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 13, 2009 at 8:30 a.m., 427A Waterman Building.

MEMBERS PRESENT: Chair Debbie McAneny*, Vice Chair Robert Cioffi*, Samuel Bain*, Bill Botzow, Harry Chen, Jason DePatie, Daniel Fogel, John Hilton Jr.*, Bill Ruprecht*, John Snow, Donna Sweeney*

REPRESENTATIVES PRESENT: Alumni Representative Walt Blasberg, Staff Representatives Kit Ardell and Rodman Cory, Faculty Representative Bud Meyers, and Student Representative Ben Porter

ABSENT: Trustee Susan Hudson-Wilson, Alumni Representative Meg Guzuwicz, Faculty Representative Albert Joy, and Student Representative Kevin Issadore

OTHER TRUSTEES PRESENT: Board Chair Ian Boyce and Trustee Mark Young

PERSONS ALSO PARTICIPATING**:** Senior Vice President and Provost John Hughes, Vice President for Finance and Administration Richard Cate, Associate Vice President for Budget and Resource Management Ted Winfield, Vice President for Legal Affairs and General Counsel Francine Bazluke, and Vice President for Federal, State and Community Relations Karen Meyer

* by means of conference telephone.

Chair McAneny called the meeting to order at 8:37 a.m. She welcomed new members to the Budget, Finance, and Investment Committee, returning Trustee Mark Young and Trustee Carolyn Branagan (not present), who will be joining the Committee at the next meeting. She also thanked Trustees Ruprecht and Chen for their service to the Committee as this will be their last meeting.

Approval of Minutes

Provost Hughes noted an error in the March 6, 2009 minutes. In the McAuley Hall Resolution, the word "Programs" in Educational Programs and Institutional Resources Committee should be "Policy." A motion was made, seconded and voted to approve the minutes of the February 6, 2009 meeting and the March 6, 2009 meeting as amended.

Underwater Endowment Protocol Review and Approval

Vice President Cate introduced the draft Underwater Endowment Protocol, stating that absent the adoption of UPMIFA as Vermont law, an annual review of historical dollar values and market values will be performed as of December 31 to identify true underwater endowments. If an endowment is underwater, the distribution will continue through the following June 30th; however, distributions will be suspended as of July 1st (the beginning of the next fiscal year) for that fiscal year. This review process will be carried out on an annual basis to assess the underwater status of endowments for the following fiscal year. The draft alternative protocol, applicable under UPMIFA, allows for greater latitude in managing the overall endowment values, without specifically isolating individual endowments. The protocol under UPMIFA changes the focus from preservation of the gift to preservation of the intent of the donor. In the event of adoption of UPMIFA, the University would continue with its endowment distribution practice, as long as the pool as a whole is above water, without taking any special practice for specific underwater endowments. Trustee Botzow stated that the UPMIFA passed the House of Representatives, and recently passed the Senate Finance Committee 6-0, and was moving to the Senate calendar in the next few weeks with hopes to be adopted by the Vermont Legislature sometime this year. Trustee Botzow recommended that everyone read UPMIFA. Chair McAneny asked Vice Chair Cioffi to have all Investment Sub-Committee members read UPMIFA and he agreed.

Vice Chair Cioffi stated that the Investment Sub-Committee voted unanimously for the Resolution Approving Underwater Endowment Protocol - 2009 at their March 18, 2009 meeting.

There was a brief discussion among Committee members concerning the term 'protocol' and whether it implied 'policy,' and the use of actual percentages in the language. Vice President Cate requested clarification from General Counsel Francine Bazluke of the use of the word 'protocol' in the Resolution Approving Underwater Endowment Protocol – 2009. Vice President Bazluke recommended using the word 'guidelines' in place of 'protocol.' She also suggested changing the word 'would' to 'could' in the final paragraph of the University of Vermont Underwater Endowment Protocol.

As a result, several changes were made to the Resolution Approving Underwater Endowment Protocol – 2009 and the University of Vermont Underwater Endowment Protocol. Firstly, to replace the word 'protocol' with the word 'guidelines.' Secondly, the final paragraph of the University of Vermont Underwater Protocol was restructured. After all changes were agreed upon, a motion was made, seconded, and voted unanimously by the Committee to approve the resolution and guidelines for recommendation to the Executive Committee.

