-balance sheet and off-balance sheet structures, such as leases, and other structured products used with the intent of funding capital projects.

The use of derivatives is considered when managing the debt portfolio and structuring transactions. Conditions guiding the use of derivatives are addressed in a separate Interest Rate Risk Management Policy.

Objectives

The objectives of this policy are to:

- (i) Outline the University's philosophy on debt
- (ii) Establish a control framework for approving and managing debt
- (iii) Define reporting guidelines
- (iv) Establish debt management guidelines

The Debt Policy formalizes the link between the University's Strategic Plan and the issuance of debt. Debt is a limited resource that must be managed strategically in order to best support University priorities.

The policy establishes a control framework to ensure that appropriate discipline is in place regarding capital rationing, reporting requirements, debt portfolio composition, debt servicing, and debt authorization. It establishes guidelines to ensure that existing and proposed debt issues are consistent with financial resources to maintain an optimal amount of leverage, a strong financial profile, and a strategically optimal credit rating. Under this policy, debt is being managed to achieve the following goals:

- (i) Maintaining access to financial markets: capital, money, and bank markets.

- (ii) Managing the University's credit rating to meet its strategic objectives while maintaining the highest acceptable creditworthiness and most favorable relative cost of capital and borrowing terms;

- (iii) Optimizing the University's debt mix (i.e., short-term and long-term, fixed-rate and floating-rate, traditional and synthetic) for the University's debt portfolio;

- (iv) Managing the structure and maturity profile of debt to meet liquidity objectives and make funds available to support future capital projects and strategic initiatives;

- (v) Coordinating debt management decisions with asset management decisions to optimize overall funding and portfolio management strategies.

The University may use debt to accomplish critical priorities by more prudently using debt financing to accelerate the initiation or completion of certain projects, where appropriate. As part of its review of each project, the University evaluates all funding sources to determine the optimal funding structure to achieve the lowest cost of capital.

III. Oversight

Purpose

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

The Office of the Vice President and Chief Financial Officer ("VP & CFO") is responsible for implementing this policy and for all debt financing activities of the University. The policy and any subsequent, material changes to the policy are approved by the University's Board of Visitors ("BOV"). The approved policy provides the framework under which debt management decisions are made.

The exposure limits listed in the policy are monitored on a regular basis by the Office of the VP & CFO. The office of the VP & CFO reports regularly to the Executive Vice President & Chief Operating Officer ("EVP & COO") and the BOV on the University's debt position and plans.

IV. Debt Affordability and Capacity

Purpose

1. Monitor debt affordability and capacity through the use of four key ratios:
 - a. Debt Burden Percentage
 - b. Debt Service Coverage Ratio
 - c. Viability Ratio
 - d. Debt Capitalization Percentage
2. Clearly communicate with key parties the University's debt management philosophy and

In assessing its current debt levels, and when planning for additional debt, the University takes into account both its debt affordability and debt capacity. Debt affordability focuses on the University's ability to service its debt through its operating budget and identified revenue streams and is driven by strength in income and cash flows. Debt capacity focuses on the University's financial leverage in terms of debt funding as a percentage of the University's total capital.

ongoing assessment of debt capacity and affordability.

The University considers many factors in assessing its debt affordability and debt capacity including its strategic plan, market position, alternative sources of funding, and relationship with the Commonwealth. The University uses four key ratios to provide a quantitative assessment of debt affordability and debt capacity.

Debt Affordability Measures

Debt Burden Percentage

This ratio measures the University's debt service burden as a percentage of total university expenses. The target for this ratio is intended to maintain the University's long-term operating flexibility to finance existing requirements and new initiatives.

$$\frac{\text{ANNUAL DEBT SERVICE}}{\text{TOTAL OPERATING EXPENSES}} < 5.0\%$$

The measure is based on aggregate operating expenses as opposed to operating revenues because expenses typically are more stable (e.g., revenues may be subject to one-time operating gifts, investment return fluctuations, variability of Commonwealth funding, etc.) and better reflect the operating base of the University. This ratio is adjusted to reflect any non-amortizing or non-traditional debt structures that could result in significant single year fluctuations including the effect of debt refundings.

