

**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 8, 2013 at 8:30 a.m., 427A Waterman Building.

**MEMBERS PRESENT:** Chair Debbie McAneny\*, Vice Chair David Daigle\*, President Tom Sullivan, Samuel Bain\*, Carolyn Branagan\*\*, Robert Brennan\*, Joan Lenex, Dennis Mahoney, Dale Rocheleau, Lisa Ventriss, Jeff Wilson and Mark Young

**REPRESENTATIVES PRESENT:** Faculty Representatives Albert Joy and Donald Ross, Foundation Representative Richard Ader\*, Alumni Representative Afi Ahmadi, Staff Representatives Eric Hoefel and Tobey Clark, and Graduate Student Representatives Jennifer Rousseau\* and Elizabeth Pope

**ABSENT:** Student Representatives Samantha Holland and Andrew Dougherty

**OTHER TRUSTEES PRESENT:** Board Chair Robert Cioffi\*\*\*, Sarah Buxton\*, Anne O'Brien\*, and Raj Thakrar

**PERSONS ALSO PARTICIPATING:** Interim Provost and Senior Vice President Robert Low, Vice President for Finance and Administration Richard Cate, Vice President for Enrollment Management Chris Lucier, University Controller Claire Burlingham, University Budget Director Alberto Citarella, and The Yuba Group LLC Representatives Linda Fan and Roger Goodman

\* By means of conference telephone.

\*\*Called in at 8:58 a.m. and left the meeting at 10:17 a.m.

\*\*\*Arrived in person at 9:05 a.m.

On behalf of Chair Debbie McAneny, Vice Chair David Daigle called the meeting to order at 8:35 a.m.

### **Approval of Minutes**

A motion was made, seconded and voted to approve the minutes of the February 8, 2013 meeting.

### **FY 2014 Budget Assumptions and Proposed Tuition Rate**

Vice Chair Daigle reminded the committee that an objective for the FY 2014 budget was to hold tuition increases at or below 3%. Provost Low stated that the proposed budget included a \$5 million deficit. He mentioned the strategic decision for FY 2014 to distribute the budget cuts in order to minimize the impact on academic units. The administrative units will bear about a 4.7% reduction compared to a 1.1% reduction in academic budgets. Vice President Cate assured

members that expense recovery cuts are appropriate and fit into the University's strategic plan. However, when asked if a 4.7% reduction to the administrative budget was cutting it too close, he acknowledged that things were getting very tight. Chair McAneny noted that disproportionate hits like this need to be more balanced in the future.

The Provost reported that he and Vice President Cate have met with all deans and vice presidents and targets have been met to achieve a balanced FY 2014 proposed budget. He emphasized the importance of increasing the University's revenue streams to offset future deficits. The next step is to fine tune the budget while looking at the bigger picture and make adjustments as necessary.

Vice President Cate stated that the FY 2014 budget is premised on a 2.9% tuition increase and relies on using \$2 million of the FY 2012 fund balance in order to cover the higher than usual increase in student aid demand. The State of Vermont is providing additional financial aid dollars, however, this is not a new revenue stream for the University as all the money will be used to mitigate the increase in tuition for Vermont students. He added that the 2.9% tuition increase is essentially meaningless when balanced with the higher financial aid burden.

Reduced tuition revenue is another budget assumption. An enrollment of 9,800 students is expected next year, which is 89 fewer students than the current year. The shrinking demographics of the northeast, and in particular, Vermont, coupled with President Sullivan's strategic goal to reduce enrollment are the major factors. Vice Chair Daigle stressed the need for more aggressive recruitment domestically and internationally to offset the low high school graduation rate in the northeast. Vice President Cate pointed out that fall enrollment numbers, which are reflected in the Source Book are higher than the spring count and therefore the fall/spring average enrollment is the one reflected in the budget.

An overall 2.9% in salaries and wages, and health insurance premiums over 10% are the primary drivers in the expense increase. One-third of the increase in premiums is a result of state and federal health care reform fees and add-ons. The other two-thirds are from actual claims.

