

**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 16, 2012 at 8:30 a.m., 427A Waterman Building.

MEMBERS PRESENT: Chair Debbie McAneny, Vice Chair Samuel Bain*, John Bramley, Carolyn Branagan, Rob Brennan, David Daigle*, Kyle DeVivo, Joan Lenes, Kesha Ram, Lisa Ventriss, Mark Young

REPRESENTATIVES PRESENT: Faculty Representatives Albert Joy and Donald Ross, Alumni Representative Afi Ahmadi, Staff Representatives Eric Hoefel and Michelle Smith (on behalf of Staff Council), Student Representatives Andrew Dougherty and William Vitagliano

ABSENT: Alumni Representative Walter Blasberg and Graduate Students Representative Eduardo Cotilla-Sanchez and Jennifer Rousseau

OTHER TRUSTEES PRESENT: Board Chair Robert Cioffi

PERSONS ALSO PARTICIPATING: Provost and Senior Vice President Jane Knodell, Vice President for Finance and Administration Richard Cate, Associate Vice President for Budget and Resource Management Ted Winfield, Vice President for Enrollment Management Chris Lucier and Prager & Company, LLC Representative Susan Fitzgerald

* By means of conference telephone.

Chair McAneny called the meeting to order at 8:28 a.m. She welcomed new members and representatives to the Budget, Finance, and Investment Committee and explained that today's meeting was the second of a three part series of budget reviews. The February meeting was to review benchmark data; today was to review the proposed general fund operating budget, and in May, the Committee will be asked to endorse the FY 2013 budget recommendation for Board approval.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the February 3, 2012 meeting.

FY 2013 Budget Proposal

Chair McAneny began by stating that the most important objective of the meeting was for members to review and understand the general fund budget and to express any concerns and questions they may have. In addition, they would identify additional information requests for the administration to prepare for the May discussion.

Vice President Cate then outlined the underlying assumptions upon which the proposed FY 2013 budget is based: a 3.5% tuition increase; a reduction in the amount of student aid needed, lower energy costs, and a 2% salary increase for all employees. As part of the FY 2013 budget discussion Vice President

Cate also reviewed the projected revenue and expense for FY 2012. He reported that a positive fund balance of \$2.7 million is expected. If the projection remains on target for the balance of FY 2012, the administration will put forth a proposal after June 30, 2012 to the Board of Trustees on how to best invest those dollars.

Tuition: Chair McAneny pointed out the Average Annual Percent Increase in the tuition chart on page 11 of Attachment 2. It indicates that UVM has the fourth lowest increase compared to other public institutions. Trustee Branagan appreciated that tuition was lower this year than last but asked if it could be set even lower. Vice President Cate indicated that further reductions in tuition revenue could not occur without substantive impact on critical programs or activities.

Financial Aid: The Committee had a wide ranging discussion, given the importance of financial aid as a major item affecting overall net revenue and thus the budget as a whole. Figures for FY 2012 student financial aid requirements are not finalized, however, it appears likely that current trends will continue and savings against budget are expected. Vice President Cate then reviewed the FY 2013 enrollment targets and the student financial aid budget. He commented that even with 83 fewer students expected to enroll in the fall, there is still a projected increase in net revenue due to the lower need for financial aid. Trustee Branagan expressed concern that the number of Vermont students admitted was decreasing. Vice President Cate explained that due to the shrinking population in the northeast and in particular Vermont, there simply are not as many Vermont students applying as in past years. The underlying demographic of students available is declining. The enrollment forecast is a reflection of those declines, rather than a preplanned choice to enroll fewer Vermont students.

Vice President Lucier outlined the procedure used for selecting the pool of applicants, which factors in a student's financial aid needs, academic quality, family contribution, diversity, and geographic location. The University works with national consulting firm Noel Levitz on regional and national comparisons to create the applicant pool and base financial aid packets on this information. Trustee Ventriss suggested that an information session on student quality and financial aid would be beneficial to trustees.