Resolution Approving Underwater Endowment Guidelines - 2009

WHEREAS, the State of Vermont has enacted the Uniform Management of Institutional Funds Act (UMIFA) and is considering enacting its successor legislation the Uniform Prudent Management of Institutional Funds Act (UPMIFA); and

WHEREAS, the University has not had a stated practice with respect to the management of its endowment funds in relation to UMIFA; therefore

BE IT RESOLVED that the University adopts the attached Underwater Endowment Guidelines to guide its endowment distribution practices under UMIFA and to further guide them under UPMIFA if it is enacted into law. The use of the Guidelines will be effective with respect to endowment distributions for FY 2010.

President Fogel acknowledged and thanked Trustee Botzow for his efforts in bringing this important issue to the attention of the Vermont Legislature. Trustee Botzow in turn acknowledged the help of several individuals, including Richard Cate, Karen Meyers, and Carl Lisman, for their efforts in testifying and educating the Legislature.

Vice President Cate informed the Committee members on the phone that a group of students were present quietly protesting the University's budget cuts.

Strategic Financial Plan Discussion

Chair McAneny reminded the Committee that the Strategic Financial Plan (SFP) is a tool and in today's discussion is providing the Committee with an outlook of the impact of post-retirement health liability (GASB 45) and the flattening of net investment income if no action is taken. Vice President Cate continued with an overview of the assumptions built into Version 7.0 of the SFP. He explained that the SFP is not built as a cash-based income statement but rather an accounting-based method under GASB standards. Included in the SFP forecast is a non-cash cost of $26M per year to recognize the liability under GASB45. The University's current expenditures for post-retirement benefits are $10.5M annually. GASB45 recognizes the long-term liability to the institution. In order to affect change to the income statement, the University would either need to consider a significant change in the current post-retirement benefit policy, or make investments now for future expense obligations. Chair McAneny expressed her concern over the decrease in net assets throughout the forecast period. She identified three elements contributing to the decrease in net assets: endowment growth is at a slower rate than earlier projections, the projected $90M drop in investment value in FY 2009, and the impact of GASB45. This results in the viability ratio being out of compliance throughout the forecast period. She recommended that Vice President Cate meet with the Investment Sub-Committee to discuss the assumption for total return from the endowment in greater detail.

Chair McAneny next referred the Committee to the enrollment projection data included in the Board materials. She asked how the University planned to accommodate the 600 additional students forecasted by FY 2018 without capital investments. Vice President Cate responded that McAuley Hall on Trinity Campus will accommodate the additional growth projected in the next year. A third party agreement is under development to add 400 more beds to Redstone campus in 2012. He stated that this will have no impact on the University's debt ratios. President Fogel added that classroom capacity should not be an issue.

Vice President Cate confirmed for Trustee Snow that the GASB45 item was included in the calculation of the debt ratios. Trustee Snow indicated that it would be useful to have an alternative reporting mechanism that backs out both depreciation and GASB45 as neither are current cash obligations. Vice President Cate responded that work was underway on such a report and that it may be ready for Committee review by the October Board meeting.

The discussion then turned to the SFP's undergraduate financial aid projection. Trustee Ruprecht asked for more information on the incremental increase to financial aid and how it related to tuition projections. Vice President Cate responded that the financial aid projection keeps pace with demand so as not to increase the gap. The discount ratio of financial aid to tuition remains the same.

Associate Vice President Winfield added that $3M in additional financial aid was built into the FY 2010 budget and is incremented each year thereafter in the SFP forecast.

Faculty Representative Meyers expressed the faculty's concerns over the 16:1 student-to-faculty ratio reflected in the SFP. He commented that the proposed reallocation of $2.5M of FY 2010 budget reductions back to academic units recognizes the fact that change cannot occur quickly.

Several trustees had questions on federal stimulus funding and what opportunities it presented. Vice President Meyer stated that it is one-time funding and carries a stipulation that it provide jobs. President Fogel spoke of the likelihood of significant opportunities through research funding and noted that these opportunities are not reflected in Version 7.0 of the SFP. Additionally, $5.4M in stabilization funding has been proposed by the state for FY 2010. Vice President Meyer pointed out that both the base state appropriation and one-time funding are still under discussion at the state level.

Chair McAneny recessed the Budget, Finance and Investment Committee at 9:55 a.m. for a ten minute break. A small contingent of protesting students spoke and presented the Committee with a petition containing 1973 signatures in favor of ceasing the University's layoffs of staff and faculty. The Committee reconvened at 10:08 a.m.

