

**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 and State Agricultural College was held on Friday, September 7, 2007 at 10:15 a.m., in the Silver Maple Ballroom, 401 Dudley H. Davis Center.

**MEMBERS PRESENT:** Chair Debbie McAneny, Co-Vice Chair Robert Cioffi, Bill Botzow, Ian Boyce, Harry Chen, Jeffrey Davis, Johannah Donovan, Daniel Fogel, John Hilton Jr., Susan Hudson-Wilson, and Stirling Winder

**REPRESENTATIVES PRESENT:** Faculty Representative Albert Joy, Staff Representatives Diane Trono and Joan Kieran, and Student Representatives Sarah Shackett and Harry Mallory

**ABSENT:** Co-Vice Chair Robert Young, Trustee Edwin Amidon Jr., and Alumni Representatives Sam Bain and Meg Guzewicz

**OTHER TRUSTEES PRESENT:** Board Chair Carl Lisman and Board Vice Chair Frank Cioffi

**PERSONS ALSO PARTICIPATING:** Vice President for Finance and Administration J. Michael Gower, Director of Capital Planning and Management Robert Vaughan, Associate Vice President for Budget and Resource Management Ted Winfield, Associate Vice President for Finance and Controller Bonnie Cauthon, C. LaRoy Brantley, Cambridge Associates LLC, Chris Cowen and Linda Fan, Prager, Sealy & Co., LLC, Jon Speare and David Hertan, Commonfund, Rachel Johnson, Dean of College of Agriculture and Life Sciences, and Tom Visser, Associate Professor of History

Chair Debbie McAneny called the meeting to order at 10:43 a.m.

### **Approval of Minutes**

A motion was made, seconded, and voted to approve the minutes of the May 18, 2007 meeting.

### **Acceptance of Gifts and Grants**

The resolution to accept gifts and grants was approved unanimously by the Committee for recommendation to the full Board.

#### **Acceptance of Gifts and Grants**

RESOLVED, that the Board of Trustees hereby accepts grants and contracts in the amount of \$41,328,926 for the period April 1, 2007, through July 31, 2007, and gifts in the amount of \$8,196,231 for the period May 31, 2007, through June 30, 2007.

## **Governance Language Update**

A resolution to approve updating the Debt Management Policy reflecting the new Budget, Finance, and Investment Committee structure was brought before the Committee for approval (see Appendix A). The Committee unanimously approved the resolution for recommendation to the full Board.

## **Report of the Investment Sub-committee**

### **Long Term Investment Pool, Performance and Manager Review**

Robert Cioffi, Chair of the Investment Subcommittee, led the Committee through a discussion of Long-Term Investment Pool allocations and performance through June 30, 2007. The results for the fiscal year were very good (+20.6%), with results a full percentage point above the Cambridge median for the last quarter and almost 200 bps above the median for the Fiscal Year. Mr. Cioffi recapped that FY 2007 was a great year and an all time high for the endowment.

Chair McAneny requested information about how the dislocation of the market affected the endowment. Information was provided by members of the Investment Sub-committee and LaRoy Brantley, from Cambridge Associates LLC. The University's investments for the endowment are set for the long term with a spending rate of 4.5% on a rolling 13 quarters.

Mr. Brantley briefly reviewed the performance for the consolidated endowment for the month ended July 31, 2007 with the long term pool total ending with \$335.3 million. The portfolio held up well in a difficult month of July, with -0.8% performance. Mr. Brantley noted that preliminary reports for August indicate the portfolio will be positive overall. The long term views for the University's investments have two goals: To achieve our return objective over time allowing for inflation and maintain purchasing power.

Chair Cioffi stated that the Subcommittee met with Dwight Asset Management. The Subcommittee then discussed moving the entire fixed income portfolio from an active and passive mixed strategy to an entirely passive strategy. A motion was made, seconded and passed to transfer the funds to the current passive manager, State Street.

### **Annual Allocation Review & Approval of Recommendation**

Mr. Cioffi reported on the Subcommittee's annual review of asset allocations in the Long-Term Pool and its recommendations for changes to those allocations. A discussion ensued concerning Emerging Markets asset allocation increasing from 6% to 10% and Venture Capital/Private Equity, including International Private Equities, increasing from 4% to 10%. Investments in Venture Capital/Private Equity will take years to reach the 10% allocation; Venture Capital/Private Equity will return distributions that will reduce our investments. Eventually it will become self-funding with distributions coming in to cover capital calls.

