

**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, February 22, 2008 at 1:00 p.m., in the Sugar Maple Ballroom at the Davis Center.

MEMBERS PRESENT: Chair Debbie McAneny, Co-Vice Chairs Robert Cioffi and Robert Young, Edwin Amidon Jr., Bill Botzow, Ian Boyce, Harry Chen, Jeffrey Davis, Johannah Donovan., Daniel Fogel, John Hilton Jr., and Stirling Winder

REPRESENTATIVES PRESENT: Alumni Representatives Walt Blasberg and Meg Guzewicz, Faculty Representatives Albert Joy and Bud Meyers, and Student Representatives Sarah Shackett and Harry Mallory

ABSENT: Trustee Susan Hudson-Wilson and Staff Representatives Joan Kieran and Diane Trono

OTHER TRUSTEES PRESENT: Board Chair Carl Lisman, Board Vice Chair Frank Cioffi, Claire Ayer, James Betts, Martha Heath, John Snow, Donna Sweaney, and Jeanette White

PERSONS ALSO PARTICIPATING: Vice President for Finance and Administration J. Michael Gower, Associate Vice President for Budget and Resource Management Ted Winfield, Director of Capital Planning Management Robert Vaughan, Senior Vice President and Provost John M. Hughes, Vice President for Student and Campus Life Thomas Gustafson, Chris Cowen* and Linda Fan* from Prager, Sealy & Co.

*by means of conference telephone

Chair Debbie McAneny called the meeting to order at 1:09 p.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the November 30, 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 \$16,460,348 for the period October 1, 2007, through December 31, 2007 and gifts in the amount of \$7,918,398 for the period October 1, 2007, through December 31, 2007.

Vice President's Report

Vice President Gower reviewed the FY 2008 general fund budget projection. Attachment 1 of this report shows the budget projection for the current fiscal year as of February 19, 2008, which includes significant variances to general fund revenue and expense items, funds available to the Provost for "one time" investments, and other significant impacts on the University's budgeted "bottom line." The bulk of the strategic budget allocations deal with funding for faculty start-up, costs to address unplanned enrollment, and contractual commitments for deans to address programmatic goals for a total of \$4.7 million. Vice President Gower concluded that we are just about on budget and doing well on energy costs.

A considerable amount of time and effort has been spent addressing the budget assumptions for FY 2009 since the meeting executive summary was written. Reviewing commitments will take place next week with each dean and vice president as part of the detailed budget preparation. A balanced budget will be brought to the annual special meeting of the Committee on April 14, 2008.

Attachment 2 of this report shows the unaudited Statement of Net Assets (SNA) and Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA) for debt management activities of Treasury Operations through December 2007. Currently the net assets (\$7M at the end of December) are reserved for future scheduled bond payments. These assets earn income from the Limited Term Investment Pool. Vice President Gower will be speaking with the Investment Subcommittee regarding moving these funds out of the Limited Term Investment Pool to the Long Term Investment Pool. The report also shows activity for the investment of the average \$105-\$110M of working capital from FY 07. This Limited Term pool is comprised of core and contingent layers that our invested into the longer-term part of the portfolio as well as shorter-term vehicles. Investments are monitored monthly using cash flow projections to help avoid liquidity problems. Also included in Attachment 2 are comparable statements for Treasury Operations for FY 2006 and 2007.

A memorandum from Prager, Sealy & Co. regarding our debt portfolio is Attachment 3 of this report. The memo states "...the University of Vermont's current debt portfolio is protected from the vast majority of the credit concerns and rate volatility that are currently spreading through the municipal markets." Two insurers that insure the University's bonds are being watched and one of our insurer's have been downgraded by a third rating agency. The agencies that rate UVM's bonds still have both AMBAC and MBIA as Aaa/AAA. Should either insurer be downgraded by Moody's or S&P, the University would need to file a "material events" notice; however, the University carries none of the credit risk on the fixed rate debt in our portfolio, and there would be no budgetary or cash flow impact to the University if the insurer's ratings decline. The University is in a good position for its commercial paper program, rates are low. There is insured liquidity through Landesbank Hessen (Helaba) with the cost locked in through 2011. President Fogel commented that the State of Vermont is considering identifying "moral obligation" bond

authority to UVM/State Colleges in regard to future bond issues focused on addressing deferred maintenance. Trustee Hilton asked “what kind of shape are we in with our bonds”? Vice President Gower replied that we are in excellent shape for commercial paper, and we are in a very good position because of the conservative way that our bonds are structured.