Debt Service Coverage Ratio

This ratio measures the University's ability to cover debt service requirements with revenues available for operations. The target established is intended to ensure that operating revenues are sufficient to meet debt service requirements and that debt service does not consume too large a portion of income.

$$\frac{\text{OPERATING GAIN/(LOSS)} + \text{NON-OPERATING REVENUE}}{\text{DEPRECIATION}} > 3x \frac{\text{ANNUAL DEBT SERVICE}}{\text{ANNUAL DEBT SERVICE}}$$

This ratio is adjusted to reflect any non-amortizing or non-traditional debt structures that could result in significant single year fluctuations including the effect of debt refundings.

Debt Capacity Measures

Viability Ratio

This ratio indicates one of the most basic determinants of financial health by measuring the availability of liquid and expendable net assets 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 consideration of universities with the highest credit quality.

Many factors influence the viability 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.

$$\frac{\text{UNRESTRICTED NET ASSETS} + \text{RESTRICTED EXPENDABLE NET ASSETS}}{\text{AGGREGATE DEBT}} > 2.5x$$

Debt Capitalization Percentage

This ratio measures what percentage of University capital comes from debt. A university that relies too heavily on debt capital may risk being over-leveraged and potentially reduce its access to capital markets.

Conversely, a university that does not strategically utilize debt as a source of capital may not be optimizing its

funding mix, thereby sacrificing access to low-cost funding to invest in mission objectives.

$$\frac{\text{AGGREGATE DEBT}}{\text{TOTAL NET ASSETS + AGGREGATE DEBT}} \leq 20\%$$

Use of Ratios in Managing University Credit Ratings

Both the Viability and Debt Capitalization Ratios include any component unit (University-related Foundation) balances as disclosed in the University's financial statements.

The ratios and limits are not intended to track a specific rating, but rather to help the University maintain a competitive financial profile, funding for facilities needs and reserves, and compliance with Commonwealth debt service to budget guidelines.

The Debt Policy is shared with external credit analysts and other parties in order to provide them with background on the University's philosophy on debt and management's assessment of debt capacity and affordability.

V. Financing Sources

Purpose

1. Review all potential funding sources for projects.
2. Maximize tax-exempt, University-issued debt.
3. Utilize Commercial Paper program to provide for:
 - a. bridge funding
 - b. continual access to capital
 - c. short-term funding on a taxable or tax-exempt basis.
4. Manage derivative products for hedging interest rate exposure.
5. Consider alternative

The University recognizes that numerous types of financing structures and funding sources are available, each with specific benefits, risks, and costs. All potential funding sources are 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 the University's objectives. Regardless of the financing structure(s) being utilized, a due diligence review must be performed for each transaction, including (i) a quantification of potential risks and benefits, and (ii) an analysis of the impact on University creditworthiness and debt affordability and capacity.

financing sources.

Tax-Exempt Debt

The University recognizes that tax-exempt debt is a significant component of the University's capitalization due in part to its substantial cost benefits; therefore, tax-exempt debt is managed as a portfolio of obligations designed to meet long-term financial objectives rather than as a series of discrete financings tied to specific projects. The University manages the debt portfolio to maximize its utilization of tax-exempt debt relative to taxable debt whenever possible. In all circumstances, however, individual projects continue to be identified and tracked to ensure compliance with all tax and reimbursement regulations.

For tax-exempt debt, the University considers maximizing the external maturity of any tax-exempt bond issuance, subject to prevailing market conditions and opportunities and other considerations, including applicable regulations.

Taxable Debt

In instances where certain of the University's capital projects do not qualify for tax-exempt debt, the use of taxable debt may be considered. The taxable debt market offers certain advantages in terms of liquidity and marketing efficiency; such advantages will be considered when evaluating the costs and benefits of a taxable debt issuance.

