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 Monday, April 14, 2008 at 8:30 a.m., 427A Waterman Building.

MEMBERS PRESENT: Chair Debbie McAneny, Co-Vice Chair Robert Cioffi*, Edwin Amidon Jr., Bill Botzow, Ian Boyce, Harry Chen, John Hilton Jr.*, Susan Hudson-Wilson*

REPRESENTATIVES PRESENT: Faculty Representatives Albert Joy and Bud Myers, Staff Representatives Rodman Corey, and Student Representative Kevin Issadore attending for Harry Mallory

ABSENT: Co-Vice Chair Robert Young, Trustees Jeffrey Davis and Johannah Donovan, President Daniel Fogel, Alumni Representatives Meg Guzewicz, and Walt Blasberg, Staff Representative Kit Ardell, Student Representative Sarah Shackett

OTHER TRUSTEES PRESENT: Board Vice Chair Frank Cioffi

PERSONS ALSO PARTICIPATING**:** Senior Vice President/Provost John Hughes, Associate Provost Jane Knodell, Associate Vice President for Budget and Resource Management Ted Winfield, Director of Capital Planning Management Robert Vaughn, Assistant Dean for Dean of Student's Office Dennis DePaul, Administrative Coordinator for Capital Planning Management Michelle Mullarkey, Chris Cowen*, Prager, Sealy & Co., LLC

* by means of conference telephone.

Chair McAneny called the meeting to order at 8:37 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the February 22, 2008 meeting.

FY 2009 Budget Parameters

Provost Hughes described the process by which the budget was developed. He has initiated a University-wide budgeting process with the assistance of the Fiscal Priorities Committee. Deans and Vice Presidents presented an overview of their unit goals and priorities and defined their strategic priorities. In an effort to reduce costs, he challenged leaders across the University to identify a 1% recovery of base budget expenses that can be stopped or modified. These base budget reductions free up funds and allow for reallocation to more critical strategic investments. The magnitude of this 1% recovery is $2.0M of expense savings which is an important component of the FY 2009 budget. FY 2009 requests from the complete budget process totaled over $30M. Overall, he expressed that the FY 2009 outlook is exceptional in the face of what universities across the country are experiencing as higher education budgets are reduced. The FY 2009 general fund budget is $270.9M which is an 8%

growth representing a $20M increase over the current FY 2008 budget. $18M of this growth must go to salary and benefit cost increases directly linked to current employees and current operations. As part of the FY 2009 budget, $4.0M has been identified as recovery, including the 1% from each unit, along with salary savings from retirements and selected unused budgets. In total, the $2.0M of revenue growth (the remainder from the total of $20M after recognizing current cost increases of $18.0M) and the $4.0M of recoveries creates $6.0M to apply to the complete range of strategic investments. In all this is 2.2% of the general fund budget. In addition, $5.5M has been identified as one time resources needed. This will be secured through current year and/or FY 2009 surpluses in the general fund. Together the overall budget continues to grow at a strong pace. It covers current operations and makes available $6.0M of base budget increases together with $5.5M of one time expenses for a total of $11.5M toward the total $30M that was identified during the budgeting process.

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. These included: a history of the University's general fund budgets, state appropriations, and headcount enrollments by unit by student level. He reminded the Committee that the growth of undergraduate students is a major driver in the budget. Further, there was a review of sponsored program awards, full time head count of faculty 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. Associate Vice President Winfield noted that the cost of healthcare is the major driver in the increased compensation rate. In looking at total compensation, healthcare costs have driven the benefit portion of total compensation at a faster rate than the payroll portion. He also pointed out that these expenses are the general fund portion. The general fund covers 55% of salaries and benefits. The other 45% is accounted for by income/expense activities and restricted funds. These are examples of underlying factors that drive the critical elements of the budget.

Associate Vice President Winfield then turned to a line item review of the proposed FY 2009 budget, which includes the following budgeting parameters:

Major Revenue Planning Parameters:
TOTAL REVENUE PROJECTED = $270.9 million

- state appropriation = 2.5% increase (the university request is 8%, plus a $2,000,000 supplemental appropriation)
- tuition rates = 6.0% increase (total tuition: $11,048 VT, $27,886 O/S)
- undergraduate student financial aid = 9.2% increase
- undergraduate enrollment of 9,325 (3,250 Vermont & 6,075 out-of state)
- facilities and administration cost reimbursement = 2% increase
- unrestricted endowment = 22% increase
- short-term investment income = 5.0% increase
- unrestricted giving = 15% increase

