

**BUDGET, FINANCE AND INVESTMENT COMMITTEE  
BOARD OF TRUSTEES  
UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE**

A meeting of the Budget, Finance and Investment Committee of the Board of Trustees of the University of Vermont State and Agricultural College was held on Friday, January 19, 2007 at 9:00 a.m., in room 338 Memorial Lounge, Waterman Building.

**MEMBERS PRESENT:** Chair Deborah McAneny, Co-Vice Chair Robert Cioffi, Co-Vice Chair Robert Young, Edwin Amidon Jr., Bill Botzow, Ian Boyce\*, Johannah Donovan, John Hilton Jr.\*, Richard Hube Jr., Susan Hudson-Wilson, Raymond Pecor Jr., and Stirling Winder

**REPRESENTATIVES PRESENT:** Alumni Representatives Samuel Bain\* and Meg Guzewicz\*, Faculty Representative Albert Joy, Staff Representatives Joan Kieran and Diane Trono, and Student Representatives Jessica Banks and Sean Haggerty

**ABSENT:** Trustee Kathleen Hoyt and Faculty Representative Cory Teuscher

**OTHER TRUSTEES PRESENT:** Board Chair Carl Lisman

**PERSONS ALSO PARTICIPATING:** President Daniel Fogel, Senior Vice President/Provost John Hughes, Vice President for Finance and Administration J. Michael Gower, Associate Vice President for Budget and Resource Management Ted Winfield, Vice President for State and Federal Relations Karen Meyer, and Chris Cowen, Prager, Sealy & Co., LLC

\*by means of conference telephone.

Chair Deborah McAneny called the meeting to order at 9:00 a.m.

### **Approval of Minutes**

A motion was made, seconded and voted to approve the minutes of the November 10, 2006 meeting.

### **Peer Group Analysis**

Provost Hughes introduced the discussion. He spoke of charting the future of the University and how critical today's discussion is to that future. He referred to the promise he made to President Fogel that every decision he makes as Provost will be with the students' best interests in mind. The appropriate decision, however, will not always be immediately obvious. Students benefit from both the lowest possible tuition and fees *and* from an outstanding educational experience. On the one hand, 0% tuition increases could lead over time to lower tuition. On the other hand, a very high tuition increase might provide more funds for programs to create a more outstanding educational experience. Over the past year the average tuition increase – or balance point – that higher education institutions have implemented is 6.3%.

Provost Hughes reported that Miami University, his former institution, and UVM are similar and are competitors. In a recent report, Kiplinger's placed Miami 38<sup>th</sup> for best buy among public institutions. This placement was awarded despite Miami's relatively high in-state tuition. The

value of the institution was framed based on 2/3 weighted to quality and 1/3 weighted to cost. In proceeding to frame tuition policy and practice for the University of Vermont, it will be important to balance both the absolute cost and the quality of the experience that can be achieved and to reflect both in the levels of tuition that are defined.

At the same time that this balance is being struck, Provost Hughes reported that he has instituted a 1% budget recovery across all departments. By asking that 1% be recovered, Deans and Vice Presidents will need to assess which program areas provide the least strategic value; by being efficient, resources can be freed up to support the highest priorities. This level of discipline and continuing self-assessment is an important part of assuring that there is highest value obtained from all the resources being used. Provost Hughes said he looked forward to the discussion and the understanding that will flow from it.

Vice President Gower next recognized the coordinated efforts of Associate Vice President Winfield, his staff, and a host of others in the compilation of the analysis data. Associate Vice President Winfield personally thanked Associate Director Josie Mercure, Senior Administrative Analyst/Planners Ann Barnes and Betsy Baker, Director of Institutional Studies Fred Curran, members of the financial aid staff including Cecelia Dry, Jeffrey Wallin, and Zoey Trenkle, and Mark Metivier of Development and Alumni Relations for their valuable assistance and input.