Commercial Paper

Commercial paper provides the University with interim financing for projects in anticipation of philanthropy or planned issuance of long-term debt. The use of commercial

paper also provides greater flexibility on the timing and structuring of individual bond transactions. This flexibility also makes commercial paper appropriate for financing equipment and short-term operating needs. The University recognizes that the amount of commercial paper is limited by the Debt Policy ratios, the University's variable-rate debt allocation limit, and the University's available liquidity support.

University-issued vs. State-issued debt

In determining the most cost effective means of issuing debt, the University evaluates the merits of issuing debt directly vs. issuing debt through the State (e.g., under Article X, Section 9 of the State Constitution) or a State-issuing entity (e.g., The Virginia College Building Authority.)

On a regular basis, the University performs a cost-benefit analysis between these two options and takes into consideration the comparative funding costs, flexibility in market timing, and bond ratings of each alternative. The University also takes into consideration the future administrative flexibility of each issue such as the ability to call and/or refund issues at a later date, as well as the administrative flexibility to structure and manage the debt in a manner that the University believes to be appropriate.

Derivative Products

Management recognizes that derivative products may enable more opportunistic and flexible management of the debt portfolio. Derivative products, including interest rate swaps and locks, may be employed primarily to manage or hedge the University's

interest rate exposure. The University utilizes a framework to evaluate potential derivative instruments by considering (i) its current variable-rate debt allocation, (ii) existing market and interest rate conditions, (iii) the impact on future financing flexibility, and (iv) the compensation for assuming risks or the costs for eliminating certain risks and exposure. 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.

The University analyzes and quantifies 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. In addition, management discloses the impact of any derivative product on the University's financial statements per GASB requirements and includes their effects in calculating the Debt Policy ratios.

Other Financing Sources

Given limited debt capacity and substantial capital needs, opportunities for alternative and non-traditional transaction structures may be considered, including off-balance sheet financings. The University recognizes these types of transactions often can be more expensive than traditional University debt structures; therefore, the benefits of any potential transaction must outweigh any potential costs.

All structures can be considered only when the economic benefit and the likely impact on the University's debt capacity and credit have been determined. Specifically, for any third-party or developer-based financing, management ensures the full credit impact of the structure is evaluated and quantified.

VI. 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 while taking into account the University's cash and investment portfolio. Therefore, management makes decisions regarding project prioritization, debt portfolio optimization, and financing structures within the context of the overall needs and circumstances of the University.

Variable-Rate Debt

The University recognizes that a degree of exposure to variable interest rates within the University's debt portfolio is desirable in order to:

- (i) Take advantage of repayment/restructuring flexibility;
- (ii) Benefit from historically lower average interest costs;
- (iii) Provide a "match" between debt service requirements and the projected cash flows from the University's assets; and,
- (iv) Diversify its pool of potential investors.

Management monitors overall interest

rate exposure, analyzes and quantifies potential risks, including interest rate, liquidity, and rollover risks, and coordinates appropriate fixed/variable allocation strategies. The portfolio allocation to variable-rate debt may be managed or adjusted through (i) the issuance or redemption of debt in the conventional debt market (e.g., new issues and refundings) and (ii) the use of interest rate derivative products including swaps.

The amount of variable-rate debt outstanding (adjusted for any derivatives) shall not exceed 40 percent of the University's outstanding debt. This limit is based on the University's desire to (i) limit annual variances in its interest payments, (ii) provide sufficient structuring flexibility to management, (iii) keep the University's variable-rate allocation within acceptable external parameters, and (iv) utilize variable-rate debt (including

derivatives) to optimize debt portfolio allocation and minimize costs.

VARIABLE-RATE DEBT (INCLUDING SYNTHETIC)
TOTAL DEBT OUTSTANDING

Refinancing Outstanding Debt

The University monitors its debt portfolio on a continual basis to assure portfolio management objectives are being met and to identify opportunities to lower its cost of funding, primarily through refinancing outstanding debt.