Report of the Investment Subcommittee

Rob Cioffi, Chair of the Investment Subcommittee, led the Committee through a brief discussion of Long-Term Investment Pool allocations and performance through December 31, 2007. The endowment was up 1.3 % for the quarter and out performed the Cambridge median by 100 bps. For calendar year-to-date the endowment was up 14.1 %, out performing the Cambridge median by 280 bps. He reviewed the flash report for the month ending January 31, noting that the consolidated pool was down 5% for the month alone. Cambridge medians are not yet available for the period, but comparison was made to other benchmarks including S& P which was down 6% and the blended S&P/LB Agg benchmark which was down 4.1%. He reconfirmed that the subcommittee was comfortable with the current asset allocation and that the endowment was invested with a long term view. He reported that the Investment Subcommittee had monthly meetings with Cambridge Associates, and the Investment Subcommittee pushed their asset allocation targets above/below Cambridge’s suggestions. He also reported on recent activities of the Investment Subcommittee. The Committee met in December, focusing on secondary private equity managers. In January the Subcommittee met in New York with several of our hedge fund managers and one of the potential secondary managers. The Subcommittee passed motions to commit \$5 million to Harbourvest Dover VII fund and \$10 million to W Capital Partners. The Subcommittee will meet on February 25th for a focused review of the hedge fund program including consideration of adding additional managers. He noted that at yesterday’s joint meeting of the Investment Subcommittee and the Audit Committee they discussed year-end procedures for fulfilling audit requests for additional information on alternative investments and valuations.

Debt Hedging - Planning

The Committee heard a report from Chris Cowen and Linda Fan, Prager, Sealy & Co., regarding current market conditions. They confirmed that UVM was in an enviable position and was well protected in the current market with all of our bonds fixed and not subject to re-marketing risk inherent in auction rate bonds. Since UVM locked in its agreement through 2011 with Helaba at attractive rates for its liquidity facility for commercial paper, we are also well positioned in that market. Vice President Gower led a discussion regarding potential hedging opportunities and recapped the work already done to position the University to take advantage of them for those capital projects already approved through February 2009 (page 7 of Attachment 3). Chris Cowen noted he does not feel we have to act on the hedging today or tomorrow, but we should be proactive by developing a process and strategy so that we can be poised. A motion was passed to re-institute the *ad hoc* subcommittee created last year to evaluate interest rate swaps with the same members: Rob Cioffi, Ian Boyce, Susan Hudson-Wilson, and Deb McAneny. That subcommittee will review the options and recommend a process for execution to the Committee for considering interest rate hedges.

Capital Project Financial Feasibility Review

The Committee was asked to approve financing for two capital projects totaling \$1.5M in project costs and \$1.583M in net borrowing authority. A brief presentation was provided to the Committee on each project. The projects and net borrowing amounts are:

- Classroom Improvements \$0.528M
- Research Infrastructure Improvements \$1.055M

Director Vaughan clarified that although the research infrastructure improvement projects resolution requests an annual set-aside of \$1M, the Board is voting to approve only one allocation today. The Committee voted unanimously to approve financing of the two capital projects for recommendation to the full Board.

Classroom Improvements Project 2008

WHEREAS, the Educational Programs and Institutional Resources Committee carefully reviewed the program, scope, and preliminary estimate of \$500,000 for the Classroom Improvements Project 2008 (the "Project") at its November 2007 meeting and found it an institutional priority, consistent with the *Strategic Capital Plan* and worthy of further consideration; and,

WHEREAS, the Educational Programs and Institutional Resources Committee endorsed the Project at its November 2007 meeting and remitted it to the Budget, Finance, and Investment Committee for financial review and approval at the February 2008 meeting; 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 the Vice President for Finance and Administration and University Treasurer, or their successors or designees, are hereby authorized to commence the Classroom Improvements Project FY '09 and to execute any and all contracts and documents necessary to undertake the Project at a total cost not to exceed \$500,000;

BE IT FURTHER RESOLVED, that the President and the 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 \$528,000, included in which shall be Costs of Issuance, as that term is defined in the Resolution, in an amount not to exceed \$10,000, and capitalized interest in an amount not to exceed \$18,000; 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 \$528,000 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.

Research Infrastructure Improvement Projects 2008

WHEREAS, the Educational Programs and Institutional Resources Committee carefully reviewed the program, scope, and preliminary estimate of \$1,000,000 for various research infrastructure improvement projects 2008 (the “Project”) at its

November 2007 meeting and found it an institutional priority, consistent with the *Strategic Capital Plan* and worthy of further consideration; and,

WHEREAS, the Educational Programs and Institutional Resources Committee endorsed the Project at its November 2007 meeting and remitted it to the Budget, Finance, and Investment Committee for financial review and approval at the February 2008 meeting; 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 the Vice President for Finance and Administration and University Treasurer, or their successors or designees, are hereby authorized to commence various Research Infrastructure Projects and to execute any and all contracts and documents necessary to undertake the Project at a total cost not to exceed \$1,000,000;

BE IT FURTHER RESOLVED, that the President and the 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 \$1,055,000, included in which shall be Costs of Issuance, as that term is defined in the Resolution, in an amount not to exceed \$20,000, and capitalized interest in an amount not to exceed \$35,000; 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 \$1,055,000 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.

