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, December 5, 2008 at 10:45 a.m., in the Silver Maple Ballroom, 401 Dudley H. Davis Center.

MEMBERS PRESENT**:** Chair Debbie McAneny, Co-Vice Chairs Robert Cioffi and Robert Young, Edwin Amidon Jr., Samuel Bain, Bill Botzow, Harry Chen, Jason DePatie, Daniel Fogel, John Hilton Jr., Susan Hudson-Wilson, Bill Ruprecht, John Snow, and Donna Sweaney

REPRESENTATIVES PRESENT**:** Faculty Representatives Albert Joy and Bud Meyers, Alumni Representative Meg Guzewicz, Staff Representatives Kit Ardell and Rodman Cory, and Student Representatives Ben Porter and Kevin Issadore

ABSENT: Alumni Representative Walt Blasberg

OTHER TRUSTEES PRESENT: Board Chair Ian Boyce and Board Vice Chair Frank Cioffi

PERSONS ALSO PARTICIPATING**:** Interim Vice President for Finance and Administration Richard Cate, Associate Vice President for Budget and Resource Management Ted Winfield, Bets Kent* and LeRoy Bantley,* Cambridge Associates, and Chris Cowen,* Prager, Sealy & Co., LLC

*by means of conference telephone

Chair Debbie McAneny called the meeting to order at 11:03 a.m.

Approval of Minutes

A motion was made, seconded, and voted to approve the minutes of the September 4th, 2008 meeting.

Report of the Investment Subcommittee

Long Term Investment Pool, Performance and Manager Review

Robert Cioffi, Chair of the Investment Subcommittee, gave the Committee a brief overview of Long-Term Investment Pool allocation performance for quarter ended September 30th, 2008. The long-term pool was down 12% in the third quarter, down 15.2% calendar year-to-date, and 14% on a trailing one year basis. Despite the negative returns, the long-term pool beat the most relevant index (CA Endowment Median) by 80 basis points and 100 basis points for the trailing one year. The S&P was down 22% during the same trailing one-year period. The

University's diversification across asset classes helped the portfolio. The Investment Subcommittee has rescheduled its annual asset allocation and rebalancing meeting, normally held in June, to January 2009 due to the current market conditions.

Ms. Kent commented that Cambridge anticipates a rebound; historically, market rallies have happened even during tough economic times. The focus in the near future is to (1) raise liquidity for meeting endowment spending policy needs and private equity capital calls, and (2) asset allocation and portfolio rebalancing. Ms Kent stated we should take advantage of others who need to sell as we are in a better position – it's a great opportunity for us in private equity. During 2009, Cambridge will be looking at the secondary market for private equities. Trustee Bain commented that the December quarter will yield worse results than the September quarter-end. At his request, Ms. Kent commented on Cambridge's outlook of the market by stating that opportunity sets have broadened, the waterfall effect of selling has run its course and that the market will look up even as the economy declines.

Chair Cioffi brought forward two housekeeping resolutions; Signatory Authority for Endowment Funds and Other Invested Funds and Signature Authority for Proxy Voting on Shareholder Resolutions, to the Budget, Finance, and Investment Committee for approval. Both resolutions were approved unanimously by the Committee for recommendation to the full Board.

Signatory Authority – Endowment Funds and Other Invested Funds

WHEREAS, the Board bears fiduciary responsibility for the University's Endowment Funds and other invested funds such as Long Term Investment Pool, the Consolidated Endowment Funds, The University of Vermont Trust, certain Separately Invested Endowment funds, certain Charitable Trusts, and the Pooled Income Fund; and

WHEREAS, from time to time documents relating to securities transfers, purchases and sales require execution in connection with the operation of these funds;

BE IT RESOLVED, that the President, Senior Vice President and Provost, Vice President for Finance and Administration and Treasurer, Controller, and Assistant Controller for Tax and Treasury Services, or any officer holding any of the above positions on an interim basis, singly is authorized to execute any and all instruments required for the operation of the Endowment Funds and other invested funds.

This resolution supersedes all previous authorizations.