At the November 10, 2006 meeting of the Budget, Finance, and Investment Committee a lengthy discussion of Version 5.0 of the Strategic Financial Plan (SFP) led to two major areas of interest; 1) Where does the University stand with respect to its peer institutions concerning tuition, financial aid and student indebtedness; and 2) What is the impact on the SFP of various assumptions for tuition levels, financial aid levels, and relative success in fund raising. Data were compiled in response to these questions and served as the background for today's discussion. The review and assessment of the data provides a basis to update assumptions incorporated into SFP Version 5.0; it also provides background for the setting of an appropriate tuition increase level for the FY 2008 budget. This update to the SFP using the assumptions drawn from today's discussion, labeled Version 5.0-A, will be presented at the February 9, 2007 meeting of the Budget, Finance and Investment Committee.

A six-year comparison period (FY 2000-01 to FY 2006-07) was used in the peer group assessment of tuition and fees. Three comparisons were shown: Public – In-State, Public - Out-of-State, and Private. In addition, three views of the same data were given: comparisons of total tuition and fees among public and private peers (attachments 4A-4C), changes to total tuition and fees in terms of average and total dollar increases (attachments 5A-5C), and in terms of average and total percent increases (attachments 6A-6C).

From the peer assessment of in-state tuition and fees it was shown that on a percentage basis, Vermont has gone up less than all public peers with the exception of SUNY schools. Seven schools have had larger absolute dollar increases, and another seven had comparable increases. Within this peer group, Vermont now has the third highest in-state tuition, but the relative gap for all others (except SUNY) has narrowed. Trustee Hudson-Wilson asked where the University stood relative to state support when compared to our peer group. This led to a discussion regarding state appropriation, with Vice President Meyer providing detail to the group. Vermont is ranked the lowest in the public peer group in receiving state support. The most recent national average increase in state funding to public institutions is 7%; the University's latest increase was 3.75%. The level of state support is a function of the size and scale of the State of Vermont, something that is not subject to fundamental change.

Vice President Gower continued with the peer assessment for out-of-state students. On a percentage basis out-of-state tuition levels have also gone up higher at every public peer (except SUNY) over the six-year period. On an absolute dollar basis, twelve peers have gone up higher than UVM. Vermont out-of-state tuition remains second highest among its public peers, but the gap between UVM and the next highest ten peers has narrowed.

A review of private peer group institutions showed that tuition and fees have gone up faster than UVM for all peers, both on a percentage and absolute basis. This leaves Vermont in a lower cost position within this peer group and thus at a competitive price advantage. This is particularly important since nearly 70% of the University's out-of-state applicants have a cross-application with at least one of the private peer group institutions.

The presentation continued with a peer assessment of financial aid levels. Financial Aid includes both grants and loans available to students to assist in meeting their financial need (determined by federal methodology) to cover the costs of student attendance. Vice President Gower noted several caveats to the data provided. There is no direct peer data source with which to make comparisons due to data definition issues and the reluctance of institutions to report at such a detailed level. The Committee was referred to attachment 7. The data indicated that on average, 67% of Vermont students and 66% of out-of-state students received grant assistance in academic year 2005-2006. Associate Vice President Winfield noted that the drop in average grant assistance to out-of-state recipients from 2004-05 to 2005-06 was due to the large enrollment increase in the latter year. The data also indicated that Vermont and out-of-state students, on average, received financial aid award packages are generally comprised of one-third grant (including merit scholarship) assistance and two-thirds loans. The Committee discussed the information provided at great length. It was noted that grant assistance to Vermont students provided by Vermont Student Assistance Corporation (VSAC) was not reflected in these data as those programs are administered outside of the University. Federal, need-based loans offered as part of a student's financial aid package that are administered by VSAC *are* included, whereas alternative student loans and parent (PLUS) loans are not.