The University monitors the prices and yields of its outstanding debt and attempts to identify potential refunding candidates by examining refunding rates and calculating the

net present value of any refunding savings after taking into account all transaction costs. The University may choose to pursue refundings for economic and/or legal reasons.

Liquidity Requirements

The University's portfolio of variable-rate debt and commercial paper require liquidity support in the event of the bonds or paper being put back to the University by investors. Generally, the University can purchase liquidity support externally from a bank in the form of a standby bond purchase agreement or line of credit. In addition, the University can also use its own capital in lieu of or to supplement external facilities. Alternatively, it can utilize variable-rate structures that do not require liquidity support (e.g., auction-rate products).

Just as the University manages its debt on a portfolio basis, it also manages its liquidity needs by considering its entire asset and debt portfolio, rather than solely on an issue-specific basis. This approach permits institution-wide evaluation of desired liquidity requirements and exposure, minimizes administrative burden, and reduces total liquidity costs.

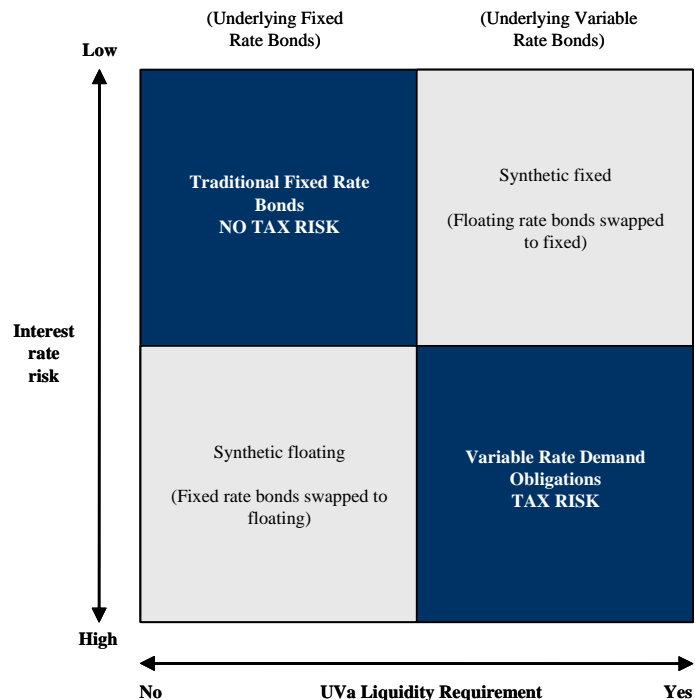
A balanced approach is used to provide liquidity support to enhance credit for variable-rate debt through a combination of external bank liquidity, self-liquidity, auction market, or derivative structures. Using a variety of approaches limits dependence on an individual type or source of credit; it also allows for exposure to different types of investors. The University must balance liquidity requirements with

its investment objectives and its cost and renewal risk of third-party liquidity providers.

Further, a portfolio-approach to liquidity can enhance investment flexibility, reduce administrative requirements, lower total interest costs, and reduce the need for external bank liquidity.

Overall Exposure

The University recognizes that it may be exposed to interest rate, third-party credit, and other potential risks in areas other than direct University debt (e.g., off-balance sheet transactions, counterparty exposure in the investment portfolio, etc.) and, therefore, exposures are considered on a comprehensive University-wide basis.



VII. Strategic Debt Allocation

Purpose

1. Recognize that resources are limited.

Recognizing that financial resources are not sufficient to fund all capital projects, management must allocate debt strategically, continuing to explore alternate sources of funding

2. Augment existing capital allocation and prioritization process.
3. Provide priority to mission critical projects with identified repayment source.

for projects. External support, philanthropy, and direct Commonwealth investment remain critical to the University's facilities investment plan.