FY 2010 General Fund Budget Parameters

Vice President Cate began with an overview of the amended FY 2009 general fund expense budget as approved by the Board in September. The projected FY 2010 general fund budget represents continued refinement of major revenue and expense assumptions. Revenue assumptions such as enrollment and state appropriation are still to be determined and will be a part of the final FY 2010 budget presented to the Board in May. The projected budget assumes that the base budget state appropriation will be maintained at the current FY 2009 level (post rescission) of $40.7M. Expense assumptions include a salary freeze for all non-represented staff earning more than $75,000. Benefits include the most recent assumption of increases in medical costs. Capital debt service includes the impact of the recent bond issue.

Vice President Cate noted that the projected FY 2010 deficit of $8.2M is in line with earlier projections. The projected FY 2009 budget deficit was originally projected to be nearly $15.0M. Current projections estimate that the actual deficit for FY 2009 will be closer to $7.0M, due in part to undergraduate enrollment being higher than originally projected. While earlier estimates indicated that a balanced budget would not be reached until FY 2012, this projection will allow a balanced budget in FY 2011.

Vice President Cate next explained the items appearing "below the line" on the FY 2010 budget projection. The $5.4M in stabilization funding proposed by the state would be used to offset a portion of the deficit. The $1.6M cost of not implementing Phase II of the proposed layoffs is also shown as an added cost. He stated that if the $5.4M is received by the University the $1.6M expense would be covered through attrition in FY 2010 and would not recur in FY 2011. The revised remaining deficit in the FY 2010 budget is then $4.4M. Vice President Cate recommended that the Committee adopt at the May meeting the FY 2010 budget as outlined. President Fogel pointed out that the deficits now projected in FY 2009 and FY 2010 are less than the level the Board approved to be covered by reserves for FY 2009. He added that no funds would be needed from Treasury Operations.

Trustee Bain posed a series of questions to the Committee regarding several revenue and expense assumptions. Those included union contracts, enrollment projections, energy costs, library acquisitions, and deferred maintenance.

The Committee next discussed the proposed 6% tuition increase for FY 2010. Chair McAneny asked what current information was available from the University's peers. President Fogel stated that recent trends within public institutions show a steep increase in tuition to offset a loss of state funding, while independent institutions trend towards moderating enrollment numbers. The discussion turned back to undergraduate financial aid and its relationship to tuition and enrollment. The FY 2010 budget projects an increase of $10M in financial aid over FY 2009 levels. Vice President Cate explained that $7M of the increase is based on predictable factors such as the projected increase in enrollment combined with a 6% tuition increase. An additional $3M has been added in recognition of the greater demand anticipated due to current economic conditions. Chair McAneny stated that another option would be to increment the financial aid budget by $7M and lessen the tuition increase to 4%. Trustee Snow commented that he accepts the current financial model as the better strategy for the University to market. He added that this was more a question about policy and does deserve further consideration. Vice Chair Cioffi agreed with the needs-based strategy but stated that the University needs to do a better job of promoting its strategy as the public's perception of UVM continues to be "expensive."

Trustee Ruprecht referred the Committee back to the $1.6M cost of not implementing Phase II of the proposed layoffs. He stated that the administration made a series of calculations in preparing the FY 2010 budget that would result in the least impact to the University. Although sympathetic to the human cost, he felt that the administration should re-look at not pursuing layoffs. President Fogel responded that the budget target amount remains the same but that the cost savings would be handled through attrition rather than layoffs.

Closing comments were made by the Committee. Trustee Snow noted that to a large degree the University has been reactive in its budgeting and in so doing, a certain amount of judgment occurs. He asked what metrics were used in determining whether the $4.4M deficit budget projected for FY 2010 was the right number. Vice President Cate agreed that at times it is more "art than science," and can produce results that are more qualitative than quantitative. Trustee Ruprecht commented that this approach may not best serve the needs of the students or guarantee a successful University. He expressed the need for a set of standards and metrics that the University can measure by. President Fogel agreed that it was an important topic to address.

Adjournment

There being no further business, the meeting was adjourned at 11:28 a.m.