Projected revenue and expense for FY 2013 will roughly break even with revenue streams remaining relatively stable. However, the Facilities and Administration cost reimbursement line item deserves attention. This decrease is tied to the federal level to some degree. Sequestration has had an impact on research funding and some of the University's principal investigators are now stretching out the timeline of their research projects, which in turn reduces the amount of reimbursement the University receives in a given year.

Continuing Education revenue historically has been about \$4 million higher than budgeted. Since this positive trend has been consistent, the full amount is being budgeted up front this year. Trustee Bain applauded this decision.

Operating costs are stable; less is being budgeted for energy use as a result of continued low natural gas rates.

The UVM Foundation is receiving \$1.5 million to its base budget in addition to the \$7.3 million Development and Alumni Relations budget transfer.

Vice President Cate outlined what was included in the \$5 million reductions: about \$1 million less will be available for deferred maintenance and equipment; many vacant positions will not be filled; about \$500,000 will be saved in custodial services; a small number of matching fund grants will not be available; some athletic programs will be reduced. In response to Vice Chair Daigle's inquiry how the colleges would be impacted by the administrative reductions, Vice President Cate gave the example of fewer classroom renovations as a result of the lower deferred maintenance funds. There was some variability across the units, but for the most part, academic operating budgets were cut proportionately.

Vice Chair Daigle expressed concern that the current cost structure is inflexible and encouraged more flexibility. President Sullivan replied that deans are working on strategic three-to-five-year budget plans. He acknowledged that some programs will need to be eliminated and that it is more strategic to identify and focus on strengths of the University, increasing the student experience. In addition, expanding graduate degree programs and online education and a three-semester curriculum are being considered as potential new revenue streams. As a member of the Faculty Senate's Financial and Physical Planning Committee, Representative Joy acknowledged the potential for the three-semester plan, but added that looking at projected costs associated with projected revenue is important.

Vice President Cate explained the breakdown of the student aid line items. *Student Aid – EM* is appropriated to students at the discretion of the Vice President for Enrollment Management. *Student Aid – Central Managed* accounts for tuition remission and athletic scholarships. *Student Aid from Restricted Gifts and Restricted Endowments* funds have donor-specific target audiences.

Vice President Lucier responded to Board Chair Cioffi's question on how the University's financial aid rate compares to other institutions. He explained that in 2009 the University had experienced significant costs (about \$5 – 7 million) due to a larger incoming class as well as the effects of the financial downturn. Currently the discount rate at most institutions is about 40%; the University is at 32%. A trend that Vice President Lucier is seeing is an increased competition with private peer institutions for the top students.

There is a cost advantage to increasing retention rates. President Sullivan said that the key to ensuring retention is to provide positive individual experiences for first-year students. Measures of success in this area include the recently expanded career services program, residential learning communities, and the high retention rates within the Honors College.

Board Chair Cioffi stressed the importance of sharing the positive message that more than 40% of Vermont students pay no tuition (some of whom do pay associated fees/room/board) and only 13% of Vermonters pay full tuition. He strongly urged Trustees and senior leadership to convey this to a broad audience. Half of the \$41 million state appropriation is specifically for in-state student aid. The other half is split equally between the College of Medicine and the College of Agriculture. It was suggested to develop an ongoing factoid communication with the media to help educate Vermonters and beyond on how significantly students are supported, specifically state residents.

Trustee Bain inquired about student debt. Vice President Lucier directed attention to Attachment 2, page 12, *Undergraduate Indebtedness at Graduation*. About 67% of in-state graduates leave with loan debt (average amount, \$22,000); 57% out-of-state students graduate with debt, averaging \$31,000.

Vice Chair Daigle recessed the Budget, Finance and Investment Committee at 10:17 a.m. for a short break. The Committee reconvened at 10:30 a.m.

### **Debt Policy Annual Review**

Vice President Cate introduced Linda Fan, Managing Partner and Roger Goodman, Partner of The Yuba Group LLC., the University's new debt advisor. Ms. Fan is familiar with UVM's portfolio as she was a member of the engagement team with the prior debt advisor, Prager & Co. Mr. Goodman worked for Moody's before joining The Yuba Group.

