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, May 20, 2011 at 1:00 p.m., in the Silver Maple Ballroom, 401 Dudley H. Davis Center.

MEMBERS PRESENT: Chair Debbie McAneny, Vice Chair Samuel Bain, Ian Boyce, Carolyn Branagan, David Daigle, Daniel Fogel, Joan Lenes, Kesha Ram, Brian Sozansky, and Mark Young

REPRESENTATIVES PRESENT: Faculty Representatives Albert Joy and Donald Ross, Alumni Representative Walt Blasberg, Staff Representatives Jesse Bridges and Eric Hoefel, Student Representative Alex Mallea, and Graduate Student Representative Eric Garza

OTHER TRUSTEES PRESENT: Board Chair Robert Cioffi

PERSONS ALSO PARTICIPATING: Vice President for Finance and Administration Richard Cate, Associate Vice President for Budget and Resource Management Ted Winfield, Director of Capital Planning and Management Robert Vaughan, Vice President of Enrollment Management Christopher Lucier, and Controller Claire Burlingham

ABSENT: Trustee Susan Hudson-Wilson, Alumni Representative Meg Guzewicz, Student Representative David Maciewicz and Graduate Student Representative Eduardo Cotilla-Sanchez

Chair Debbie McAneny called the meeting to order at 1:08 p.m.

Chair McAneny began the meeting by acknowledging and thanking the outgoing undergraduate and graduate student representatives for their time, dedication, and terms of service to the Budget, Finance and Investment Committee.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the April 11, 2011 meeting.

FY 2012 Proposed General Fund Budget

Vice President Cate presented an overview of the University's total projected operating budget for FY 2012 provided in Appendix A of the handout to the Committee. He noted that the summary includes all fund sources but the Board of Trustees only votes on the general fund operating budget, as confirmed by the General Counsel. At the April Budget, Finance & Investment (BFI) meeting, the Committee requested a detailed analysis of major Income & Expense activities' reserves, including Continuing Education (CE) and their planned usage. The summary of 141 income/expense activities was presented. Together they are budgeted to generate $139.2M of revenue and related expenses in FY 2011.

The Committee discussed various components of the budget. Chair McAneny asked for clarification on how to make a connection between the presented Income/Expense budget of CE for FY 2011 and the proposed Indirect Cost Reimbursement in the FY 2012 General Fund Budget. She was particularly interested in the process of accumulation of net assets. Vice President Cate and Associate Vice President Winfield explained that a portion of the projected $18.8M FY 2011 expenses within CE has been budgeted as a part of overall revenue in the general fund and totaled $4.18M in FY 2011. The contribution from CE for FY 2012 is budgeted to increase back to its FY 2010 level of $5.18M, in line with effective results in programs and prudent expense management. Chair McAneny concluded that further transparency is needed in Income/Expense revenue and expense projections so that the Board can be reasonably assured that the proposed amount of revenue from CE budgeted in the General Fund is appropriate. She requested a revision of the summary document for Income/Expense activities to reflect the additional detail.

Trustee Branagan expressed her concern that the Committee was being presented with FY 2012 enrollment that was below target by 85 students. Vice President Lucier responded that despite the fewer number of students the net revenue will remain as budgeted. He pointed out challenges the University faces in maintaining the high quality of student experience, diversity, size of the incoming class, and University's commitment to growing financial aid in the competitive field of higher education. Further, enrollment management has had to take into consideration the effects of the downturn in the economy and the decreasing number of Vermont high school graduates. He stated the importance of finding new markets for enrollment, including internationalization and on line education.

