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

A meeting of the Finance, Budget and Investment Committee of the Board of Trustees of the University of Vermont State and Agricultural College was held on Friday, March 30, 2007 at 9:00 a.m., 427A Waterman Building.

MEMBERS PRESENT: Chair Debbie McAneny*, Co-Vice Chair Robert Cioffi*, Co-Vice Chair Robert Young*, Edwin Amidon Jr., Bill Botzow*, Ian Boyce*, Johannah Donovan*, John Hilton Jr.*, Susan Hudson-Wilson* and President Daniel Fogel

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

ABSENT: Trustee Stirling Winder, Trustee Raymond Pecor Jr., Alumni Representatives Samuel Bain and Faculty Representative Cory Teuscher

OTHER TRUSTEES PRESENT: Board Chair Carl Lisman and Frank Cioffi

PERSONS ALSO PARTICIPATING**:** 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, Chris Cowen*, Prager, Sealy & Co., LLC and Eileen Heitzler*, Orrick, Herrington & Sutcliffe LLP

*by means of conference telephone.

Chair McAneny called the meeting to order at 9:07 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the February 9, 2007 meeting.

FY 2008 Budget Parameters

Provost Hughes described the process by which the budget was developed. Throughout the year, there is regular tracking of the volume and unit values of all the major elements of revenue and expense. Early in the fall, that tracking, the forward commitment from prior years, directions defined in the Strategic Financial Plan, and enrollment planning are all combined to frame the planning assumptions for the coming year.

There were several new items included in the budget process for FY 2008 budget. One was the results of the President's Fiscal Imperatives, charging Provost Hughes and Vice President Gower to identify ways to both enhance revenue and reduce ongoing costs. The impact of this work, with added revenue from tuition levels, unrestricted giving, and short term investment income is reflected in the FY 2008 budget. In addition, each unit of the University has been charged with defining a 1% recovery, to reduce costs associated with less important activities so that those savings can be used to support more critical activities. These funds support the strategic priorities and needs.

President Fogel also charged Provost John Hughes with holding a more open budget process. The Provost held budget hearings in which each Dean and Vice President received a half-hour to present his/her priorities and budget requests. He also formed a Fiscal Priorities Committee, with broad representation from across the University, which participated in the hearings and helped move the discussions to a more strategic viewpoint. Co-Chair Robert Cioffi asked if copies of the materials that the Deans and Vice Presidents used to support their priorities were available to the Board. Provost Hughes responded that they had not been distributed but that he would be sure a copy was made and sent out to each trustee. Mr. Cioffi asked how the Fiscal Priorities Committee's priorities differed from the Deans. Provost Hughes explained that the Deans were very concerned with the new faculty positions and were more unit-centered rather than University-centered. The Fiscal Priorities Committee stayed focused on the University as a whole. Their priorities were faculty positions, but they also identified interdisciplinary programs, the libraries, and student services as being high priority issues.

Associate Vice President of Budget and Resource Management Ted Winfield next reviewed historical data to show the context in which budgets for the University have grown and changed over the past ten years. These included: a history of the University's general fund budgets; state appropriations; and headcount enrollments by unit by student level. He explained that the growth of students is a major factor in the budget, and that this is the beginning of the growth plan that is outlined in the Strategic Financial Plan. Further, there was a review of sponsored program awards; full time head count of faulty and staff; comparison of salary increases relative to CPI; growth of payroll and benefit costs and changes in the University's real estate holdings and facilities. These are examples of underlying factors that drive critical elements of the budget.

Associate Vice President Winfield then turned to a line item review of the proposed FY 2008 budget, which includes the following budgeting parameters:

Major Revenue Planning Parameters:
TOTAL REVENUE PROJECTED = $250.8 million

- state appropriation = 3.0% increase (the university request is 5%, plus a $1,000,000 supplemental appropriation)
- tuition rates = 6.0% increase (total tuition: $10,422 VT, $26,306 O/S)
- undergraduate student financial aid = 9.1% increase
- undergraduate enrollment of 9,030 (3,210 Vermont & 5,820 out-of state)
- facilities and administration cost reimbursement = 2% increase
- unrestricted endowment = 5% increase
- short-term investment income = 10.0% increase
- unrestricted giving = 17.3% increase

Major Expenditure Planning Parameters:
TOTAL EXPENSE PROJECTED = $250.8 million

- general fund compensation (salary and benefits) increase = 4.8% (benefit rate of 39%); includes increases for graduate teaching stipends

- contingency = replenish $1.24m of budget from FY 2007 plus 5% increase
- library acquisitions = 8.0% increase
- operating and equipment budgets = 2% increase
- telephone line and equipment expense = 2% increase
- facilities related budgets = $2.1m increase in energy budgets, new facilities maintenance, facilities renewal and plant improvements (deferred maintenance), and rental expense

Vice President Michael Gower noted that the University was successful in keeping healthcare cost down by having all faculty and staff on a single healthcare plan. Associate Vice President Winfield highlighted that the revenue and expense changes from the President's Fiscal Imperatives planning are included in the budget. A total of $4.7M of strategic initiatives has been identified from the budget hearing process led by Provost Hughes. The 1% recovery recognizes $2.3M of planned expense reductions as well.

