

**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 3, 2012 at 11:15 a.m., in the Silver Maple Ballroom, 401 Dudley H. Davis Center.

MEMBERS PRESENT: Chair Debbie McAneny, Ian Boyce, Carolyn Branagan, David Daigle, Joan Lenex, Kesha Ram, Brian Sozansky, Lisa Ventriss and Mark Young.

REPRESENTATIVES PRESENT: Faculty Representatives Albert Joy and Donald Ross, Alumni Representative Walt Blasberg, Staff Representatives Jesse Bridges and Eric Hoefel, Student Representatives William Vitagliano and Andrew Dougherty, and Graduate Student Representatives Jennifer Rousseau and Eduardo Cotilla-Sanchez

OTHER TRUSTEES PRESENT: Robert Cioffi, Harry Chen

PERSONS ALSO PARTICIPATING: Vice President for Finance and Administration Richard Cate, Associate Vice President for Budget and Resource Management Ted Winfield, Controller Claire Burlingham.

ABSENT: Vice Chair Samuel Bain, Interim President John Bramley, Alumni Representative Meg Guzewicz

*via conference phone

Chair Debbie McAneny called the meeting to order at 11:27 a.m.

Chair McAneny acknowledged the last meeting for Trustees Ian Boyce and Brian Sozansky and Alumni Representative Meg Guzewicz, and thanked them for their service on behalf of the Budget, Finance, and Investment Committee. She also welcomed new Trustee member Lisa Ventriss to the Committee.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the October 21, 2011 meeting.

Net Assets Annual Review

Vice President Cate presented the annual report of net assets which totaled \$162.6M at the end of FY 2011. He noted that academic units may accumulate unspent resources and roll them forward to meet strategic purposes subject to approval by the Provost, such as faculty start up requirements or specialized equipment purchases.

Controller Claire Burlingham explained that the summary report, which is a three-year overview, is grouped by fund types, by similar operations and activities and was based on the FY 2011 detailed results. As of June 30, 2011, there was more than enough liquidity to cover cash demands.

Net assets of \$40.8M are restricted in nature and may only be used for designated purposes. The remainder (\$121.8M) of net assets is “unrestricted” in the accounting and is available for general use, although much of it is targeted to specific purposes (treasury operations, plant funds, insurance reserves, etc.). Of the \$36.5M net assets from general fund operations, \$26.6M of unspent resources is allocated to academic units through reappropriations. Of that total, over \$25M has been identified for use in FY 2012 and the next three fiscal years.

In response to Chair McAneny’s inquiry, Associate Vice President Winfield explained that of the approximately \$10M remaining net assets from general fund operations, the vast majority is set aside for defined purposes such as insurance reserves and working capital. This is in addition to what is set aside from the academic units’ reserves.

Income/Expense units’ net assets totaled \$14.6M as of June 30, 2011; of which \$6.7M resulted from the operations of Continuing Education. Some of the 200 income and expense activities reside in academic units. Deans are responsible for the effective management of Income/Expense activities within their units.

Trustee Boyce suggested consolidating true reserves into one account to better identify available cash. Vice President Cate responded that while the actual accounting needs to stay in its current form, the Committee will be provided with a presentation of net assets in a way to identify cash available for Board of Trustees initiatives when the next net assets report is issued.

Chair McAneny requested that a reappropriations breakdown by unit/project be included as part of the annual net assets information provided.

Vice President Cate clarified for Trustee Young that, although June 30th is a low point for working capital, the year to year balances of net assets are not affected by fluctuations in working capital.

Trustee Young inquired about the University’s ability to continue operations/financially support students should a Pandemic occur. Vice President Cate said that we could support students at an alternative campus for about 3-5 months using our unrestricted funds. He would prefer to have at least a six-month reserve.

Approval of Establishing a Revolving Loan Fund

Vice President Cate sought approval to establish an energy efficiency revolving loan fund. He explained that self-financing these projects will result in energy cost savings that will repay the loans, plus 5% interest, so additional projects can be funded. He recommended committing \$13 million in available cash to establish the loan fund.

Upon approval, a list of potential projects will be developed and prioritized based on their payback period, internal rate of return (IRR), and the availability of remaining funds in the revolving loan fund. Before a project is funded the payback period and the IRR calculations will be reviewed by Efficiency Vermont, a non-profit corporation that provides technical assistance to Vermont households and businesses in reducing their energy costs. Only projects with payback periods of no more than seven years will be funded. After a period of two years these criteria will be reviewed with the Board of Trustees BFI Committee to determine if they are still appropriate. The administration will also provide an annual report on the results of the program. If the savings do not accrue, loans will be repaid by using our unrestricted net assets. The BFI Committee decided that unrestricted net assets in an amount equaling 30% of the value of outstanding principal of loans will be encumbered rather than the 100% originally proposed.