Vice President Cate continued presenting FY 2012 general fund budget parameters. The proposed budget represents a 1% increase from the FY2011 budget and recognizes a 5.8% tuition increase with anticipated $11.8M growth in financial aid. A reduction of budgets across all operating units by $2.9M is planned based on recommendations from each unit and strategic judgments by the administration. A modest investment of $1.1M in support of academic initiatives such as Transdisciplinary Research Initiative, General Education, Internationalization and Student Success and Satisfaction is projected, all of which are critical to the University. Vice President Cate stated that the decision was made to hold salary levels at a 0% increase which avoids $3.4M of salary and related benefit expense, compared to the 2% salary increase that was reflected in an earlier version of this budget. He noted that salaries of some faculty and staff are subject to the final results of the ongoing collective bargaining. In the event of a change in the FY 2012 salary obligations as a result of collective bargaining, the administration will address that obligation within the overall budget as proposed without further requests to the Board. Benefit rate expenses are slightly increased, while health insurance rates are staying essentially flat due to favorable experience, related to a new contract and financing plan with Blue Cross Blue Shield.

In response to questions at the April meeting, the budget contribution to debt repayment from the general fund and other fund sources was provided in attachment 2, appendix E of the meeting materials. A short discussion followed regarding the inclusion of the principal and interest expenses in the budgeted debt payment levels allocated to the general fund. Vice President Cate indicated that the budgeted $18.57M debt repayment amount appearing in the general fund budget represents the aggregate of funds scheduled to transfer from the general fund to Treasury Operations. He explained that the total external payments from the Treasury Operations to cover debt service obligations amount to $30.87M, including $22.91M in interest payments. Vice President Cate noted that the general fund budget reflects the transfer of funds to the Treasury Operations account as contrasted with the income and expense statement, which reflects an allocation that applies to both principal and interest. The financial statements record interest and principal payments in the appropriate places and also record non-cash items, such as depreciation, which are not reflected in the general fund budget.

The Committee discussed the impact of financial aid on the overall budget and how that impact may be moderated in the coming years. A summary of the allocation of undergraduate financial aid by class was provided in attachment 2, appendix G of the meeting materials. Vice President Cate noted that the proposed increase in financial aid for the incoming class amounts to $.7M compared to the anticipated increase of $11.2M for all undergraduate classes. He emphasized that it has been the University's practice to hold the aid level fixed for continuing students, except in cases of substantial change in family income. As Vice President Cate further explained, for the incoming class the proposed financial aid amounts to $22.7 million, while the reduction in cost due to aid for the outgoing senior class is only $12.4 million. This $10.3 million difference represents the vast majority of the increase in financial aid, further highlighting the point that financial aid is the key component driving the proposed tuition increase. The Committee discussed the need to moderate this disparity in the rate of growth in financial aid compared to increases in tuition. Vice President Cate pointed out that following the graduation in FY 2013 of the last pre- recession class, the dramatic difference between the incoming and out-going classes would be reduced.

There was a discussion regarding the importance of identifying a longer term solution to restrain the size of tuition increases in future years. Trustee Branagan voiced continuing concern that there needed to be more tangible expression on the part of the Board, translated into action, that a definitive plan would be in place to restrain tuition increases. In order to confirm the commitment to this action, the following amendment was suggested to the FY 2012 Budget Planning Assumptions: General Fund resolution.

“The administration will bring to the Board, at the October 2011 meeting, the first draft of a long-term budget plan that will moderate the growth in the tuition rate.”

The following resolutions were presented:

Tuition Charges for Fiscal Year 2012

RESOLVED, that the Board of Trustees hereby approves increases in the following tuition rates effective with the 2011-2012 academic year:

a. In-state tuition from $12,180 to $12,888 per year, or $537 per credit hour.
b. Out-of-state tuition from $30,744 to $32,528 per year, or $1,355 per credit hour.
c. Medical student in-state tuition from $28,440 to $29,220 per year for first-year students; from $28,440 to $29,220 for second-year students; from $28,440 to $29,220 for third-year students; and from $27,890 to $28,660 for fourth-year students. Medical student out-of-state tuition from $49,780 to $51,150 per year for first-year students; from $49,780 to $51,150 for second-year students; from $49,780 to $51,150 for third-year students; and from $48,820 to $50,160 for fourth-year students.

On-line Tuition Rate

RESOLVED, that the Board of Trustees hereby approves the establishment of a flat tuition rate for programs that are offered exclusively on line. On-line tuition will go into effect for the Fall 2011 semester at a minimum rate of $537 and a maximum rate of $1,355 per credit hour for the 2011-12 academic year. The rate will be determined by the Provost, based on demand for the program and assessment of the national market place for similar on line programs.