Mr. Cioffi brought the Resolution revising Exhibit 1 of the University Statement of Investment Objectives and Policies before the Committee for approval. The Committee unanimously approved the resolution to be incorporated into the Investment Policy and adopted by the full Board.

**Resolution Revising Exhibit 1 of the University Statement of Investment Objectives and Policies**

RESOLVED, that Exhibit 1 of the University Statement of Investment Objectives and Policies, shall hereafter read as revised below:

**EXHIBIT 1  
 UNIVERSITY OF VERMONT  
 ASSET ALLOCATION STRATEGY**

<b>Strategy</b>	<b>Implementation</b>	<b>Target</b>	<b>Range</b>
U. S. Equity	Core exposure to passive index complemented by one or more satellite managers	20.0	15-40
Global ex U. S. Equity	One or more managers investing in developed or emerging markets	24.0	15-40
<ul style="list-style-type: none"> <li>• <i>Developed Markets</i></li> </ul>	<i>Subset of Global ex-US Equity</i>	14.0	5-25
<ul style="list-style-type: none"> <li>• <i>Emerging Markets</i></li> </ul>	<i>Subset of Global ex-US Equity</i>	10.0	5-15
Marketable Alternatives <sup>1</sup>	A group of complementary managers with a distinct approach to investing, each offering attractive levels of returns while not being fully correlated with major equity or debt markets	20.0	15-25
Real Estate/Inflation Hedging	Includes private real estate investments via commingled funds and public real assets (e.g., energy and other commodity-related securities)	12.5	10-25
Venture Capital/Private Equity	Focus will be on high quality of funds, providing a broad range of diversification	10.0	5-15
Fixed Income	One or more managers will be used to provide broad diversification to high quality domestic fixed income	12.5	10-25
Cash and Cash Equivalents	Small amounts of cash may be held for purposes that the Investment Subcommittee deems necessary	1.0	0-5

## **Approval of Endowment Management Fee and Spending Policy**

Mr. Cioffi reviewed the Subcommittee's discussion regarding renewal of the Endowment Management Fee and the Spending Policy. Mr. Cioffi brought the Endowment Management Fee Resolution and the Resolution Reaffirming Consolidated Endowment Budget Policy before the Committee for approval. There was a brief discussion concerning the 50 bps management fee and for what it was designated. The Endowment Management Fee Resolution was specifically written not to restrict the use of the 50 bps. The Committee unanimously approved the resolutions for recommendation to the full Board.

### **Endowment Management Fee Resolution**

BE IT RESOLVED, that the Board of Trustees hereby approves a 0.5 percent fee applied to the University endowment to cover reasonable costs associated with endowment administration, management and operation; and

BE IT FURTHER RESOLVED, that on a fiscal year basis beginning July 1, 2008, the fee will be calculated and assessed annually as 0.5 percent of the average market value of the University endowment for the previous 13 quarters ending December 31 of the prior calendar year; and

BE IT FINALLY RESOLVED that the Investment Subcommittee will review and make recommendation to the Budget, Finance and Investment Committee regarding the reaffirmation or revision of the fee each year no later than September 30.

### **Resolution Reaffirming Consolidated Endowment Budget Policy**

RESOLVED, that the Consolidated Endowment Budget Policy, is reaffirmed as reads below:

BE IT RESOLVED, that the annual budgets for spending from the Endowment Fund be set at 4.5 percent of the average market value for the previous 13 quarters, ending December 31 of the prior calendar year.

Original Resolution: Board of Trustees' Meeting - May 13, 1995

Reaffirmed: Board of Trustees' Meeting – September 8, 2007

## **Strategic Capital Plan Update**

The Committee continued discussion of the Strategic Capital Plan prioritization tool following the presentation at the Committee of the Whole. The tool has been developed to demonstrate to the Board the criteria, ordering, and ranking of capital projects. Committee members were given the opportunity to share their comments, concerns, and issues they felt required further discussion. Trustee Botzow expressed an interest in the development of an "operator's manual"

for the prioritization tool. This manual would give further explanation to the process of bringing new projects forward and the scoring and ranking of projects. Trustee Hilton raised several questions regarding how deferred maintenance factored into the tool, the process for adding new projects, and how the Board would be kept apprised of changes in rankings. He suggested an annual review of the project rankings that would show any changes from their prior review, including an explanation as to why they changed. Vice President Gower responded to Trustee Hilton's questions. He explained that annual allocations for deferred maintenance and classroom upgrades at \$10M per year were built into the financial model (Strategic Financial Plan 5.0A). A new project is proposed by a "project champion," typically a Dean or Vice President. A standardized form is completed and submitted to a review team comprised of the Provost, VP for Finance and Administration, and a Faculty Senate Representative. The project goes through a scoring process similar to current scored projects and uses the same criteria. The new and existing projects are then re-ranked according to overall scores. He noted that there would be at least an annual review with the Committee of new and existing projects and their rankings. In addition, the committee requested the administration bring changes in the project rankings when they occur to the board to discuss the changes and why the changes occurred.