The meeting was then opened for questions. Trustee Hudson-Wilson asked where the greatest forecasting risk was. Vice President Gower responded that the number one risk was the number of students enrolling for the fall semester. President Fogel pointed out that this is a modest risk as we have regularly ended the year with growth above what was expected. Chair McAneny questioned an apparent reduction in the Operating/Equipment line on the budget and asked if there was a risk there. Mr. Winfield replied that this is a more difficult category to break down as most of the components are managed at the unit level and not centrally. The category includes most of the operating expenses of the institution (supplies, travel, telephone, consulting, professional development etc.) other than utilities and insurance. Chair McAneny suggested that this category be broken down further to allow for more focused tracking. The Committee also discussed the relative risk of changes in debt service costs, given the budget to actual data over the past several years. Mr. Winfield reported that now that the Treasury Operations function is very focused on tracking and budgeting for debt repayment, that these costs are well-defined and highly predictable.

Chair McAneny asked about staffing benchmarking and the relative mix of faculty and staff positions. President Fogel replied that early in his administration he completed an extensive benchmarking effort and that, if anything, the level of staff positions to faculty positions was low. Additional opportunity to benchmark going forward offers an important assessment of a major resource area for the University.

The Committee also recognized that additional discussion needs to take place about how changes in the use of the contingency funds are defined. During the year, there may be substantial shifts in both revenue and expenses that are absorbed within the budget and these are reflected by increases or decreases in the contingency budget. Recognition and reporting of these changes needs to be updated as does the protocol for when spending requirements and resources need to move across fiscal years. There is both an issue of timing and an issue of the nature and focus of Trustee oversight. Additional discussion of this issue will be ongoing.

Trustee Amidon, asked for further explanation of the reference in the cover memo to the Committee of the one-time commitments for FY 2008. Mr. Winfield explained that in addition to the ongoing obligations reflected in the $250.8M general fund budget that the Committee has just reviewed, there are an additional $4.2M of one time commitments that need to be addressed as well. These commitments include items such as faculty start-up costs and required grant support which are necessary but do not recur and thus do not require ongoing budget commitment. To date, $1.2M of one-time sources have been identified. Additional plans to address the remaining one time costs will be completed before the May meeting.

The FY 2008 budget will be brought to the Committee for final approval in May.

- **Costs of Student Attendance**

The Committee reviewed and assessed the tuition, room, board and student fees that will be presented for approval at the May meeting. The tuition levels support the overall general fund budget that was just discussed. Co-Chair Cioffi asked for a review of the $140 increase in the overall level of student fees being proposed. Mr. Winfield reviewed the breakdown of the proposed changes: the Center for Health and Wellbeing - $42 (added healthcare costs and addition of flu shots to the student service), Davis Center - $60 (the final installment of the growth of this component of the fee to reach $500 to support the operation of the student center), Student Technology Fee - $25 (planned growth from the initial level of $50 begun in FY 2007), Transportation fee - $5 (reflecting growth in costs of the on campus transportation system), and SGA - $8 (responding to SGA request to increase its own level of resources to support student programs.)

- **Treasury Operations Blended Rate**

The Committee reviewed the level of the internal interest rate charged across the University to budget for debt repayment for capital projects. Since FY 2006, the University has adopted a single rate for internal purposes to reflect an average cost of funds (average of long-term external debt costs), a stabilization reserve, and administrative costs to manage the debt. The initial forecast was for a rate of 5.5%, phased in as 5.0% in FY 2006, 5.25% in FY 2007 and reaching the fully loaded rate of 5.5% for FY 2008. Chair McAneny questioned whether the buffer was the right size and whether an adjustment for FY 2008 would be appropriate. Chris Cowen of Prager Sealy indicated that while the buffer level might be reduced, part of the plan was to build a number of years of budgeting experience at a somewhat conservative level. After demonstrating the ongoing budgeting discipline of meeting the payment commitments, a reevaluation could be appropriate. The Committee concurred and agreed that the rate of 5.5% should be implemented for FY 2008.

At 11:15 a.m. Chair McAneny departed the meeting and Co-Vice Chair Robert Cioffi presided over the remainder of the meeting.

Debt Financing Opportunities

- **Forward Swap Status**

The Committee assessed the significant volume of materials associated with undertaking a forward swap. Trustee Amidon asked if internal counsel was in the process of evaluating the information and whether a recommendation would be prepared. After further discussion, Co-Chair Cioffi charged the sub-committee that had been established at the February meeting (Trustees Cioffi, McAneny, Hudson-Wilson and Boyce) with continuing to work on assessing the appropriateness of recommending a swap. The sub-committee would convene next week in advance of the scheduled Executive Committee meeting on April 9, and, if possible, would present a recommendation to that meeting. Further detailed review of the documents will be the purview of the sub-committee.

There was an overall review of the swap mechanics and the respective roles of the University and a counter party with whom the swap might be made. There was general agreement that being prepared to exercise a swap was potentially advantageous, and that work should proceed in that direction. Actual execution of the swap, once it was framed and approved by the Board, might or might not occur, depending on the prevailing market conditions. Being prepared to act, however, is highly desirable.

- **Refunding Update**

Parallel to the work being done on the swap, work is also under way to prepare for a bond refunding to take advantage of current low long-term borrowing rates. These are currently more favorable than the majority of the existing 2002 bond rates. Trustee Hudson-Wilson indicated that it was also important to assess what additional financing might be included in the planned bond issue. At a minimum, the issue would refund major portions of the 2002 bonds, perhaps some from 1998 bonds, and outstanding commitments currently funded through commercial paper. Given future capital requirements, it may also be appropriate to consider including some of those needs. Vice President Gower indicated that such an assessment would be forthcoming and could be part of the discussion leading to a final decision. The University is working with Citigroup, bond counsel, and Prager Sealy in preparing the documents. Work is progressing to take action at the May meeting.

Adjournment

There being no further business, the meeting was adjourned at 11:55 a.m.

Respectfully submitted,

Debbie McAneny, Chair