Student Fees for Fiscal Year 2012

RESOLVED, that the Board of Trustees approves increases to student fees from $1,886 to $1,896 effective with the 2011-2012 academic year.

Room and Meal Plan Rates, Fiscal Year 2012

RESOLVED, that the Board of Trustees hereby approves room and meal plan rates for Fiscal Year 2012 as follows:

	per year
Private Single with Bath	$8,022
Private Double with Bath	$7,836
Suite Single with Shared Bath	$7,586
Suite Double with Shared Bath	$6,552
Traditional Single	$7,400
Traditional Double	$6,426
Traditional Triple	$5,124
Retail Dining – Lite Points	$2,580
Retail Dining – High Points	$3,282
Unlimited Access (+100 Points)	$3,282
Unlimited Access (+250 Points)	$3,670

Fiscal Year 2012 Budget Planning Assumptions: General Fund

RESOLVED, that the Board of Trustees hereby approves the budget planning assumptions for Fiscal Year 2012, which lead to a General Fund operating expense budget for the University of $292,503,000 and hereby authorizes the President to proceed with detailed budget preparation in accordance with these assumptions; and the administration will bring to the Board, at the October 2011 meeting, the first draft a long-term budget plan that will moderate the growth in the tuition rate.

The Committee voted unanimously to approve all resolutions for recommendation to the full Board, including the proposed amendment to the FY 2012 Budget Planning Assumptions: General Fund resolution.

Report of the Investment Subcommittee

- **Endowment Performance Update**

Investment Subcommittee (ISC) Chair Samuel Bain provided a brief overview of endowment market values. The endowment was valued at $355 million as of 4/30/11, compared to $333 million as of calendar year-end. According to Cambridge Associates data, the University's long-term portfolio outperformed its peers during the first quarter of 2011. The preliminary results for April were positive as well.

Chair Bain reported that the ISC is paying close attention to beating inflation, with the new addition of two $5 million investments in hedge funds for performance, and $3 million in emerging markets. Further, with the hard work of Trustees Hudson-Wilson, Daigle and Boyce, the ISC has identified a real estate fund in which it plans to invest. The Subcommittee's current workplan will be measuring hedge funds and how they perform. In July, the ISC will interview two to three managers as part of its due diligence efforts. The ISC will be adding a small amount of Venture Capital and Private Equity funds to the University's long-term portfolio as it is underinvested.

- **Approval of Quasi-Endowment Policy**

Chair Bain introduced the Investment Subcommittee's review and endorsement of the Quasi-Endowment Policy from its meeting on April 27th. This policy was created to give guidance as to when a quasi-endowment should be established because the creation, management, and termination of the quasi-endowment funds involve the University's consolidated endowment pool.

Vice President Cate proposed that individual funds be managed as quasi-endowment funds by the ISC. At the request of the ISC, a listing of existing quasi-endowment funds currently held by the University were included as Attachment 4 in the meeting materials.

Vice President Cate presented the resolution endorsing the policy as recommended by the Investment Subcommittee.

> **<u>Resolution Approving Quasi-Endowment Policy</u>**
>
> BE IT RESOLVED that the Board hereby approves the adoption of the Quasi-Endowment Funds Policy, as recommended by the Budget, Finance and Investment Committee and appearing as Appendix A to this resolution,
>
> BE IT FURTHER RESOLVED that, until the Board rules otherwise, responsibility for the review and approval of proposals for the establishment, alteration, or termination of specific quasi-endowment funds is delegated to the Investment Subcommittee.

The Committee voted unanimously to approve the Resolution Approving Quasi-Endowment Policy for recommendation to the full Board.

- **Approval of Quasi-Endowed Fund**

Vice President Cate introduced the Investment Subcommittee's endorsement of a resolution for approval of a quasi-endowed fund; the College of Medicine has received a gift from the estate of Mable Stone in the amount of $790,000. This year, approximately $30,000 will be distributed to support the Bartlett H. and Mable L. Stone Scholarship. The Dean of the College of Medicine has requested that the remaining balance of over $760,000 be placed in a quasi-endowment in order for the fund to produce sufficient income to award the same level of scholarships per year. Future quasi-endowment approvals, under the new policy, will be subject to the approval of the ISC only, so such requests will not come to the Budget, Finance and Investment Committee.