Signatory Authority – Proxy Votes on Shareholder Resolutions

BE IT RESOLVED, that, when offered shareholder resolutions, the University's Vice President for Finance and Administration and Treasurer, Controller, Senior Accountant, or Endowment Accountant shall commit proxy votes of the University in accord with specific

> guidelines approved by the Investment Subcommittee of the Budget, Finance, and Investment Committee of the Board of Trustee.
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> BE IT FURTHER RESOLVED that, in the absence of specific guidelines, except for matters of routine corporate business the Vice President for Finance and Administration and Treasurer, Controller, Senior Accountant, or Endowment Accountant shall cast an abstaining vote.
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> BE IT FURTHER RESOLVED, that, in the absence of specific guidelines, the Socially Responsible Investing Work Group may study issues presented by shareholder resolutions and develop recommendations for the Investment Subcommittee.
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> This resolution supersedes all previous authorizations.

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 gifts in the amount of $5,990,487 for the period July 1, 2008, through September 30, 2008, and grants and contracts in the amount of $50,401,697 for the period July 1, 2008, through September 30, 2008.

FY 2010 State Capital Appropriation Request

The FY 2010 State Capital Appropriation request was brought before the Committee for approval. There was a short discussion on the potential impact of a federal economic stimulus package on levels of appropriation. The resolution to authorize the President to request $3.2 million from the Governor and Legislature of the State of Vermont toward construction, renovation, and major facility maintenance was approved unanimously by the Committee for recommendation to the Full Board.

State Capital Appropriation Request - Fiscal Year 2010

> RESOLVED, that the President be and is hereby authorized to request $3.2 million from the Governor and Legislature of the State of Vermont toward construction, renovation, and major facility maintenance in advancement of the mission of the University of Vermont.

Review of Treasury Operations

Interim Vice President Cate began with an overview of the current internal budgeting practice for debt service. University budgets currently contribute toward external debt payment obligations on a consistent basis using a blended interest rate and shorter repayment schedule than the underlying long-term debt. The result has been to begin creation of a fund balance to use as the basis for future capital needs. In light of current operating budget challenges, this practice is not practical for the next few fiscal years. An alternate approach that lowers internal contributions would relieve budgetary pressures while at the same time, assures that all external debt obligations are fully covered by the operating budget. The Committee discussed the underlying principles that led to the creation of the existing debt policy. Trustee Snow gave an explanation of the debt portfolio structure, noting that the most important concept was to optimize cost savings on a long-term basis. De-linking external and internal debt structures within the portfolio optimized lending rates, took advantage of optimal market structures, and ensured internal discipline. He added that maintaining the portfolio concept was important even if for some period of time internal to external payments are matched. In order to maintain some reserve, he suggested retaining the flexibility to collect internal payments at a faster rate than external debt obligations. Interim Vice President Cate responded that a reserve would continue to accumulate but not at the magnitude of the current structure. Periodic reports on the result of the amended practice will be provided to the Committee.

The Committee next discussed a proposed resolution authorizing the Treasurer to build and maintain an alternate internal debt service payment structure. Chair McAneny questioned whether the resolution was necessary. It was her understanding that the current debt policy gave the Treasurer authority to adjust the internal repayment schedule as appropriate. She added that the Board is required to approve changes to the blended interest rate, currently 5.50%. Included in the blended rate is a 50 basis point (bps) spread that covers administrative fees and creates an interest rate buffer to absorb rate shifts over time. The Committee discussed whether the 50 bps spread should be reduced. Trustee Snow stated that before a change is considered, he would like to see the rationale as to why a 50 bps spread is no longer appropriate.

At 12:30 p.m. the Budget, Finance and Investment Committee recessed. The Committee reconvened at 1:39 p.m. with a continuation of the Treasury Operations discussion. Chair McAneny confirmed for the Committee that the Treasurer has the authority to adjust the internal repayment schedule; therefore, a resolution wasn’t necessary. She added that a review of the blended rate and a discussion of the bps and differential will take place at a future meeting.

Interim Vice President Cate next introduced a resolution authorizing the transfer of funds from Treasury Operations, previously classified as a loan, to meet FY 2009 budgetary obligations without repayment. The resolution was approved unanimously by the Committee for recommendation to the full Board.

Internal Usage Authorization – Treasury Operations

WHEREAS, on September 5, 2008, the Board adopted a resolution authorizing the University to borrow and repay up to $5 million from the University’s own Treasury Operations; and

> WHEREAS, a reassessment of the University's present budgetary needs demonstrates that the obligation to repay those funds may no longer be appropriate or prudent;
>
> THEREFORE BE IT RESOLVED, that if funds from Treasury Operations authorized on September 5, 2008, are required to meet FY 2009 budgetary obligations, those funds may be so utilized and need not be repaid to Treasury Operations as previously required.