Management allocates the use of debt financing internally within the University to reflect the prioritization of debt resources among all uses, including plant and equipment financing, academic projects, and projects with trans-institutional impact. Generally, the University favors debt financing for those projects critical to the attainment of its strategic goals and those projects with identified revenue streams for the repayment of debt service and incremental operating costs. Federal research projects receive priority consideration for external debt financing because the University receives partial reimbursement of operating expenses (including the interest component of applicable external debt service) of research facilities. Patient care investments that have acceptable financial and programmatic returns also receive priority.

Each capital project is analyzed at its inception to ensure that capital is used in the most effective manner and in the best interests of the University. There is an initial institutional review of each project, prior to its inclusion in the state's six-year plan, to determine if debt leveraging would be desirable even if not requested by the project sponsor. As part of this initial institutional review, the University also will assess, based on the project's business plan, the sufficiency of revenues to support any internal loans. If the University determines

that collateral is necessary, it may require the entity to segregate unrestricted funds for this purpose.

VIII. Central Loan Program Management

Purpose

1. Establish policies for loans to Divisions/Schools.
2. De-link external debt structure from internal debt structures of individual borrowers.
3. Establish single interest rate for all borrowers that reflects University's overall cost of capital.

Each division is responsible for the repayment of all funds borrowed from the central loan program, plus interest and certain fees established in the University's internal lending policies, regardless of the internal or external source of funds.

Loan structures with standard financial terms are offered to divisional borrowers. The University may provide for flexible financing terms in order to accommodate individual divisions if it is determined to be in the University's best interest. The Office of the VP & CFO clearly articulates the policies and procedures for the assumption and repayment of debt to all borrowers. The Director of Treasury Operations is the University's loan officer for divisional borrowers.

De-linking External and Internal Debt Structures

The University has adopted a central loan program under which it provides funding for projects across schools and divisions (including the Health System) under the guidance of the VP & CFO. In this regard, the University has established a pool of financing resources, including debt, for a central source of capital.

The benefits of this program include:

- (i) Enabling the structuring of transactions in the best economic interests of the University that otherwise wouldn't be possible on a project-specific basis;

- (ii) Providing continual access to capital for borrowers and permitting the University to fund capital needs on a portfolio basis rather than on a project-specific basis;
- (iii) Funding specific projects with predictable financial terms;
- (iv) Achieving the lowest average internal borrowing costs while minimizing volatility in interest rates;
- (v) Permitting prepayment of internal loans at any time without penalty; and
- (vi) Achieving equity for borrowers through a blended rate.

The central loan program can access funds from a variety of sources to originate loans to divisions. The University manages its funding sources on a portfolio basis, and therefore payments from divisions are not tied directly to a particular source of funds. (Note: Due to federal tax and reimbursement requirements, actual debt service for certain projects still must be tracked.)

Blended Interest Rate

The University charges a blended interest rate to its divisions based on its cost of funding. In some instances, at the discretion of the VP & CFO, the type and useful life of the project may affect the appropriate term and interest rate of any loan.

This blended interest rate may change periodically to reflect changes in the

University's average aggregate expected long-term cost of borrowing. The blended interest rate may also include a reserve for interest rate stabilization purposes.

In addition to charging borrowers interest, the central loan program collects amounts to pay for costs of administering the debt portfolio. These costs are clearly articulated to divisions, and are passed on to borrowers in the form of a rate surcharge and an upfront fee for loan origination. These charges may be reviewed and adjusted from time to time.

IX. Approval Process

Purpose

1. Articulate approval authority.

All debt issued by the University must be authorized through a BOV resolution. If tax-exempt bonds are to be issued, the BOV also approves an Intent to Issue Resolution. Additionally, the BOV establishes financing parameters for each debt issuance.