Vice President Cate presented the resolution endorsing the quasi-endowed fund as recommended by the Investment Subcommittee.

> **<u>Resolution to Establish the Bartlett H. and Mable L. Stone Scholarship Fund</u>**
>
> WHEREAS, the University has received just over $790,000 from the estate of Mable Stone, designated to support in-state medical students as recipients of the "Bartlett H. and Mable L. Stone Scholarship"; and

WHEREAS, $30,000 has already been disbursed as scholarship aid to medical students; and

WHEREAS, the Dean of the College of Medicine has requested that the remaining balance of over $760,000 be placed in a quasi-endowment that will produce approximately $30,000 per year to fund the Bartlett H. and Mable L. Stone Scholarships;

NOW THEREFORE BE IT RESOLVED, that the Investment Subcommittee approves the creation of the Bartlett H. and Mable L. Stone Scholarship Fund as a quasi-endowment within the University's consolidated endowment pool.

The Committee voted unanimously to approve the Resolution to Establish the Bartlett H. and Mable L. Stone Scholarship Fund for recommendation to the full Board.

Socially Responsible Investing Work Group (SRIWG) Update

Socially Responsible Investing Work Group leader Claire Burlingham briefed the Committee on the resolutions for reaffirmation. On March 24th, a student representing STAND (Students Taking Action Now Darfur) presented an update on the genocide in the Darfur region of Sudan. The SRIWG discussed this issue at length and concluded that the conditions in the Sudan had not changed since last year and therefore recommended to the ISC reaffirmation of its resolutions to divest from Sudan. The Work Group also concluded that the issue of cluster munitions and depleted uranium was still relevant and therefore recommended to the ISC reaffirmation of its resolution to divest from companies engaged in these activities. Given the static nature of the issue, the Work Group recommended the resolution extend the period of review from annually to once every five years.

Chair McAneny presented to the Committee the two affirmation resolutions brought forth by the ISC.

Reaffirm Divestiture from Sudan

RESOLVED, that the Board of Trustees reaffirms its Resolution for Divestment from Sudan, as adopted by the Board on May 18, 2006, and amended by the Executive Committee on June 12, 2006 (stated below);

BE IT FURTHER RESOLVED, that the Budget, Finance and Investment Committee, ~~as successor to the Committee on Socially Responsible Investing,~~ will review this resolution on an annual basis.

Resolution for Divestment from Sudan (June 12, 2006)

WHEREAS, the University's Policy Statement on Moral, Social and Ethical Considerations in Investment and Shareholder Resolutions holds that the primary objective of investment by the University is to provide a satisfactory return on investment for the support of University operations based upon the Prudent Investor Rule; and

WHEREAS, the Policy Statement also holds, however, that the policy of fiscal prudence shall not preclude the University from considering moral, ethical, and social criteria in determining companies in which to invest; and

WHEREAS, a balanced group of the University community has been convened as the Committee on Socially Responsible Investing and has studied the issue of genocide in the Darfur region of Sudan and has made recommendations to the Investment Committee of the Board of Trustees;

THEREFORE, BE IT RESOLVED, that the University adopt and implement a policy of targeted divestment from companies doing business with or otherwise aiding the governing regime of Sudan based on the model developed by the Sudan Divestment Task Force;

BE IT FURTHER RESOLVED, that the University implement its divestment policy to the fullest extent consistent with its fiduciary responsibilities; and

BE IT FURTHER RESOLVED, that the Socially Responsible Investment Work Group will review and reaffirm this resolution on an annual basis.