In order to maintain a conservative approach, if utility rates increase beyond those anticipated in the original pro forma for a project, the resulting increase in savings will not be factored into the repayment plan. The savings will therefore be primarily based on a reduction in energy usage.

Trustee Young questioned whether the repayment mechanism was more complicated than necessary. The Committee discussed this issue and in summary Vice President Cate indicated that he believed that it was important to track clearly both the investment and its impact and repayment so that in the future there would be a clear record of what was done and what was accomplished.

Responding to Trustee Boyce's concerns, Vice President Cate explained that in order to demonstrate conservative integrity, he recommends charging 5% interest as opposed to a lower rate.

Trustee Joan Lenex commended BFI leadership and University administration for this work, stating that it is economically and environmentally sound.

Trustee Keshia Ram voiced her support for the concept of the revolving loan fund but questioned the transparency of the process across campus. Vice President Cate assured her that academic partnerships with the College of Engineering and Mathematical Science as well as student involvement on smaller projects were in place.

The Committee was asked to approve the following resolution:

Resolution Authorizing Energy Efficiency Revolving Loan Fund

WHEREAS, the administration has proposed to create an energy efficiency revolving loan fund in order reduce energy costs and UVM's carbon output;

NOW, THEREFORE BE IT RESOLVED, that the Board of Trustees authorizes the Vice President for Finance and Administration, within the context of the material terms presented to the Board on February 3, 2012, to draw from existing liquid assets up to \$13 million to create an energy efficiency revolving loan fund to fund energy efficiency

projects; and further, that an annual report regarding the loan fund and funded projects will be provided to the Budget, Finance and Investment Committee.

A motion was made, seconded, and it was voted (8-1) to approve the resolution for recommendation to the full Board.

Trustee Young requested it go on record that, he fully supports the University engaging in energy efficiency initiatives but does not support the proposed mechanism and therefore voted against the resolution.

At 12:23 p.m., Chair McAneny recessed the meeting.

At 1:30 p.m., the meeting reconvened.

Chair McAneny announced that Associate Vice President Ted Winfield is retiring at the end of the fiscal year. She credited him with being an invaluable part of BFI and he will be greatly missed. Chair McAneny told Vice President Cate that the committee is very interested in seeing the proposed succession plan for Mr. Winfield.

On behalf of the faculty, Trustee Albert Joy thanked Mr. Winfield for his ongoing support.

Report of the Investment Subcommittee (ISC)

In the absence of Chair Bain, Subcommittee member Daigle thanked outgoing Trustee Ian Boyce for his expertise and commitment to the ISC.

Trustee Daigle led the Committee through a brief discussion of Long-Term Investment Pool allocations and performance through December 31, 2011. The endowment ended December, with preliminary numbers, at a market value of \$323.2 million. The 2011 calendar year performance was down 2.0%; however the 3-year period is up 12.5%; and the 5-year period shows a 28% increase, which includes the 2008 catastrophe. Undiversified benchmarks returned 0.80, leaving the University better by 200 bps.

During the January 2012 asset allocation meeting, ISC members agreed to slightly shift out of two traditional emerging market managers and into two frontier emerging market managers.

In the fourth quarter of FY 2011, ISC chose to put some money into a real estate fund that should be funded early this calendar year.

The ISC made the following modifications to policy target allocations (all of which were within the approved ranges): decreasing US Equity from 24.0% to 22.5%, increasing Marketable Alternatives from 20.0% to 22.0%, decreasing Real Assets from 15.0% to 14.0%, increasing Fixed Income from 7.0% to 8.0%, and maintaining a 0.0% allocation in Cash and Equivalents.

	Current Targets (%)	New Targets (%)
US Equity	24.0	22.5
Global ex-U.S. – Developed	12.0	10.5
Global ex-U.S. – Emerging Markets	12.0	12.0
Marketable Alternatives	20.0	22.0
Real Assets	15.0	14.0
Private Equity/Venture Capital	10.0	11.0
Fixed Income	7.0	8.0
Cash and Cash Equivalents	0.0	0.0

Chair McAneny acknowledged the excellent work of the ISC members.