The Board was then asked to approve the reallocation of debt financing to the Residential Learning Center Project. Cost escalations require an approval of the Residential Learning Center's final project to increase from \$60.6M to \$63.6 M. Vice President Gower confirmed that this will have no impact on total debt capacity. The increase will be covered by cost savings from the Living and Learning Residential Complex renovations (\$2.1M), Harris-Millis Dining Hall renovations (\$0.7M), and the Wing-Davis-Wilks Residential Complex renovations (\$0.2M). The Committee voted unanimously to approve the reallocation of debt financing to the Residential Learning Center project, and to reduce the three project budgets named to offset the increased costs, for recommendation to the full Board.

Reallocation of Debt Financing to Residential Learning Center Project

WHEREAS, at its February 2005 meeting the Board increased the Residential Learning Center Project budget to \$60,600,000 due to continuing market-driven changes in the cost of various construction specialties, including mechanical and electrical systems and structural components; and

WHEREAS, subsequent cost escalation necessitates further increasing the final Project budget to \$63,601,216; and,

WHEREAS, at its May 2002 meeting the Board approved the Living and Learning Residential Hall Renovation for \$22,600,000 and the University completed that project at \$20,491,072; and,

WHEREAS, at its February 2005 meeting the Board approved the Harris-Millis Dining Renovation for \$5,000,000 and the University completed that project at \$4,319,353; and,

WHEREAS, at its February 2005 meeting the Board approved the Wing-Davis-Wilks Residential Renovation for \$17,700,000 and it has been determined that that project will be completed at \$17,488,359 following the final sitework during the summer of 2008; and,

WHEREAS, these three previously approved capital projects financed through the 2005 and 2007 Bond issues have realized project budget surpluses;

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 increase the Residential Learning Center Project budget from \$60,600,000 to \$63,601,216; 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 reduce the following project budgets to offset the increased cost of the Residential Learning Center project: Harris-Millis Dining Renovation \$680,647, Wing-Davis-Wilks Residential Renovation \$211,641, and Living and Learning Residential Hall Renovation \$2,108,928; 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 people 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.

FY 2009 Budget Preparation

Provost Hughes began his opening remarks reviewing the work currently underway in preparing the FY 2009 budget. An assessment of key general fund revenue and expenditure assumptions currently shows a net shortfall of nearly \$5.0M. Provost Hughes noted that the planning assumptions are conservative and that work will continue with the goal of bringing a balanced budget to the April Budget, Finance, and Investment Committee meeting. The Board will approve the final FY 2009 budget in May.

The FY 2009 budget model includes a 6.0% increase in tuition rates as shown in the Strategic Financial Plan forecast. Provost Hughes asked that the Committee keep in mind that the proposed increase falls below the national average of 6.6%. Historically, the University's percentage tuition rate increases have also been below other institutions with whom we compete. He further added that each time tuition increases, there is a proportionate increase in undergraduate financial aid. A 6.0% increase in tuition effectively yields a 4.0% increase in revenue to the University. Co-Vice Chair Cioffi

asked if a comparison was available of net tuition rates to our competitors. Associate Vice President Winfield replied that last year the Committee was supplied this information from *Kiplinger's Personal Finances*; however, the data was not available in time for this Board meeting. He noted that in comparison to other public institutions we may have a high sticker price, but we also provide a significant amount of financial aid. President Fogel added that last year the University's ranking among public institutions for in-state costs after aid placed us 49th out of the 100 public institutions listed. He also noted that 47% of our out-of-state students pay the full tuition and fee level, while 53% receive some level of financial aid. The general fund is heavily dependent on out-of-state students that pay the full tuition rate.

Associate Vice President Winfield continued with an overview of the proposed increases to room, board, and student fees. In order to market the residence halls and dining facilities to returning students, the Department of Residential Life must offer a student contract containing maximum room and meal plan rates in March and April. Final rates will be brought before the Board for approval in May and will not exceed those proposed today. The total cost of student attendance for FY 2009 is projected to increase 6.5% (\$1,300) for Vermont undergraduates and 6.3% (\$2,254) for out-of-state students. This includes the 6.0% projected tuition rate increase and a 10.0% projected increase in total student fees. Chair McAneny asked for further breakdown of what made up the 10.0% increase in fees. The Committee was provided with a handout that detailed increases to existing fees. In addition, two new fees have been added in FY 2009. One is at the request of the Student Government Association for a fund to support clean energy projects; the other is to fund academic support programs across campus. Co-Vice Chair Cioffi inquired as to how the University distinguishes between what becomes a fee versus what is funded from the general fund. President Fogel clarified that by restricting certain income to fees, the University is able to restrict those dollars to an identified purpose. If those dollars are mixed with the general fund, they are at risk of other budgetary pressures.