Co-Vice Chair Cioffi agreed with Trustee Botzow's suggestion of an operator's manual and also requested further insight into the formulas behind the tool. Chair McAneny replied that the formulas are available; however the thought process involved with the scoring and ranking of projects is the responsibility of the University administration. Chair McAneny next commented on the sequencing of projects. Sequencing can occur when one capital project is dependent upon the completion of another. With limited resources, Chair McAneny wanted to ensure that debt capacity for future priority projects was preserved and that a project of lesser priority wasn't completed first. Vice President Gower and President Fogel responded that the highest priority projects would be addressed first taking sequencing into account. Further, action on every project will be brought to the Board with a review of its priority status.

In general, the Committee was very pleased with the prioritization tool. The consensus was that it fit well with the "invest and grow" strategy of the University. Committee members praised the tool for its ease of use and in providing transparency in showing how capital projects are sequenced and prioritized. It will provide the Board with a level of confidence in future growth strategies and is a precursor to future ratio discussions.

At 12:00 p.m. the Budget, Finance and Investment Committee recessed. The Committee reconvened at 1:25 p.m.

## **Capital Projects Approval – Step II**

The Committee was asked to approve financing for the Plant Sciences Facility project at a total project cost not to exceed \$55,700,000. The Vermont General Assembly has previously appropriated \$10M toward the project. Also assumed is a \$1M gift and \$3M in direct federal appropriation. External interim financing, including the use of commercial paper, shall be in an amount not to exceed \$44,235,000. Included in this are costs of issuance not to exceed \$835,000

and capitalized interest not to exceed \$1,700,000. Dean Rachel Johnson and Director Robert Vaughan provided the Committee with an overview of the project scope and cost.

Chair McAneny led the Committee in a discussion of the impact the project would have on debt capacity in FY 2008 and beyond. She referred the Committee to Attachment 8, which showed the projected debt ratio impact for Plant Sciences and the Colchester Research Building renovations. Finance approval of the Colchester renovation project has been postponed until the November meeting. Chair McAneny stated that in order to continue with the University's invest and grow strategy, the Committee needs to remain open minded to the possibility of amending the debt ratios. She indicated that we would in effect reach our debt capacity with approval of the Plant Science Facility. In addition, the debt ratio projections shown on slides 9 and 10 of Attachment 4 include the impact of \$164.4M in new borrowing for projects deemed highest priority in the Strategic Capital Plan. At this level of borrowing the debt ratios exceed current policy limits. Co-Vice Chair Cioffi pointed out that these projections did not take into account the potential positive impact of additions to gifts or appropriations or recognize additional capital projects and deferred maintenance. Prior to voting on the Plant Sciences Facility project, the Committee agreed to continue with a discussion of the debt policy and the possible need for amendment of the debt ratios.

### **Debt Policy and Prioritization Impact on Strategic Financial Plan**

The discussion began with a presentation by Mr. Cowen and Ms. Fan from Prager, Sealy & Co. A brief overview of the current debt management policy was given by Mr. Cowen. Ms. Fan continued with a review of the status of the University's debt portfolio, as well as details and results of the Series 2007 bond issue. In July, the University issued \$158.25 million of traditional fixed-rate bonds for the purpose of: (1) refunding existing debt for savings, (2) refinancing capital projects currently funded by commercial paper, and (3) funding remaining projects approved by the Board through May 2007 to take advantage of the prevailing interest rate environment.

Mr. Cowen continued with projections of the University's debt ratios using assumptions from the Strategic Capital Plan (SCP). The ratio projections included \$164.4M in new borrowing for projects identified in the SCP for FY 2008 through FY 2012. The debt burden ratio (goal: <5.0%), a key tool in measuring debt affordability, would fall out of compliance beginning in FY 2009, reaching a high of 6.0% in FY 2011. The viability ratio (goal: >1.0%), which measures the availability of expendable assets to cover debt should the institution need to settle its obligations, would be out of compliance in FY 2008. Board Chair Lisman pointed out that while useful, the viability ratio does not have as practical operating implications as the debt burden ratio does. The debt burden ratio reflects the more direct capacity of the University to be able to fulfill its debt service payment obligations. He recommended that focusing on the debt burden ratio is the most salient for the Trustees to assess the longer term implications of any change in the ratios. In order to address the projects deemed highest priority in the SCP, the current debt ratios will need to be amended in order not to be out of compliance with the approved policy.