Major Expenditure Planning Parameters:
TOTAL EXPENSE PROJECTED = $270.9 million

- general fund compensation (salary and benefits) increase = 5.3% (benefit rate of 40.2%); includes increases for graduate teaching stipends

- contingency = 5.0% increase
- library acquisitions = 6.0% increase
- operating and equipment budgets = 2% increase
- telephone line and equipment expense = 2% increase
- facilities related budgets = $3.76m increase in energy budgets, new facilities maintenance, facilities renewal and plant improvements (deferred maintenance), and rental expense
- capital debt service = $3.7m increase for internal budgeting of capital project repayment

The meeting was then opened up for questions. There was a discussion of the elements of changes to financial aid. Several Trustees mentioned the importance of understanding the role and required scale of financial aid both to support strong enrollment and as a growing element in the budget. Trustee Chen asked that a summary of the key elements of aid, along with student indebtedness, be available as a part of tuition and fee decision making. Trustee Botzow added that both aggregate and more focused data showing the range of aid available to sub-groups of students was important.

Trustee Botzow called attention to the research facilities and administrative cost reimbursement (F&A) figure and the significance of that in respect to overall revenue. He asked if graduate student enrollment growth would also increase the F&A recovery. He was concerned that this figure would decrease with an overall decrease in graduate student growth. Associate Vice President Winfield responded that there is a push/pull associated with the graduate student growth and direct link to the F&A recovery. He pointed out that it is difficult to define the cause and effect clearly. Grants that receive F&A recovery will provide funds for graduate students; however an increase in graduate students could also provide increased grants. Trustee Botzow remarked that he feels the F&A recovery is the most dynamic driver of revenue and he would like to pay more attention to it in the future.

Chair McAneny asked about staffing benchmarking and the relative mix of faculty and staff positions. Provost Hughes responded that the University is currently at a 15:1 ratio with the goal being a 16:1 ratio. He pointed out that this is very low compared to other public institutions, and can be seen as a comparative advantage which he referred to as the "Human Scale of the University of Vermont". Trustee Boyce asked about other relevant operating benchmarks including staffing ratios and average cost per student. There was agreement that assessment of this data would be useful.

The Committee recognized that additional discussion might need to take place about how changes in the use of contingency funds are defined and at what level the contingency should be budgeted for. Chair McAneny asked if the contingency budget should be expanded when the majority in the economy is cutting back. Associate Vice President Winfield responded that it is possible to expand the contingency funds, but it would cut into strategic investments. He added that this should be a longer term goal that the University could begin to work on now. Chair McAneny stated the University must begin to think strategically now for when the volume of students will level off in the future. She further stated that there should be thought given to creating an emergency contingency used only for unexpected events, and that the original contingency would be used for strategic purposes. Co-Chair Cioffi seconded Chair McAneny's view. When the volume of students begins to level off he wants a plan to offset the decrease in tuition dollars. He noted the importance of keeping the quality of our student base high, and not sacrificing that due to an economic downturn.

The Committee agreed that there had been an effective discussion of the elements of the FY 2009 budget. The FY 2009 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. Overall, maximum student costs would increase 6.5% ($1,300) for Vermont students and 6.3% ($2,254) for out of state students. The tuition levels support the overall general fund budget that was just discussed. Associate Vice President Winfield reviewed the increase of $164 to the Comprehensive Student Fee. The increase represents the result of both inflation and enhancements to existing components. Additionally, two new fees are included. The Clean Energy Fund is a new fee initiated by the Student Campus Energy sector of the Student Government Association (SGA) to finance new clean energy projects on campus. The second new fee will prove support to Academic Support Programs which provides resources to all undergraduate students through learning skills, subject area tutoring, supplemental instruction, and access to the Writing Center. Currently, students are charged on a direct fee basis for tutoring support. Student's success at the University will be improved through greater accessibility to these services.

Chair McAneny raised concern that the Clean Energy Fund was setting a precedent for any student group to come forward with a fee they deemed important or necessary. She wanted to ensure that there was a clear process for how a student fee was set up and also for how it was to be used. Director of Capital Planning Management Robert Vaughn explained that the students went before the Faculty Senate, Administration and the SGA to obtain endorsement. Trustee Botzow asked if students were given the opportunity to say no to this fee or if all students were in agreement. Associate Vice President Winfield responded that SGA doesn't speak for every student, however they are the representative body expected to channel the student's majority interest. Faculty Representative Joy agreed that the student body should determine what the fees are and they should have control over them. He did however agree with Chair McAneny that a clean and articulated process needs to be involved. Student Representative Kevin Issadore mentioned that he was unaware how this fee bypassed the SGA assessment fee. He proposed that the Clean Energy Fund should be an addition to the SGA assessment fee, rather than a separate fee to be approved by the Board. He stated that the Clean Energy Fund may be a priority of the current student body but not in the interest of future ones. If it were to be a part of the assessment fee, future SGA members could reallocate those dollars to more critical concerns of that time.