Ms. Fan and Mr. Goodman provided an overview of the University's debt portfolio and debt policy ratios in relation to public and private peer institutions. Discussion ensued about factors rating agencies take into consideration when evaluating an issuer. Rating agencies analyze factors such as management and governance practices, and responses to challenging environments when considering credit quality and access to debt market. The University's role as the state's flagship and land grant institution, consistent enrollment, and faculty recruitment and research funding are among UVM's credit drivers. A strong balance sheet and UVM's positive movement out of the financial crisis are considerations as well. However, due to the negative demographic trend and the increased competition for research grants available, some of these areas of strength may become a concern in the future.

Since FY 2009, many schools have fallen out of compliance with their own debt policies, and some institutions are re-crafting their policies with less restrictive debt ratio levels, or not including absolute levels at all.

Based on identified Strategic Capital Plan projects and the current debt capacity, the Committee reviewed The Yuba Group presentation materials (Attachment 3) and discussed potential impacts if the University were to take on more debt. Current capacity allows no additional funding of new projects.

The University's Debt Policy ratios and current standings were reviewed in light of the Aa3 and A1 medians, and then compared to two hypothetical debt scenarios. The consultants' conclusions were that UVM likely has moderate additional debt capacity at the current rating level; however student demand and sustainable revenue growth will be key factors over the next several years.

The first scenario assumed additional debt of \$75 million in FY 2015. This would be manageable, but would most likely cause the exceeding guidelines in 2017. The second scenario adds to the above scenario another \$50 million in 2017. Slight debt burden noncompliance would result and could negatively affect credit ratings. It was noted that both scenarios assumed zero increase in the capital campaign contribution. If there were an increase, it would positively affect the viability ratio.

Asked about how peer institutions compare to how debt and liability are managed, Ms. Fan explained that UVM's debt burden ratio is in line with public peers; private institutions tend to have stronger balance sheets. Some states hold the debt for the public institution (e.g., University of Connecticut). Mr. Goodman noted that ratings agencies primarily compare the University to other public institutions.

Ms. Fan stressed the importance of looking at the strategic importance of projects, and considering more than one ratio in the decision-making process. She also noted that the distinction between 5% and 6% would be an unlikely driver in rating agencies' reviews.

The viability ratio is negatively impacted by 1/10<sup>th</sup> of one percent by the GASB account standard change in 2008 regarding post-retirement medical benefits. In addition, an updated analysis using current numbers would bring the ratio closer to compliance. The administration will provide this analysis in May.

When asked if the viability ratio should be lowered so as to bring the University into compliance with the policy, The Yuba Group representatives advised against it and suggested instead to review the data every three to five years. Chair McAneny said that would allow the opportunity for continued discussions such as the one today.

In light of the proposal to waive the current debt burden sunset clause trustees need to consider the UVM Foundation, the strategic plan, and the need for more debt capacity for upcoming initiatives. Chair McAneny observed that the 5% debt burden ratio has been an accurate target. She is pleased with the rich discussions that ensue when reviewing the Debt Policy and offered a possible third scenario to consider. Revising the policy to state the debt burden ratio would not surpass 5.5% and sunset in 2021 would give both flexibility in pursuing strategic projects and ensure the opportunity for more discussion.

The optimal credit rating for a university of our type relates to the fundamentals of the institution. Having a split rating is not considered negatively.

Trustee Young posed a question about using \$50 million of cash reserves instead of borrowing, and how that would affect our debt ratios. Vice President Cate responded that using \$50 million of cash would essentially deplete the University's supply of unencumbered cash. Trustee Wilson asked what would not get done if the debt burden ratio is set too low. Vice President Cate noted that the current deferred maintenance backlog is \$320 million and, without additional debt, it will be difficult to address the backlog in a meaningful way. That said, the source of the funding to cover additional debt service has not yet been identified.

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

### **Refunding**

The conversation on whether to refund 2005 bonds or not continued from the February meeting and is on the May meeting agenda.

There being no further discussion, Vice Chair Daigle thanked The Yuba Group representatives for their excellent presentation.

### **Adjournment**

The meeting was adjourned at 11:44 a.m.

Respectfully submitted,

Debbie McAneny, Chair