The Committee discussed the history and impact of the recent economic crisis and how that drove the need to offer more financial aid. A series of factors are involved: the initial financial aid commitment to each incoming class, the reduction of the actual financial aid support for each class as it progresses (fewer students over time as each cohort of students progresses, together with the loss of aid on the part of some students) and the increasing starting point for need each year as tuition has increased year over year. With the financial crisis of 2008, the incoming class required substantially more aid than previous years and thus required dramatically more aid than the senior class that was leaving. The impact of this change was a 13-14% increase for the entire aid budget. Since then all new classes have been entering on a comparable, though broadly higher level than pre recession levels. Recent work has focused on moderating these increases as much as possible. The success in that moderation allows for a more modest overall increase, but cannot result in an absolute net reduction in total aid, given the movement of tuition, without either eroding total numbers of new students and/or the quality of those students. A good goal going forward will be to maintain the need for increases in financial aid at the level of tuition increases.

Trustee Ram asked where in the budget the costs of offering free and reduced tuition classes and dual enrollment to Vermont high school students was reflected and if that cost was significant enough to be a concern. Vice President Cate explained that these expenses are embedded in the Day Non-Degree

Tuition budget. Dual enrollment numbers are not a concern. The number of day non-degree students is the same; however, the credit hours for these students are lower. President Bramley noted the actions taken to reverse this trend, including active conversations about recruiting more high school students to take courses and offering more online and summer courses. The Governor's Working Group is looking into this as well. He recognized the financial challenge for UVM and noted that it is a work in progress.

Chair McAneny noted that it would be useful to have available a tuition/fund-raising informational session available prior to future April budget planning meetings as it is important for Committee members to consider and understand financial aid needs in relation to calculating tuition.

She also requested that an updated version of the information presented last year which indicated the stacking by cohorts be available for the May meeting and be included in future April BFI meetings.

Energy Savings: Due to an unseasonably mild winter, as well as significant savings initiatives under way, the University's energy costs are estimated to be about \$1M lower than last year. Trustee Daigle inquired about entering into long-term pricing agreement with utility companies to take advantage of the current low rates for natural gas. The University's supplier, Vermont Gas has not been willing to offer this option beyond one season. There will be further review of other potential long term contracting options.

Salary and Benefits: The final budget assumption Vice President Cate addressed was the 2% salary increase negotiated with the three unions that will apply to non-union members as well. In addition, employee benefits will increase about 4.5%. This change is driven largely by a projected 6.1 % increase in health insurance costs, which were 0% last year.

Chair McAneny offered an opportunity for discussion. Trustee Bain inquired about the two Facilities & Administration (F&A) line items. Associate Vice President Winfield explained that research support has declined while other non-research grants have increased somewhat. The budget line items reflecting these two changes have been re-classified to more accurately reflect current experience and projected results.

Provost Knodell noted that the stagnant F&A reflects national trends and competition for research dollars is increasing. The Transdisciplinary Research Initiative is addressing this and she iterated the importance to invest the resources to allow this to continue.

Trustee Bain asked if there are additional funding opportunities available. President Bramley commented that there were, including federal aid and grants; foundations, business, and industry, but geography is a factor in why Vermont's dollars are low compared to other states.

Trustee Young observed that grant dollars are reimbursements for costs and therefore it is not necessarily profitable to grow these areas. However, as a small research university, it is strategically important to our mission to pursue as much research aid as possible.

Current year results for Unrestricted Annual Giving will likely be below budget. In light of this shortfall, the budgeted growth in this area will be reviewed before the May meeting. Board of Trustee Chair Cioffi stated that donor preference is changing, with a shift to more restricted giving versus unrestricted gifts. He suggested that it would be helpful to add a line item indicating the UVM Foundation's total receipts

and Chair McAneny requested a breakout of the Foundation's unrestricted funds. Provost Knodell noted that Vice President Cate, UVM Foundation Vice President Rich Bundy and she have been discussing scholarship aid in lieu of unrestricted endowments.

The increase in new facilities expenditures reflects final building costs from Aiken, rental increases and required increases to the facilities replacement reserve.