Comparisons of those ratios with the University's peer and aspirant groups were provided as well as a select group of private universities to which we can compare. The Committee discussed the information at length. Chair McAneny noted that she has felt strongly about maintaining a consistent peer group, but that given these issues that the expanded peer grouping is invaluable. Mr. Cowen explained that the broader peer group includes private, research institutions. From a financial perspective, UVM is more like this group than its public peers, because the University has to manage borrowing and debt fully from its own resources without the borrowing authority or substantial capital contributions of the State of Vermont. Accordingly, the peer group represents private institutions with endowments ranging from \$250M up to \$1.5B, in recognition of the value to UVM's financial position provided by the annual state appropriation. President Fogel pointed out that the data from these institutions show more than half of them at or above UVM's current debt burden policy limit. As successful, well managed institutions, this indicates that they have already been investing more than UVM and that they are comfortable that managing at those levels is appropriate. Associate Vice President Winfield noted that the peer data used in the comparison study is from FY 2006, while the University's forecast is for FY 2009 and beyond. Many of these institutions have continued to invest, issuing significant debt since FY 2006. The effect of those investments is not yet reflected in their ratios. Mr. Cowen also added that higher debt burden ratios, even well above the levels that UVM might contemplate, will likely not be a cause for concern from the rating agencies.

Associate Vice President Winfield then led the Committee through a stress assessment of the Strategic Financial Plan. The assessment sought to answer two questions: 1) what would be the impact if the University experienced a loss of undergraduate enrollment (a key revenue driver) and, 2) how might such a loss impact the University's ability to meet debt service payments. The stress assessment modeled a scenario whereby undergraduate enrollment growth continues for the next two years, and then declines by 1% a year over the next six years. The impact of this stress model was a loss of about 580 undergraduate students resulting in an overall revenue decline of \$13.1M over the Strategic Financial Plan 5.0A forecast, or a reduction of 1.8% of total projected revenue in FY 2016. Covering this revenue loss would require, for example, a 2.9% decrease in total compensation and benefits if only focused in that area. The results of the stress assessment also indicated that the debt burden ratio would be 7.0% in FY 2016. President Fogel noted that reducing compensation and benefit expense by 2.9% could be accomplished with a hiring freeze for a specified period of time. He further added that the stress model was indeed a "worst-case" scenario that was actually modeled after the University's worst enrollment decline, which occurred between 1987 and 1997 when UVM's enrollment declined by 10.0% over ten years.

Chair McAneny summarized the discussion indicating again the need to remain open minded to the possibility of amending the ratios. The Committee should consider the risk in continuing with our current invest and grow strategy and the consequences of not changing the debt policy. The possibilities to consider include maintaining current debt ratios, amending ratios, or maintaining current debt ratios but allowing non-compliance for a specified period of time. The Committee will be asked to take action on amending the debt policy at the November meeting.

The Committee returned to the resolution and voted unanimously to approve financing of the Plant Sciences Facility for recommendation to the full Board.

**Plant Sciences Facility**

WHEREAS, the Educational Policy and Institutional Resources Committee carefully reviewed the program, scope and preliminary estimate of \$50,000,000 for the Plant Sciences Facility (the Project) at its May 2007 meeting and found it an institutional priority, consistent with the *Strategic Capital Plan* and worthy of further consideration; and

WHEREAS, the Educational Policy and Institutional Resources Committee endorsed the Project at its May 2007 meeting and remitted it to the Budget, Finance, and Investment Committee for financial review and approval at the September 2007 meeting; and

WHEREAS, the Educational Policy and Institutional Resource Committee updated the preliminary estimate from \$50,000,000 to \$55,700,000 at its July 2007 meeting to allow for the construction of a basement level for mechanical equipment and service functions that will free up above-ground space for program growth; and

WHEREAS, the Vermont General Assembly has previously appropriated \$10,000,000 toward the Project; and

WHEREAS, the balance of the Project cost will come from grants, gifts and University financing; and

WHEREAS, the University has adopted its Commercial Paper Note Resolution (the "Resolution") on November 13, 2004, and thereby established a commercial paper program; and

WHEREAS, it may be beneficial to obtain internal or external interim financing, including the use of commercial paper, until bonds can be issued at the appropriate time for the Project;