The University issues debt, in its own behalf, under Chapter 3 of Title 23 of the Virginia Code or non-State Tax Supported Debt under the State's Restructured Higher Education Financial and Administrative Operations Act of 2005, Chapter 4.10 of Title 23 (the "Restructuring Act"). For debt issued under Chapter 3 of Title 23, the University complies with all statutory requirements for State and BOV approval. For debt issued under the Restructuring Act, the University complies with all statutory and regulatory requirements including notifying the State Treasurer of each such bond issuance. For debt issued under the Restructuring Act, the BOV delegates the authority to approve the pricing of such debt to the VP & CFO with the Chair of the Finance

Committee or such other BOV member as may be designated by the Rector. Such pricing must be within the financing parameters established for the debt by the BOV (or the Executive Committee as authorized by Virginia Code § 23-75.)

When the University participates in bond programs that are administered by the State, including State tax-supported debt, such bonds are issued by the State Treasurer, who also possesses the authority to price such bonds.

ATTACHMENT B

**UNIVERSITY'S RISK
MANAGEMENT POLICY**

Interest Rate Risk Management Policy



University of Virginia Interest Rate Risk Management Policy

Table of Contents

- I. Overview
- II. Scope and Objectives
- III. Oversight
- IV. Derivative Use Guidelines
- V. Allowable Derivative Instruments
- VI. Policy Controls
- Appendix A – Operating Controls
- Appendix B – Exposure Controls

I. Overview

Purpose

1. Provide background on the purpose of derivatives.

Overview

The University maintains a Debt Policy which provides guidelines on the authorization and management of debt. The University manages its debt portfolio on a consolidated basis and makes debt management decisions to achieve the lowest cost of debt capital and maximize its portfolio objectives. The use of derivatives can play a key role in managing the University's debt portfolio.

In certain circumstances, derivatives are an effective way for the University to adjust its mix of fixed-

and floating-rate debt and manage interest rate exposures. Derivatives may also be an effective way to manage liquidity risks. The University's philosophy is to use derivatives strategically to achieve asset and liability portfolio objectives and hedge existing exposures. Derivatives will not be used to create leverage or to speculate on the movement of interest rates.

II. Scope and Objectives

Purpose

1. Define what activities are subject to the policy.
2. Define the objectives of the Interest Rate Risk Management Policy.
3. Establish interest rate risk management goals.

Scope

The Interest Rate Risk Management Policy applies to any derivatives used for the purpose of hedging interest rate exposures. This policy does not apply to derivatives used by the University of Virginia Investment Management Company in its management of the University's endowment and assets or any University-related foundations.

Additionally, any decisions made regarding the use of derivatives must take into consideration the resulting impact under the University's Debt Policy.

Objectives

This policy is intended to:

- (i) Outline the University's philosophy on derivatives
- (ii) Provide guidelines on the use of derivatives
- (iii) Identify approved derivative instruments
- (iv) Establish a control framework related to the use of derivatives

The University views derivatives as a

tool to achieve its asset and liability management objectives. As a result, it is the University's philosophy to use derivatives strategically in support of this cause. It is also the University's philosophy to not use derivatives to create leverage or speculate on interest rate movements. The University recognizes that the prudent and selective use of derivatives may help it to lower its cost of debt capital and manage its interest rate exposure.

This policy provides guidelines on the use of derivatives including the circumstances under which they may be used and the factors that are considered in deciding whether to use them. Derivatives may be used to achieve the following objectives:

- (i) Reduce the cost for debt financing when compared to conventional debt structures
- (ii) Manage interest rate volatility
- (iii) Manage fixed- and variable-rate debt mix
- (iv) Help match the cash flows from assets with those from liabilities
- (v) Hedge future debt issues or synthetically advance refund bonds

The policy also outlines a control framework to ensure that an appropriate discipline is in place regarding the use of derivatives. Controls exist to address both operational risks and exposure risks.

III. Oversight

Purpose

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

The Office of the Vice President & Chief Financial Officer ("VP & CFO") is responsible for implementing this policy and for all interest rate risk management activities of the University. The policy and any subsequent material changes to the policy are approved by the University's Board of Visitors ("BOV").