Trustee Young inquired about UVM's reciprocity agreement with Vermont State Colleges in regards to tuition remission. Associate Vice President Winfield explained that out of the \$85 million student aid \$5.5 million is tuition remission, mostly for dependents of UVM employees. Reciprocity with Vermont State Colleges requires about \$500,000 which is included in the \$ 5.5 million stated above. More dependents of state college employees come to UVM rather than the reverse.

Trustee Brennan inquired about the State Appropriation line item. Vice President Cate stated that the Governor had recommended the \$40 million which passed the House and is anticipated to be approved in late April or May.

Trustee Lenes remarked that President Bramley's gesture to not accept this year's Capital Appropriation in light of the Tropical Storm Irene crisis was very well received and was the right thing to do.

Chair McAneny recessed the Budget, Finance and Investment Committee at 10:06 a.m. for a short break. The Committee reconvened at 10:22 a.m.

She re-opened the discussion by drawing members' attention to the Cost of Attendance chart (Page 18 in Attachment 2) which summarizes the components of the total cost of attendance, including tuition, fees, room and meal plans.

Capital Debt Analysis and Planning

Chair McAneny introduced Susan Fitzgerald, Managing Director at Prager & Company, LLC., the University's debt advisor. Prager & Co. was charged with reviewing the University's debt capacity for the purpose of quantifying the debt capacity over the next decade.

Chair McAneny stated for the record that this was simply an introduction to a larger conversation and that no actions were expected to be made at this time. She also said this discussion will allow for more informed decision making in the future.

Vice President Cate added that the University is approaching an opportunity to refund bonds from its 1998 and 2002 issues for present value savings, before fees, of what had been projected to be about \$3.1 million, but is now somewhat less due to changing interest rates. In addition, as fundraising efforts are expanded and the number of projects on the Strategic Capital Plan increases, Understanding the limits of UVM's debt capacity will be critical. There is substantially more demand for projects than there is financial capacity to undertake them.

Susan Fitzgerald opened her presentation by saying that she was offering a broad framework on how the University could monitor its debt portfolio and Prager in its material presented four different scenarios based on different financial assumptions.

She prefaced further remarks by saying that it is difficult to base decisions on future assumptions and therefore flexibility had been built into each scenario.

The Committee reviewed the material from Prager and discussed the impact on the University's ratios defined in the Debt Policy. When asked, Ms. Fitzgerald advised focusing on the viability ratios over the debt burden ratio. In addition, she said to use a variety of measures including the affordability ratio. She advised that managing debt by multiple ratios is the smartest plan.

Most attention was paid to the methodology data from Moody's Investors Services. Review of the rating methodology made it clear that, while important, that the various debt and financial ratios count only for 25% of the total weighting guiding the rating assessment.

In response to Chair McAneny's inquiry about what insightful information members could use in leveraging decisions to achieve a higher bond rating, Fitzgerald suggested to focus on the ability to attract students, increasing philanthropy and generating new revenue sources.

Chair McAneny stated her support for working toward refunding in FY 2013.

A motion was made, seconded and voted to authorize the administration to work with Prager & Co. to put together data necessary to inform the recommendation to the full Board in May on refunding 1998 and 2002 bonds.

Vice Chair Bain reminded members that it is most important to relate decisions to the University's Strategic Plan. He suggested looking at the entire debt structure and possibly expanding the debt capacity, taking into consideration UVM's current good standing as well as today's existing low interest rates. Assuming that UVM's future is optimistic, and looking out at the next 10-20 years, should the committee consider taking on significantly more debt now and take advantage of borrowing at today's low interest rates? Ms. Fitzgerald noted that it depends on the institution's comfort level in a volatile environment, knowing there would be a loss of flexibility. Chair McAneny acknowledged that more consideration is needed on this and stated that she and Vice Chair Bain would discuss how best to do so, with the possibility of assigning a working group to research further.

Vice President Cate mentioned briefly the second quarter general fund budget to actual report he circulated today to the Committee. He offered members to contact him if they had any specific questions regarding the report.

Chair McAneny offered a final opportunity for comments and questions. There being none, she thanked the Committee for its efforts and input.

Adjournment

The meeting was adjourned at 11:32 a.m.

Respectfully submitted,

Debbie McAneny, Chair