NOW THEREFORE, BE IT RESOLVED, that the President and Vice President for Finance and Administration and University Treasurer, or their successors or designees, are hereby authorized to commence the Plant Sciences project, and to execute any and all contracts and documents necessary to undertake the Project at a total project cost not to exceed \$55,700,000; and

BE IT FURTHER RESOLVED, that the Vice President for Finance and Administration and University Treasurer, or his successor or designee, is hereby authorized to deconstruct the Agricultural Engineering Building, which is located within the proposed site limits of the Plant Sciences project;



BE IT FURTHER RESOLVED, that the President and Vice President for Finance and Administration and University Treasurer, or their successors or designees, are hereby authorized to obtain internal or external interim financing, including the use of commercial paper, until bonds can be issued for the Project; and

BE IT FURTHER RESOLVED, that the external interim financing, including the use of commercial paper, shall be in an amount not to exceed \$44,235,000, included in which shall be Costs of Issuance, as that term is defined in the Resolution, in an amount not to exceed \$835,000 and capitalized interest in an amount not to exceed \$1,700,000; and

BE IT FINALLY RESOLVED, that the Secretary or Assistant Secretary will provide certificates of incumbency, as required, showing the names and signatures of those persons appointed to any of the positions heretofore mentioned, and further, that any officer of this corporation is hereby authorized to certify this resolution to whom it may concern; and

WHEREAS, the University expects to pay certain expenditures (the "Reimbursement Expenditures") in connection with the Project before the issuance of indebtedness for the purpose of financing costs associated with the Project on a long-term basis; and

WHEREAS, the University reasonably expects that debt obligations in an amount not expected to exceed \$44,235,000 will be issued and that certain of the proceeds of such debt obligations will be used to reimburse the Reimbursement Expenditures; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the University to declare its reasonable official intent to reimburse prior expenditures for the Project with proceeds of a subsequent borrowing;

NOW, THEREFORE, the University of Vermont declares:

Section 1. The University of Vermont finds and determines that the foregoing recitals are true and correct.

Section 2. This declaration is made solely for purposes of establishing compliance with the requirements of Section 1.150-2 of the Treasury Regulations. This declaration does not bind the University to make any expenditure, incur any indebtedness, or proceed with the Project.

Section 3. The University hereby declares its official intent to use proceeds of indebtedness to reimburse itself for Reimbursement Expenditures.

Section 4. This declaration shall take effect from and after its adoption.

### **Limited Term Investment Pool Performance Review**

Mr. Gower, with assistance from Jon Speare and David Hertan from Commonfund, reported on the FY 2007 performance and the annual review of asset allocations for the Limited-Term Asset Pool. Mr. Speare stated that most Universities are too liquid. He also stated investment income of the limited term investment pool added \$9.6 million to the portfolio for FY 2007. Mr. Hertan reviewed the performance for FY 2007 stating returns for the fiscal year ended at 8.22%, which are 158 basis points over the target (3 month T-Bill plus 150 basis points). Most value comes from the core strategies which ended with a 10.8% return for the fiscal year. "Core" is defined as those funds not expected to be needed in the next 3-5 years. The University, in consultation with the Commonfund, diversified away from fixed income to an Absolute Return strategy, which contributed significantly to the core. The 7.26% performance since inception, (January 2006), is 226 basis points above target. FY 2007 was a strong year but FY 2008 is off to a difficult start due to turmoil in the capital markets. Our overall strategy is a diversified portfolio. Widening of risk in the market gives us an opportunity going forward. The pool of limited term assets is well within our parameters. August results, to be finalized next week are expected to be slightly worse than July 2007, since the portfolio balance was at a cyclical low in July. The Strategic Policy line for FY 2007 was \$120 million; this has been moved to a new policy line of \$105 million for FY 2008. Mr. Gower reported that through the monthly cash flow monitoring that we are much more in tune with cash flows.

### **Vice President's Report**

Mr. Gower reported that the Audit Committee met yesterday and reviewed the status of the FY 2007 audit and that we were on track for the Committee to review the financial statements at a planned December 14 meeting. Since the update of the Strategic Financial Plan is based on the most recent audited numbers, we will not be on the normal November timeline for the plan update. He will discuss with Chair McAneny a review of the timeline, with a SFP update expected to be provided at a possible January meeting.

### **Other Business**

Chair McAneny passed out meeting assessment forms with a request for members to be sure to complete.

### **Adjournment**

There being no further business, the meeting was adjourned at 3:57 p.m.

Respectfully submitted,

Debbie McAneny, Chair