Chair McAneny also acknowledged that the budget plan for FY 2010 – FY 2012 discussed by President Fogel and Interim Vice President Cate at the Committee of the Whole included assumptions that portions of the current Treasury Operations fund balance may be needed to balance the budget in FY 2010 and FY 2011. The Committee understands that such use may be needed, that planning can proceed with that possible use in mind, but that authorization for the specific use of the fund balance will need to be presented as part of the specific FY 2010 approved requests that the Board will act on.

Annual Review of Debt Policy

The debt policy, adopted in September 2004, prescribes that the policy will be reviewed on an annual basis and changed or revised as deemed appropriate. The Committee was asked to endorse the current debt ratio standards in the debt policy. A resolution to endorse the current debt policy was approved unanimously by the Committee for recommendation to the full Board.

> **Annual Review of Debt Policy**
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> WHEREAS, in September 2004 the Board adopted a Debt Policy to guide the portfolio management of debt, which it updated most recently in November 2007; and
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> WHEREAS, the Debt Subcommittee of the Finance and Budget Committee was charged with the regular review of the Debt Policy;
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> NOW, THERFORE, BE IT RESOLVED, that the Board hereby approves the Debt Policy as shown in Attachment 6.

Summer Session Tuition Rates

The proposal for summer 2009 is to increase the per credit hour cost by 6.0% above summer 2008. This increase will continue the 15% differential between summer credit hour cost and the balance of the year. The resolution to increase summer session tuition rates by 6.0% for Vermont and out-of-state students was approved unanimously by the Committee for recommendation to the Full Board.

Summer Session Tuition Rates

RESOLVED, that the Board of Trustees hereby approves the change in tuition for the Summer Session from $369 to $391 per credit hour for in-state students and from $931 to $987 per credit hour for out-of-state students. The changes are to become effective with the 2009 Summer Session.

Reallocation of Funds for Delehanty Hall Laboratories

A proposal was made to reallocate $152,000 of existing funds from the project "Research Lab Renovations" to renovate two laboratories in Delehanty Hall. The $1.5 million project was approved by the Board in May 2007 for laboratories in Votey, Cook Science, and Farrell Hall. The following resolution was approved unanimously by the Committee for recommendation to the Full Board.

Reallocation of Funds for Delehanty Hall Laboratories

WHEREAS, at its May 2007 meeting the Board approved an allocation of $1,500,000 for the renovation of research laboratories in Votey, Cook Science, and Farrell for the College of Engineering and Mathematical Sciences, the Department of Chemistry, and the combined needs of the National University Transportation Center and the Vermont Advanced Computing Center; and

WHEREAS, the Geology Department requires additional laboratory renovations in Delehanty Hall; and

WHEREAS, previously allocated funds in the amount of $152,000 remain available and are adequate for this additional work;

NOW, THEREFORE, BE IT RESOLVED, that the Vice President for Finance and Administration and University Treasurer, or his successor or designee, is hereby authorized to reallocate the $152,000 that remains from the Research Lab Renovations project approved on May 18, 2007, and to increase that project's scope of work to include the Delehanty Hall lab renovations; 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.

Approval of Appointment of Senior Managing Underwriters

Interim Vice President Cate reviewed the background and process through which the University's selection committee came to the recommendation of (1) appointing Citigroup

Global Markets Inc. and J.P. Morgan Securities Inc. as senior managing underwriters in connection with the issuance of the University bonds, and (2) appointing J.P. Morgan as an additional dealer for the Notes for the University. The University went through an extensive search for another underwriter besides Citi and four entities were selected for consideration. Trustee Hilton asked if Goldman Sachs responded to the request for proposal (RFP) and Interim Vice President Cate responded that they had not.

The resolution for Appointment of Senior Managing Underwriters and the First Supplemental Resolution to Commercial Paper Note Resolution were both approved by the Committee for recommendation to the full Board (13-1). Trustee Botzow abstained from the vote.

Appointment of Senior Managing Underwriters

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

WHEREAS, in connection with the Commercial Paper Program, the University appointed Citigroup Global Markets Inc. as dealer under the CP Resolution and executed and delivered a dealer agreement between the University and Citigroup Global Markets Inc.;

WHEREAS, the University desires to add J. P. Morgan Securities Inc. as an additional dealer under the CP Resolution and to execute and deliver a dealer agreement (the "J.P. Morgan Dealer Agreement") between the University and J.P. Morgan Securities Inc.;

WHEREAS, a copy of the form of the J.P. Morgan Dealer Agreement has been filed with the University;

WHEREAS, the University desires to amend the documents executed, delivered or prepared in connection with the Commercial Paper Program to reflect the appointment of J.P. Morgan Securities Inc. as an additional dealer;

WHEREAS, in connection with the sale of notes under the Commercial Paper Program (the "Notes"), an Offering Memorandum will be prepared that will present information about the University, the terms of the Notes, and the security for the Notes, among other things; and

WHEREAS, the University desires to appoint Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. as senior managing underwriters in connection with the issuance of the University's bonds;.