Although there are little peer data available to assess comparable levels of aid commitment, over the past several years Kiplinger.Com has published a survey of the 100 Best Values in Public Education. The referenced institutions include UVM and eighteen of our defined peers. Kiplinger's assessment of UVM's relative cost after aid for both in-state and out-of-state costs (attachment 8 and 9) shows UVM's net cost closer to other public peers than gross price levels would signify. This appears to indicate that the University's level of financial aid support makes its total costs relatively more affordable. Given its high proportion of out-of-state students, UVM's financial aid award practices tend more toward the higher aid levels of private institutions, creating lower net tuitions for those students eligible for aid.

Additional peer data show that UVM's student mix is weighted more heavily out-of-state than any of its public peers, with a ratio of 37% in-state and 63% out-of-state students. The University is highly dependent on out-of-state enrollment. Co-Vice Chair Cioffi commented that the ratio of in-state to out-of-state is a funding strategy that is tied directly to the amount of state support the University receives. He noted that the legislative requirement that in-state tuition not be higher than 40% of the out-of-state tuition is a built-in subsidy to Vermont students. The mix of in-state to out-of-state students will not change unless state support increases. Trustee Hube asked whether it was known how much additional state appropriation would be needed to change the mix by 1%. Vice President Gower replied he would try and provide this information.

Peer assessment of student indebtedness at graduation (attachments 10 and 11) showed that Vermont students fall in the mid-range of indebtedness for those students who have debt, compared to the peer group. As expected, in-state student debt is lower (as are overall costs), and out-of-state debt is higher and more on a par with debt from private institutions.

Responding to an earlier request, Vice President Meyer then furnished Chair McAneny with information showing the amount of grant assistance VSAC provided to Vermont students who went out-of-state. The FY 2005 state appropriation to VSAC was \$16.6 million and of that, 27% (\$4.5 million) was paid to out-of-state higher education institutions.

Vice President Gower summarized by stating that although UVM remains at the high-cost end of its public peers, the gap has narrowed significantly. The University's level of financial aid support improves its competitiveness among public peers, and it puts UVM in a competitive price advantage when compared to its private peers. Student indebtedness, while significant, is comparable to levels at both public and private peers. Chair McAneny commented that the narrowing of the pricing gap among public peers and the University's position with regard to financial aid are positive points.

Chair McAneny asked the Committee for observations and/or conclusions drawn from the peer assessment data provided. Varying observations were discussed in detail.

### **Critical Elements of the Strategic Financial Plan**

At the November 10, 2006 Budget, Finance, and Investment Committee meeting, discussion of the implications of the SFP focused on the level of tuition increase. Version 5.0 assumed a 6% tuition increase for FY 2008, FY 2009, and FY 2010, and 4% thereafter. For this meeting, alternate tuition levels were assessed to understand the scale and impact of incremental net income on the SFP. Tuition levels were forecast at three growth rates over the ten-year forecast period: 4%, 5%, and 6%, and the results were shown in attachment 12. In each case, the assumed growth of financial aid in relation to tuition remained the same as Version 5.0 in order to isolate the impact of the different tuition assumptions. The data showed a sustained 6% increase would add \$68 million of net tuition to the projection compared to Version 5.0, a 5% increase reduces net tuition by \$5.6 million, and a 4% increase reduces net tuition by \$76 million over the forecast period.

In assessing the impact of the various tuition levels relative to likely cost increases, the Higher Education Price Index (HEPI) was considered. HEPI is a higher education-specific national measure of the cost areas that directly impact educational institutions. It is a more accurate indicator for higher education institutions than the Consumer Price Index (CPI). The HEPI cost increase for FY 2006 was 5%. Data provided to the Committee showed that a gross tuition increase of 6% sustained throughout the forecast would result in a net revenue return after financial aid discounting of 4.20%, 0.8% below HEPI at 5%. The net return assumes UVM's current gross tuition discount level of approximately 30%. Given this information, a gross tuition increase of just over 7% would be needed to match the HEPI cost increase in order to keep pace with inflation.