Trustee Botzow then asked what percent of students would benefit from the proposed Academic Support Program fee. Assistant Dean for the Dean of Student's Office Dennis Depaul responded that currently one-third of the student body utilizes this tutoring service. It is a fee for service, therefore only students that can afford the service have access to it. With the cost of tuition covered by the fee, the service use will increase and likely provide assistance to more than 50% or 60% of the student population. Trustee Chen asked why this fee wasn't covered by tuition dollars, rather than a separate fee. Associate Vice President Winfield responded that using tuition dollars was a possibility; however including a component in the comprehensive fee extends the charge concept that has been in place while spreading it over the base of all students. Assistant Dean Depaul mentioned that there is a stigma associated with tutoring amongst the student body. Implementing a fee for this service should diminish this stigma. If students recognize that they are paying a fee for this service, they are more apt to use it.

Chair McAneny summarized the discussion by stating that the Administration must bring forward a process for student recommended fees, and have really thought out the implications this may cause.

Associate Vice President Winfield agreed and stated there would be a more organized focus on both fees brought to the Board in May, along with a more in depth background.

- **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. The Committee was in agreement in continuing to use the 5.5% rate.

Swap Subcommittee Update

Chris Cowen from Prager Sealy updated the Committee on the progress toward establishing a forward swap as discussed at the February meeting. Last year about this time the University evaluated undertaking a swap in association with the 2007 Bond; however the rates were not particularly attractive so the decision was made not to enter into the swap contract at that time. Given the capital projects that have been approved by the Board the University is expecting to borrow approximately $90 million in the next few years using the Commercial Paper Program in the interim. There is exposure to changes in interest rates so it is desirable to enter into a hedge in the current market. The chart on page two, Attachment 8-c, shows that hedging rates, using Interest Rate Swaps, have come down by about 80 bps since last June. Today's interest rate is 3.29%. If we delay the start of the hedge to the expected bond issuance date that could increase the underlying rate. Expected future issuance may be hedged with a forward starting swap. The start date could be moved forward until we expect to borrow long term. Entering into a swap contract is more compelling in the current climate.

The recommendation is that the BFI subcommittee be authorized to work with management and the University's financial advisor to competitively bid on an interest rate hedge in an amount of $92 million to hedge interest rate exposure with respect to the expected future issuance of tax exempt commercial paper or bonds. In 2007, the University began negotiating swap documents with five banks. Three counterparties, UBS, Morgan Stanley, and Bank of New York, have executed swap documents and are thus in a position to immediately execute a swap. The other two counterparty agreements, for JP Morgan and Citibank, have minor changes before the approval can be complete. Choosing counterparties have been difficult, some are on negative outlook from rating agencies. The resolution enables management to negotiate bids with all counterparties or a subset thereof. Even if a counterparty is in the resolution, management could remove them from the bidding group (i.e.) to diversify exposure if at some point we already have a swap outstanding with a particular counterparty.

The Committee asked Associate Vice President Ted Winfield to work with Eileen Heitzler from Orrick, Herrington & Sutcliffe, LLP and Chris Cower from Prager Sealy in rewriting the two Interest Rate Exchange Agreement resolutions using clear wording. The Committee had a lengthy discussion regarding wording and formats, and processes that need to be in sync for both resolutions. A motion to approve the Interest Rate Exchange Agreement resolutions with clarified language were brought forward and unanimously approved with the necessary changes (see resolutions appended to the minutes).

Socially Responsible Investing Work Group (SRIWG) Update

Associate VP Ted Winfield presented a brief overview on the SRIWG meeting held on April 10, 2008. John Snow and Jeffrey Davis met with students who presented recommendations for proxy voting in favor of climate related resolutions and protocol of how that would function. The students brought forward a sample proxy voting guideline that was unanimously approved with the stipulation that it be reframed and brought back to the BFI for approval before moving on to the Full Board. No action was needed at this time.

Adjournment

There being no further business, the meeting was adjourned at 12:00 p.m.

Respectfully submitted,

Debbie McAneny, Chair