NOW THEREFORE, BE IT RESOLVED AS FOLLOWS:

Section 1. Appointment of J.P. Morgan Securities Inc. as an additional dealer. The Board hereby authorizes the appointment of J.P. Morgan Securities Inc. as an additional dealer for the Notes under the CP Resolution.
Section 2. Actions Effecting Appointment. Any Officer of the Board, the President, the Senior Vice President and Provost, the Vice President for Finance and Administration and Treasurer, the Controller, and the Associate Vice President for Budget and Resource Management, or their successors (each an "Authorized Officer"), is each hereby authorized to take such actions as may be necessary or desirable to effect the appointment of J.P. Morgan Securities Inc. as an additional dealer for the Notes under the CP Resolution.

Section 3. Form of Dealer Agreement. The form of the agreement between the University and J.P. Morgan Securities Inc., as presented at this meeting, is hereby approved (including the fee to be paid to J.P. Morgan Securities Inc. set forth in the agreement); and each Authorized Officer is hereby authorized to execute the agreement in the name and on behalf of the University, substantially in such form and with such changes, insertions and omissions as may be approved by that Authorized Officer, the execution being conclusive evidence of approval.

Section 4. Other Documents. The Board hereby authorizes any Authorized Officer of the University to amend any document executed, delivered, or prepared in connection with the Commercial Paper Program to reflect the appointment of J.P. Morgan Securities Inc. as an additional dealer under the CP Resolution.

Section 5. Offering Memorandum. The Board hereby approves the inclusion of information about the University in the Offering Memorandum consistent with the information in the last official statement or continuing disclosure filing prepared in connection with the University's bonds with such changes, modifications, additions or deletions therein as shall seem necessary, desirable or appropriate to an Authorized Officer and authorizes the use by the dealers of that information in connection with the offering and sale of the Notes.

Section 6. Appointment of Underwriters. The Board hereby appoints Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. as senior managing underwriters in connection with the issuance of the University's bonds.

Section 7. Actions of Officers. Each Authorized Officer is hereby authorized, empowered and directed to do any and all other acts and to execute any and all other documents that they, in their discretion, deem necessary and appropriate to consummate the transactions contemplated by (i) this Resolution and (ii) the J.P. Morgan Dealer Agreement; except that none of the above shall be authorized or empowered to do anything or execute any document that is in contravention, in any way, of (a) the specific provisions of this Resolution, (b) the J.P. Morgan Dealer Agreement, (c) any agreement to which the University is bound, (d) any rule or regulation of the University or (e) any applicable law, statute, ordinance, rule or regulation of the United States of America or the State of Vermont.

Section 8. Severability of Invalid Provisions. If any one or more of the agreements or provisions herein contained shall be held contrary to any express provision of law or contrary to the policy of express law, though not expressly prohibited, or shall be determined to be against public policy, or shall for any reason whatsoever be held invalid, then those covenants, agreements, or provisions shall be null and void and shall be deemed separable from the remaining agreements and provisions and shall in no way affect the validity of any of the other agreements and provisions hereof or of the J.P. Morgan Dealer Agreement authorized hereunder.

Section 9. Conflicting Provisions. All resolutions or parts thereof of the Board in conflict with the provisions herein contained are, to the extent of the conflict, hereby superseded and repealed.

Section 10. Effective Date. This Resolution shall take effect upon its adoption.

First Supplemental Resolution to Commercial Paper Note Resolution

BE IT RESOLVED by **THE UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE** (the “University”), as follows:

ARTICLE I.

Authority for First Supplemental Resolution

SECTION 1.01. First Supplemental Resolution. This First Supplemental Resolution is supplemental to, and constitutes a Supplemental Resolution within the meaning of and is adopted in accordance with Articles VII and VIII of, the resolution adopted by the University on November 13, 2004, entitled “THE UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE COMMERCIAL PAPER NOTE RESOLUTION ADOPTED NOVEMBER 13, 2004, A RESOLUTION AUTHORIZING THE ISSUANCE BY THE UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE OF ITS SHORTTERM PROMISSORY NOTES; PROVIDING FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON SUCH NOTES; AND PROVIDING FOR THE RIGHTS OF THE HOLDERS THEREOF,” referred to herein as the “Resolution.”