Vice President Gustafson next gave an overview of the FY 2009 meal plan recommendation and outlined challenges the University will face in FY 2009 and FY 2010. This year a task force comprised of student leaders, student services personnel, and dining services representatives have developed preliminary recommendations for a new meal plan structure that will better meet the broader spectrum of dining needs of today's students. The new meal plan structure would require considerable additional investments on the part of students in order to meet the goals and needs of the student population. Although the costs are a significant increase, they remain competitive with those of other institutions. While the goal was to present the revised meal plan at this Board meeting, it has become apparent that the significant increases will require further discussion, explanation, and revision before any implementation. The requirement to present maximum rates to the Board at this meeting necessitates postponing the proposal until next February's meeting. The proposed maximum meal plan increase is 7.1%. Vice President Gustafson explained that the 7.1% increase is to stabilize costs for FY 2009. He added that one percent of the 7.1% goes into facilities reserves as it is the University's responsibility to maintain the dining facilities, not Sodexo's.

In closing, Chair McAneny asked that the Committee be provided with the latest update to *Kiplinger's Personal Finances* when it becomes available.

Strategic Financial Plan 6.0 Update

The meeting continued with the annual review of the Strategic Financial Plan (SFP). President Fogel introduced Version 6.0, referring to comments he made earlier at the Committee of the Whole and in his introductory letter. The baseline of SFP 6.0 is the audited FY 2007 year-end financial results. He presented the strengths of the SFP along with three distinct challenges. He noted that the forecast is modeled conservatively; therefore actual returns have historically outperformed the plan. He commented on the fact that the forecast shows increased financial strength for the University as reflected in the balance sheet data. Net liabilities are \$270M less than Version 5.0 and total net assets are increased by \$200M. The balance sheet strength is obtained because Version 6.0 drastically slows down the pace of investments and ensures compliance with the approved debt policy. This leads to the first challenge in that the forecast presents a minimal baseline for capital projects. The baseline set within the SFP will allow for an additional \$62M in debt capacity throughout the forecast period above the \$179M that has been included and still remain in compliance with the University's debt ratios. This baseline is not sufficient to address all of the growing needs and renovations that are defined in the Strategic Capital Plan, even before addition of the implications of the Campus Life Task Force II. The second challenge identified by President Fogel is the operating shortfall focused in the next three years beginning with FY 2009, with the steepest shortfall in FY 2010. These three years are all manageable but will prove to be a period of constraint and discipline. The third challenge raised is the assumption that tuition will increase by 6.0% each year. This tuition assumption will increase non-resident cost of attendance from \$38,216 to \$51,000 in five years and to \$68,000 in ten years. The risk of pricing ourselves out of the market is significant. The State of Vermont and the University are dependant on the income derived from non-resident students; therefore, the risk of losing that income is consequential. President Fogel also highlighted the important investments embedded in Version 6.0, including new tenure track faculty and research positions as well as baseline spending to maintain campus facilities.

Vice President Gower pointed out that the capital plan modeled in Version 6.0 is the only methodological change from Version 5.0 in that it presents a defined limit of capital projects. The forecast models those capital projects already approved by the Board plus the \$11.5M in annual baseline spending for deferred and on-going maintenance, classroom maintenance, infrastructure, and energy efficiency projects. The \$62M identified in additional debt capacity would bring the debt burden ratio to within the 5.0% limit by FY 2017, a goal previously set by the Board in updating the debt policy in November.

Chair McAneny opened the meeting for discussion. Several Committee members commented that the University is faced with hard realities and that scarce resources will

require us to prioritize future investments. Trustee Snow added that this slowing down of growth is an abrupt change from the University's current growth strategy. Trustee Heath expressed her concern over the 6.0% tuition growth per year and the potential for pricing ourselves out of competition. This led to a discussion on the University's dependency on the income derived from non-resident students and the need to review the University's current revenue model.

Other Business

Vice President Gower reminded the Committee that the special Budget, Finance, and Investment Committee meeting is April 14th from 8:00 a.m. to 12:00 p.m. to review the FY 2009 budget in greater detail.

Adjournment

There being no further business, the meeting adjourned at 5:00 p.m.

Respectfully Submitted,

Debbie McAneny, Chair