Reaffirmation of Divestiture from Companies Manufacturing or Distributing Cluster Munitions and/or Military Items Containing Depleted Uranium

RESOLVED, that the Board of Trustees reaffirms its Resolution for Divestment from Companies Manufacturing or Distributing Cluster Munitions and/or Military Items Containing Depleted Uranium as adopted by the Board on May 15, 2009 (stated below);

BE IT FURTHER RESOLVED, that the Budget, Finance and Investment Committee will review this resolution ~~on an annual basis~~every five years.

Resolution Regarding Divestment from Companies Manufacturing or Distributing Cluster Munitions and/or Military Items Containing Depleted Uranium (May 15, 2009)

WHEREAS, the board reaffirms its commitment to “Our Common Ground” and its stated values of “justice” and “responsibility”; and

WHEREAS, the University’s policy of fiscal prudence shall not preclude the consideration of moral, ethical and social criteria in determining companies in which to invest, and that the University will take an active role on request in pursuing shareholder resolutions through proxy resolutions and other means in order to further its goal of investing in firms that produce safe and useful products in accord with moral, ethical and social criteria; and

WHEREAS, reaffirming the Declaration of the Oslo Conference on Cluster Munitions, by which, inter alia, States recognized the grave consequences caused by the use of cluster munitions and committed themselves to conclude by 2008 a legally binding instrument that would prohibit the use, production, transfer, and stockpiling of cluster munitions that cause unacceptable harm to civilians, and would establish a framework for cooperation and assistance that ensures adequate provision of care and rehabilitation for victims, clearance of contaminated areas, risk reduction education, and destruction of stockpiles; and

WHEREAS, weapons containing depleted uranium have potentially harmful effects on human health and the environment and do so indiscriminately;

BE IT RESOLVED, that the Budget, Finance & Investment Committee recommends University divestment from companies that are materially engaged in the manufacture of:

a) Cluster munitions as defined by the Oslo Treaty of December 2008.

b) Military equipment and/or weapons containing depleted uranium.

~~BE IT FURTHER RESOLVED, that the Socially Responsible Investment Work Group recommends that this resolution be reviewed and reaffirmed every five years~~. ~~will review and reaffirm this resolution on an annual basis.~~

The Committee voted unanimously to reaffirm both resolutions as presented and amended for recommendation to the full Board.

Vice President's Report

The Committee reviewed the FY 2011 budget to actual report as of March 31, 2011 distributed at the meeting. Overall revenue and expenses are tracking at budget. Vice President Cate reported that after taking into consideration anticipated revenues and expenses there should be a very modest positive balance at the end of the fiscal year.

Capital Project Financial Feasibility Review

Capital Planning and Management Director Vaughan introduced the plan for the proposed Phase I of the Soccer/Lacrosse Turf Field project, at the Archie Post Complex on the Athletic Campus. The project was endorsed by the Educational Policy and Institutional Resources (EPIR) Committee this afternoon and remitted to the Budget, Finance, and Investment (BFI) Committee for the financial feasibility review and approval. The existing field currently is used for varsity soccer practice, occasional games, club sports, and summer camps. The majority of games for soccer and lacrosse take place at two other fields that are not well suited for either game.

The field will be upgraded to NCAA game standards for both soccer and lacrosse and will also be used extensively for club sports, intramurals, and general recreation. The improvements consist of approximately 99,000 square feet of artificial pervious turf, scoreboard upgrade, fencing upgrade, portable public address system, and portable bleachers for up to 300 spectators. The strategic goals and project history is included as attachment 5 in the meeting materials.

In response to a question from the Committee, Director Vaughn described that Phase II of the Master Plan will include permanent grand stand bleachers, lights, rest box and better facilities.

It is estimated that the installation of the new synthetic surface for the Soccer/Lacrosse field will cost approximately $1,500,000 and will be financed by 100% of non-debt funding provided for this project.