SECTION 1.02. Authority for the First Supplemental Resolution. This First Supplemental Resolution is adopted pursuant to the provisions of the Resolution.

ARTICLE II.

Definitions

SECTION 2.01. Definitions. All terms not defined herein which are defined in Section 1.01 of the Resolution shall have the same meanings, respectively, in this First Supplemental Resolution as such terms are given in said Section 1.01 of the Resolution. In addition, as used in this First Supplemental Resolution, unless the context shall otherwise require, the term **"First Supplemental Resolution"** means this First Supplemental Resolution, adopted __________, 2008

ARTICLE III. Amendment of Resolution

SECTION 3.01. Amendment of Certain Definitions. The following definitions are hereby amended and restated to read as follows:

Dealer Agreement means an agreement by and between the University and a Dealer providing for the appointment of and acceptance by that Dealer of the duties and obligations imposed thereby, as the same shall have been amended, supplemented or otherwise modified as permitted thereby.

Dealer means Citigroup Global Markets Inc., J. P. Morgan Securities Inc. and any of their successors or assigns permitted under their respective Dealer Agreements or any other dealer for the Notes which may at any time be added or substituted by the University.

Dealer means Citigroup Global Markets Inc., J. P. Morgan Securities Inc. and any of their successors or assigns permitted under their respective Dealer Agreements or any other dealer for the Notes which may at any time be added or substituted by the University.

ARTICLE IV.

Miscellaneous

SECTION 4.01. When Effective. This First Supplemental Resolution shall become effective immediately on the date, subsequent to this date of adoption, that no Notes of like maturity remain Outstanding under the Resolution, and the filing with the Issuing and Paying Agent of a copy of this First Supplemental Resolution, accompanied by an opinion of Bond Counsel stating that this First Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the Resolution, is authorized or permitted thereby and is valid and binding upon the University and enforceable in accordance with its terms.

Follow-Up of FY 2010 Budget Planning in Challenging Times

At the morning's Committee of the Whole, President Fogel led a discussion updating the Board on the status of the FY 2010 budget, including current revenue and expenditure projections and the efforts under way to address the FY 2010 budget gap in alignment with the values and principles formulated by the President in consultation with a group of strategic budget advisers convened in mid-November. A brief discussion occurred regarding the FY 2010 budget challenges. It was noted that for the February meeting, Board members would like to review current University reserves and possible uses for those reserves.

Vice President's Report

Interim Vice President Cate referenced the previously distributed report detailing the following topics on financial matters to be read at the Committee's convenience:

- Status of Commercial Paper
- Commonfund Update
- Strategic Financial Plan Progress
- Update on Management's response to the Deloitte Report
- Financial Management Operations Manual
- Report on Reserve Funds
- Highlights of KPMG Audit
- GASB 45
- FY 2009 Budget Status – 1st Quarter Year to Date (additional handout was distributed)

Other Business

Interim Vice President Cate explained that the viability ratio was exceeded as of October due to the market's actions. A handout was provided to the Committee for reference. The viability ratio policy limit is 0.80. At the end of October, the ratio of expendable net assets to total long-term debt was 0.66. The debt policy does not address measures to be taken when policy limits are exceeded. He noted that in the current state of the market, further deterioration of the ratio is expected. He also confirmed for Trustee Bain that the Commonfund investments are included in the net assets. Trustee Snow stated that the University should not incur any more debt until there is a proposal to restore the viability ratio. Chair McAneny responded that the Board will be asked in February to approve funding for capital projects underway, which reduces the viability ratio to 0.55. Interim Vice President Cate added that the resolution coming forward for $80 million in long-term bonding is for project costs currently funded by commercial paper, of which $25 million is outstanding.

Interim Vice President Cate requested permission to put forth an RFP for developer proposals for residential housing on Redstone campus with third-party lease-back provision giving University control over operations. The Committee supported initiating the RFP process, urging that it be a national, inclusive RFP, and that impact, or lack thereof, on debt ratios needs to be confirmed.

Adjournment

There being no further business, the meeting was adjourned at 2:37 p.m.

Respectfully submitted,

Debbie McAneny, Chair