Socially Responsible Investing Work Group (SRIWG) Leader and University Controller Claire Burlingham brought the Committee up to date regarding the activities of the Work Group. They met with Vice President Cate and the Student Government Association leadership in January to continue their discussion on restructuring. Vice President Cate described to SRIWG how the structure of the investment portfolio and investments are in a wide range of various funds and many funds are not readily available for divestment. SRIWG will continue to meet through the spring semester and focus on developing the details and the structure of a reconfigured student committee, which will focus on proxy voting; shareholder initiatives; screening and monitoring the University’s existing investment portfolio for indications of social harm. SRIWG intends to deliver a white paper to the ISC outlining its recommendation prior to its May meeting.

FY 2013 Budget Plan Update

Chair McAneny informed the committee that the Budget Plan Update is meant to be a conversation about benchmarks. It is the first of three meetings regarding the final budget approval process. She reminded members that the BFI meeting on April 16th will be an actual working meeting and will prepare committee members to approve a budget in May. Chair McAneny and Trustee Bain will co-chair the April meeting and Trustee Bain will chair the May meeting in Chair McAneny’s absence.

The Committee reviewed comparison data for recent and historical tuition and fee charges for the University and its public and private peers. This data provides a back drop for both the tuition and fee recommendation and discussion in April and final approval in May.

Associate Vice President Winfield reviewed with the Committee targeted rates for room, board and required student fees. Final rates will be brought before the Board for approval in May and will not exceed those proposed today. Mr. Winfield explained that the committee is not being asked to vote on anything at this time but by confirming maximums fees now, Residential Life is able to enter into contracts with students prior to the formal budget approval in May.

The maximum proposed comprehensive student fee reflects a 2.3% increase. The combined room/meal rate increase is 3.7%. Taken together, fees, room and board charges will be just at 3.5%.

Vice President Cate summarized the major planning elements of the projected FY 2013 budget that will be presented in detail at the April 16th meeting. The goal is to confirm a balanced budget using these parameters: tuition increase of 3.5% and a 2.0% salary increase expense; benefits represent the next largest component of personnel costs and will be finalized following upcoming meetings with Blue/Cross Blue/Shield; facilities and administration income from grant research reduced by \$1 million, in light of the slow-down of funding at the federal level; level funding of the state general fund support at \$40.7 million. Compared to our peer institutions, the University of Vermont has had the 4th lowest average tuition rate increase over the past decade.

Chair McAneny requested that net tuition revenue data from Kiplinger's be included in materials to be reviewed for the April 16 meeting.

Trustee Branagan thanked Vice President Cate and Associate Vice President Winfield for their diligent work on slowing down the University's budget. Chair McAneny added that President Bramley and Trustee Daigle deserved credit as well.

Vice President's Report

Vice President Cate presented to the Committee a general fund budget to actual report for FY 2012 as of September 30, 2011.

The Committee was provided with a summary report of budgeted revenue and expenses for the general fund of the University through the fiscal year. Revenue is reflected in the major categories linked to the source of revenue. Expenses are categorized by the organizational units where the management of expenses occurs. Revenue streams through the first quarter appear to be on budget and expenses are tracking in line with budget through three months of operations. The majority of revenue is received in the first quarter through tuition payments.

At 2:06 p.m., the Chair entertained a motion to go into executive session for the purpose of discussing contracts. All in attendance were excused from the meeting with the exception of Vice President Cate, Controller Burlingham, Associate Vice President Winfield and Capital Planning Management Director Robert Vaughan.

The meeting was reopened to the public at 2:20 p.m.

Other Business

The Committee was asked to approve the following resolution:

Resolution Approving Parking Lot Lease Amendment

RESOLVED, that the Board hereby authorizes the Vice President for Finance and Administration to conclude negotiations with and, as appropriate, sign, a fifth amendment of the lease of a parking lot with FelCor S-4 Hotels (SPE), L.L.C., d/b/a Sheraton-

Burlington Inn, such agreement to be consistent with the material terms the administration has proposed.

A motion was made, seconded, and it was unanimously voted to approve the resolution for recommendation to the full Board.

The Committee was then asked to approve the following resolution:

Resolution Approving RNW Contract

BE IT RESOLVED, that the Vice President for Finance and Administration is authorized to contract with RNW Consulting to provide additional consulting services related to the University's strategic initiatives project in the amount of up to \$100,000 for a period through June 2012.

A motion was made, seconded, and it was unanimously voted to approve the resolution for recommendation to the full Board.

Adjournment

There being no further business, the meeting adjourned at 2:23 p.m.

Respectfully Submitted,

Debbie McAneny, Chair