Respectfully submitted,

Debbie McAneny, Chair

University of Vermont
Underwater Endowment Guidelines~~Protocol~~

Executive Summary: The Uniform Management of Institutional Funds Act (UMIFA), as adopted by the State of Vermont, allows the University to expend, for the uses and purposes for which an endowment fund is established, so much of the net appreciation, realized and unrealized, in the fair value of the assets of the fund over the historic dollar value of the fund as is prudent. At the same time, the current law can be interpreted to mean that spending from endowments that are underwater should be curtailed. Consideration should be given to the long and short term needs of the institution, its present and anticipated financial requirements, expected total return on its investments, price level trends, donor intent and general economic conditions. In order to recognize the impact of UMIFA, the University will adopt the following guidelines~~protocol~~.

Guidelines~~Protocol~~: In order to comply with the current law, an annual review of historical dollar values and market values as of 12/31 will be performed to identify true endowments that are in an underwater position. If a true endowment is underwater as of 12/31, distributions for endowment spending and the administrative fee will be suspended for those specific endowments, as of the beginning of the following fiscal year for that fiscal year. This review process will be carried out on an annual basis to assess the underwater status of any endowments as of the next year. The suspension of distributions will then apply to applicable endowments for that successive year.

Department administrators responsible for endowment spending management will be notified of any endowments that are underwater by the end of February in order to prepare for the loss of this funding source as of the following July 1st. Given that new distributions from the underwater endowment will not occur in the coming fiscal year, department administrators may want to suspend spending, if appropriate, or replace this funding by other means such as, using endowment reserves, adjusting other gift or general fund budgets, or pursuing increased spending from quasi-endowments. The Office of Development and Alumni Relations will determine appropriate contacts to be made with individual donors, both to alert them to the underwater status of the endowment and to determine if solicitations for gifts to sustain current spending levels can be made. The Office of Budget and Resource Management and Development and Alumni Relations will be available to assist departmental budget managers.

Alternate Guidelines~~Protocol~~ – UPMIFA: Action is now underway in the Vermont legislature to adopt the Uniform Prudent Management of Institutional Funds Act, the successor legislation to UMIFA. UPMIFA broadens and clarifies the latitude of institutions to manage overall endowment returns, without specifically isolating those particular endowments that because of the timing of receipt of the gift and market conditions are deemed underwater. Rather, the institution is expected to define an overall prudent approach both to distribution of funds for spending and long term preservation and growth of capital. In the event of adoption of UPMIFA, the University would then be in the position to continue with its uniform endowment distribution practice without taking any special, separate practice for underwater endowments.

Specifically, the University c~~w~~ould continue to calculate and make distributions on an annual basis, valuing endowment shares as of December 31, and using the prior 13 quarter endowment value as a basis for the calculation.~~and a~~ The distribution for the endowment fee and spending ~~level of 4.5%,~~

will be set at a level recommended by the Investment Subcommittee and the Budget, Finance & Investment Committee and authorized by the Board of Trustees. ~~together with an endowment fee of 0.5%.~~ The impact of underwater endowments, should any exist, would be smoothed as a part of the overall 13 quarter averaging. As a matter of record, underwater endowments and their relative proportion of total endowments will be defined and reported to the Investment Sub-Committee as of each December 31 valuation. This information, together with overall endowment performance and market conditions will be part of the annual review and confirmation and/or change in the overall endowment spending policy.

Definitions:

Above water Endowments: Endowments for which Market Value exceeds Historical Dollar Value

Endowment Spending: Amounts distributed from endowments based on endowment spending rule adopted by Board of Trustee resolution. Currently the rule allows for spending of 4.5% of the average of the last thirteen quarters market value as of 12/31. These amounts are transferred from the endowment accounts to separate operating accounts from which program expenditures are made in accordance with any restrictions established by the donor agreement.

Endowment Fee An amount distributed from the endowments to cover administrative costs. Currently the Board of Trustees has authorized an administrative fee of .5% of the average of the last thirteen quarters market value as of 12/31.

Expenditures: Amounts expended from operating accounts funded by endowment spending. This represents the actual use of the funds for the endowment purpose.

Historical Dollar Value: The corpus or total amount of gifts and donor stipulated reinvestment to an endowment.

Net appreciation: Market value and reinvested income, net of fees, in excess of the corpus.

Reserve Balances: Endowment spending amounts transferred from endowment accounts to the operating accounts in prior periods that have not been expended.

True Endowment: Funds received from donors with the stipulation that the principal be maintained permanently and be invested to produce income and appreciation to be expended for the purposes specified by the donor.

Underwater Endowments: Endowments for which Market Value is temporarily less than Historical Dollar Value