The second critical element discussed was the impact on financial aid to changes in net income. Within the SFP, all forms of financial aid that reduce net revenue are counted including tuition waivers for graduate students and tuition remission offered as an employee benefit. These revenue offsets represent about 32% of gross tuition in FY 2006, and are projected in SFP 5.0 to

grow to 38% by FY 2016. That model follows experience – as enrollment numbers grow and tuition rates increase, financial aid needs continue to rise. The same analyses on tuition increases were repeated with a moderation of the growth of student financial aid in SFP Version 5.0 (attachment 15). The moderated growth assumption cut the growth rate of aid in half beginning in FY 2009 and capped the total impact at 35% by the end of the period. Keeping all other elements of SFP Version 5.0 equal, this resulted in an increase in net tuition of \$38 million. The impact on net tuition implementing a sustained 4%, 5%, and 6% increase in tuition was also shown. A discussion took place regarding moderating the financial aid growth assumption. Trustee Boyce asked what the consequential impact would be on enrollment. Vice President Gower answered that no specific data are available that could predict actual results, but that some impact would be expected. Trustee Donovan asked if a chart could be provided that shows the compounding effect of a 4%, 5%, and 6% tuition increase on actual student cost. This would be provided to the Committee, with a range of five years back and ten years forward, in total dollars and percentage change.

### **Strategic Financial Plan and FY 2008 Budget – Next Steps**

Chair McAneny opened up the meeting for discussion. Several Committee members expressed support of a 6% tuition increase for FY 2008 based on the data provided and our current standing among peers. One member noted that it is important both to keep costs as low as possible, but also to provide the maximum revenue possible. Losing ground to inflation as a current “under investment” risks the need for more dramatic increases in the future to try to catch back up. In any case, there needs to be regular review of peer data, and that changes within areas of enrollment management such as student demographics, number of applicants, and/or retention are watched carefully. Several members voiced their concerns over the proposed 6% tuition increase. There are political and public relations issues raised by the state legislature whenever the University’s tuition rates are announced. President Fogel remarked that it was important the University continue to communicate and express its commitment to its Vermont students and the value that UVM brings to the state in terms of economic development. Chair McAneny reminded the Committee that here they are all trustees for the University of Vermont and, as such, have a fiduciary responsibility to decide what’s best for the University.

The final critical element of the Strategic Financial Plan discussed was the potential for growth in development activity and support. A brief summary of the data provided was presented by Associate Vice President Winfield. The fund raising projection in SFP Version 5.0 is \$351 million, which includes nearly a \$30 million growth in Capital Gifts and Grants. A very dramatic shift in scale of campaign activity beyond the current campaign would be needed in order to generate additional expendable resources of any significance. Committee members agreed that a conversation around development must begin now in order for any change to occur in the future. They requested data be provided that showed the University’s cost per dollar raised as compared with our peer group. Chair McAneny agreed that the capital campaign issue would be a major agenda item in the near future.

### **Other Business**

Chris Cowen, Prager, Sealy & Co., LLC, presented an analysis on debt refunding. The series 2002 were specifically discussed as the bonds to realize savings through either issuance of new bonds or by utilizing an interest rate swap as a hedge. The current debt portfolio, with the

exception of commercial paper, is 100% traditional fixed rate. Mr. Cowen explained the trend of interest rates by providing a graph on historical tax-exempt interest rates, which illustrated the movement of long-term interest rates near historic lows. The refunding opportunities for the Series 2002 bonds could be in the form of 1) issuing a traditional advance refunding bonds with estimated present value of net savings of \$4.28 million, or 2) executing a forward starting interest rate swap with estimated present value of net savings of \$5.30 million. Mr. Cowen listed the major disadvantages of refunding to be legal costs, staff time, and the risk of market changes. The Committee was asked to review the material provided and send questions via Vice President Gower for Mr. Cowen to answer by the next meeting in February. Vice President Gower indicated that early preparation work needed for initiating an interest rate swap would be undertaken. Further discussion and review of these options will occur at the February meeting.

### **Adjournment**

There being no further business, the meeting was adjourned at 12:20 p.m.

Respectfully submitted,

Deborah McAneny, Chair