Vice President Cate presented the resolution authorizing Phase I of the Soccer/Lacrosse Turf Field Project as recommended by the Educational Policy and Institutional Resources Committee with the following amendments added:

<u>Soccer/Lacrosse Turf Field Resolution</u>

WHEREAS, the Educational Policy and Institutional Resources Committee (EPIR) has today carefully reviewed the program, scope, and preliminary estimate of $1,500,000 for the installation of the Soccer/Lacrosse Turf Field (the "Project") and has found it an institutional priority, consistent with the *Strategic Capital Plan* and worthy of further consideration; and, WHEREAS, EPIR has remitted the Project to the Budget, Finance, and Investment Committee for financial review and approval; and,

WHEREAS, the Division of Development and Alumni Relations has secured a commitment for a gift of $1,500,000 of non-debt funding for the Project, of which $750,000 is scheduled for receipt on or about June 15, 2011 and the remaining $750,000 is scheduled to be received on or about August 15, 2011; and,

WHEREAS, the project will not begin construction until the first $750,000 installment of the gift is received;

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 utilize the non-debt funding to finance the $1,500,000 installation of the Soccer/Lacrosse Turf Field; and, in the unlikely event that the second installment of the gift is not received, up to $750,000 from the treasury operations account may be used for this purpose; 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.

The Committee voted unanimously to approve the Soccer/Lacrosse Turf Field Resolution, as amended, for recommendation to the full Board.

Adjournment

There being no further business, the meeting adjourned at 2:47 p.m.

Respectfully Submitted,

Debbie McAneny, Chair

Appendix A

The University of Vermont

Policy V

Responsible Official: Vice President for Finance and Administration

Effective Date:

Quasi-Endowment Funds

Policy Statement

The University, through its Board of Trustees, may establish, alter, or terminate quasi-endowment funds. A quasi-endowment fund functions in substantially the same manner as a true or permanent endowment fund, except that (1) the terms of a quasi-endowment fund are established by the University, not by an external donor, and (2) the University may spend down the principal of a quasi-endowment fund under the authority of the Board. If the original source of a quasi-endowment fund is a restricted gift or other restricted assets, the fund must retain the restricted purpose as originally specified, and the fund's principal and earnings may be expended only for that purpose.

Reason for the Policy

From time to time the University may decide to designate assets as quasi-endowment funds. These funds gain the benefit of the earning power of the University's consolidated endowment pool while retaining the flexibility to be expended in whole or in part. Because the creation, management, and termination of quasi-endowment funds involve the University's consolidated endowment pool, they may proceed only with the approval of the Board of Trustees. These funds create a mechanism for the University to save and invest sums of money to be spent over time to achieve long-range academic objectives.

Strategic Direction

This Policy supports the following strategic objective:

- Ensure that the resources, facilities, and support programs are available and policies and procedures are in place to attract, recruit, and retain the very best scholars to UVM.

Applicability of the Policy

This policy applies to all University of Vermont faculty, staff, and students and to all academic and non-academic units.

Policy Elaboration

A minimum asset value of $50,000 is necessary to establish a quasi-endowment fund. A department may use its own internal funds for this purpose.

Once established, a quasi-endowment fund's principal must remain within the consolidated investment pool for at least three years. New cash or assets may be added to a quasi-endowment fund only if that cash or those assets are unrestricted or bear restrictions that are compatible with the established quasi-endowment fund.

Following the establishment of a quasi-endowment fund and the expiration of the three-year lock-up period, its principal may be partially or totally expended only with the approval of the Board.

Definitions

A quasi-endowment fund is an expendable fund designated by the Board of Trustees for medium- to long-term investment. A quasi-endowment fund is established by the Board to function like an endowment fund but may be totally expended at the discretion of the Board. The fund's assets are invested in the same manner as those of a true endowment and have the same payout provisions.

Procedures

Requests or proposals to establish quasi-endowments must be directed in the first instance to the University Controller. That official may then advance the request or proposal to the Vice President for Finance and Administration (VPFA). If the VPFA determines that a quasi-endowment should be established, said establishment will be subject to the approval of the Board of Trustees Investment Subcommittee.

Forms

(none)

Contacts

Questions related to the daily operational interpretation of this policy should be directed to:

Claire Burlingham, Controller
656-2903

The Vice President for Finance and Administration is the official responsible for the interpretation and administration of this policy.

Effective Date

Approved by:

___________________ President _______________
Daniel M. Fogel Date

______________________ Chair Board of Trustees _______________
Robert Cioffi Date