The Office of the VP & CFO provides oversight and monitors all derivative transactions and, at least annually, reports to the Executive Vice President & Chief Operating Officer and the BOV on the University's outstanding derivatives.

IV. Derivative Use Guidelines

Purpose

1. Explain the objective of interest rate risk management and provide guidelines on the use of derivatives.

The University may use derivatives to achieve the lowest possible cost of debt funding, manage its exposure to interest rate volatility, and/or match the timing and nature of cash flows associated with its assets and liabilities. The University may accomplish this by hedging the interest rate volatility of projected debt issuances or by using derivatives to adjust its exposure to floating interest rates.

To determine its portfolio exposure, the University looks at the composition of its outstanding **assets** and liabilities (adjusted for any hedges) and the change in this composition over a predetermined planning horizon. Taking into account the potential for future uncertainty, the University determines what, if any, action should be taken to keep its portfolio exposure at desirable levels over this period.

In determining when to hedge, the

University monitors its interest rate exposure, the capital markets, and its future funding and liquidity requirements. Special attention is paid to the relative level of interest rates, the shape of the yield curve, and signals of interest rate increases or decreases from the Federal Reserve.

The University analyzes and quantifies the cost/benefit of any derivative instrument relative to achieving desirable long-term capital structure objectives. Before entering into a derivative, the University evaluates its risks including, but not limited to: tax risk, interest rate risk, liquidity risk, credit risk, basis risk, rollover risk, termination risk, counterparty risk, and amortization risk. The University also evaluates the impact the hedge will have on its debt portfolio at the inception of the hedge and over the planning period.

When evaluating its hedging options, the University generally prefers the lowest cost, most liquid, and most flexible hedging strategy available. In instances where no hedging strategy meets all these needs, the University prioritizes these requirements to decide on an optimal strategy.

At their inception, derivatives are chosen to closely match the exposures being hedged. As time passes, the University's debt management objectives may change, and any decisions will be made with the best information available at that time regardless of hedges that may be in place. For instance, the University may use derivatives to hedge future interest rates associated with a fixed-rate bond issuance. If at the time of issuance it is deemed more

beneficial to issue floating-rate bonds, then the University will not let its past hedging decisions constrain its current bond issuance decisions.

In addition, management discloses the impact of all derivatives on the University's financial statements per GASB requirements and includes their effects in calculating the Debt Policy ratios.

V. Allowable Derivative Instruments

Purpose

1. List and define the derivatives that may be used for interest rate hedging.

The University recognizes that there are numerous derivatives of varying degrees of complexity. The University attempts to avoid structural complexity in its use of derivatives and believes the following instruments, used alone or in combination with each other, allow for sufficient flexibility to help the University meet its interest rate risk management objectives.

Interest Rate Swaps - Swaps are contracts to exchange payments based on different interest rate indices, generally with one such index based on interest rates that are fixed at a specific rate for the term of the contract and the other based on interest rates that are to be adjusted from time to time throughout the term of the contract. The University may utilize these contracts to change its mix of fixed rates and floating rates. They may also be used as a means to hedge future financings.

Interest Rate Call or Put Options - An option gives the holder a right, but not an obligation, to buy or sell a security at or by a specified date(s) at an agreed upon price in exchange for the payment of a premium. Interest rate

options, typically in the form of interest rate caps or floors, are designed to provide protection against interest rates being above a certain cap rate or below a certain floor rate. Options may be used when the purchaser faces an asymmetrical risk profile, for instance, the risk that interest rates may rise prior to a new debt issuance. Options to enter into swaps, or swaptions, give the buyer the right to enter into a swap as a fixed-rate or floating-rate payer depending on the buyer's interest rate exposure.

The University will not sell options, except to the extent they are sold to better hedge an underlying exposure that contains an offsetting option position. For example, a bond with a call option held by the University may be hedged better by entering into a derivative with an offsetting sold call option.

Interest Rate Locks - A rate lock is a forward contract that represents a sale of a specific benchmark security (e.g., U.S. Treasuries, LIBOR, or tax-exempt indices) or other appropriate benchmark security at an agreed price or interest rate. The University may utilize these contracts to help lock in a future financing rate.

Before entering into a derivative transaction, the University first gains a full understanding of the transaction and performs appropriate due diligence, such as (i) a quantification of potential risks and benefits, and (ii) an analysis of the impact on University's debt portfolio.

VI. Policy Controls

Purpose

1. To identify operating controls related to trading, authorizing, confirming, and accounting for

The University has established both operating and exposure controls to address program risks.

transactions.

2. To identify exposure controls in place to keep the University from being overexposed to certain market risks.

Operating Controls

When utilizing derivatives, it is important for operating controls to be in place to provide for adequate segregation of duties and management oversight. The University has controls addressing trade initiation, approval, confirmation, and accounting.

Appendix A to this policy lists the individuals who may enter into derivatives on behalf of the University. These individuals may not approve their own transactions, unless explicitly stated in Appendix A. Initiators may not confirm transactions with counterparties and may not enter the accounting related to a trade. These controls are in place to assure trades are fully disclosed, accounted for, and approved by appropriate parties.

Appendix A also contains a list of individuals with authority to approve transactions. In all instances, unless provided for in Appendix A, an approver may not also be the initiator for a specific transaction. Confirmations serve the purpose of confirming the details of a trade as understood by the University and its counterparty. Trade confirmations are done by an individual who does not have authority to either initiate or approve transactions.

Transactions are recorded for accounting purposes by an individual who is neither the initiator nor approver. This segregation helps to assure that trades are accounted for correctly and are recorded and valued correctly on an ongoing basis.

Exposure Controls

The University manages its derivatives exposure by looking at its derivatives

portfolio independently and also in the context of its overall asset and liability portfolios. Prior to entering into a derivative transaction, the University will examine the impact of such trade independently and on the asset and liability portfolios as a whole.

Appendix B to the policy establishes limits related to counterparty credit ratings, and the maximum allowable percentage of floating rate debt.

Exposure controls are in place to limit the University's exposure to the various market risks associated with derivatives.

Interest Rate Risk Management Policy
Appendix A

OPERATING CONTROLS

Authorized Initiators - The individuals holding the following positions are hereby authorized to execute and terminate interest rate derivative transactions in behalf of the University:

- Executive Vice President and Chief Operating Officer
- Vice President and Chief Financial Officer
- Director of Treasury Operations

Authorized Approvers - The individuals holding the following positions are hereby authorized to approve all interest rate derivative transactions on behalf of the University:

- Executive Vice President and Chief Operating Officer
- Vice President and Chief Financial Officer

In all instances, one person may not act as both authorized initiator and authorized approver for the same transaction.

EXPOSURE CONTROLS

Maximum Percentage of Floating Rate Debt - The University's outstanding debt portfolio will have no more than 40 percent of the principal amount in floating rate debt, as described in its Debt Policy. This percentage is calculated to factor in the effects of interest rate derivatives.

Counterparty Credit Exposure - All derivative counterparties will be rated A3 or better by Moody's and A- or better by Standard & Poor's. The maximum allowable credit exposure, determined by the net mark-to-market of all trades with a single counterparty, will be \$25 million for counterparties rated Aa2/AA or better and \$10 million for counterparties rated less than Aa2/AA.

The University may take steps to reduce its exposure to a counterparty by either (i) requiring the counterparty to post collateral in the full amount of the exposure (all the while abiding by the terms of any Credit Support Annex between the University and the counterparty), (ii) terminating all or a portion of its outstanding contract(s) with the counterparty, or (iii) requiring the counterparty to obtain swap insurance or provide another form of third-party security agreeable to the University.

In determining counterparty credit exposure, the University will also consider the counterparty's credit exposure to other University related organizations (e.g., University of Virginia Investment Management Company.)