

**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 and State Agricultural College was held on Friday, October 25, 2013 at 10:00 a.m. in the Silver Maple Ballroom, 401 Dudley H. Davis Center.

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

REPRESENTATIVES PRESENT: Faculty Representatives Albert Joy and Donald Ross, Foundation Representative Richard Ader**, Staff Representatives Patty Eldred and Tobey Clark, Student Representatives Adam Kaufman and Rachel Burt, and Graduate Student Representatives Owen Myers and Christian Jordan

OTHER TRUSTEES PRESENT: Board Chair Robert Cioffi

PERSONS ALSO PARTICIPATING: Provost David Rosowski, Vice President for Finance and Treasurer Richard Cate, Controller Claire Burlingham, University Budget Director Alberto Citarella, Director of Capital Planning and Management Robert Vaughan, Vice Provost for Student Affairs Annie Stevens, College of Medicine Dean Rick Morin, College of Arts and Sciences Assistant Dean Skip Fanus, and College of Arts and Sciences Associate Dean Josie Davis

ABSENT: Alumni Representative Afi Ahmadi

*via conference phone

** via conference phone until 11:15 a.m.

Chair Debbie McAneny called the meeting to order at 10:31 a.m.

Chair McAneny began the meeting by acknowledging and welcoming incoming staff, undergraduate and graduate student representatives, Patty Eldred, Adam Kaufman and Rachel Burt, and Owen Myers and Christian Jordan.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the June 10, 2013 meeting.

Vice President's Report

Vice President Cate explained that the current Energy Efficiency Revolving Loan Fund Program projects have an average payback period of 3.9 years and will result in \$14,287 interest paid to the fund. This is an annual savings to the general fund of \$42,053. Future projects will ultimately result in more funds being utilized.

He reported a \$9.5 million fund balance with revenues slightly down and expenditures under budget. Of this balance, approximately \$7.7 million will be reappropriated by academic and administrative units and the Provost for multi-year use against strategic priorities. Unit plans for the use of these resources must be reviewed and authorized annually by the Provost. In addition, \$1.6 million will be used for future year encumbrances. The remaining fund balance as of the end of FY 2013 is approximately \$200,000, which will revert to general fund reserves.

Trustee Bain asked how the \$3.8 million General University balance was allocated. Budget Director Citarella explained that this balance was made up primarily of under spending on the contingency account which was utilized to offset the decrease in revenue as well as under spending from the Provost's academic commitments account.

Questions about the \$7.7 million reappropriations were raised. Trustee Daigle inquired about what type of controls the University has on the reappropriations; if they are tracked by college and how the reappropriations are spent. Vice President Cate responded that the Provost must approve spending requests from the deans.

Trustee Brennan was curious why these funds would not be rolled over to offset the operating deficit. Vice President Cate explained that there was no deficit in FY 2013, that these dollars are one-time resources that cannot be utilized to offset a structural ongoing deficit and that the FY 2014 structural gap is being met by pre-existing resources. Trustee Brennan commented that a less generous arrangement may create more surplus balances to offset future deficits.

Controller Burlingham reported that the KPMG FY 2013 final management letter will reflect no material weaknesses, significant deficiencies or management comments in the University's external audit. Vice President Cate noted that this is the third consecutive year that no findings were found. Chair McAneny congratulated Controller Burlingham and her staff for this excellent report.

Deferred Maintenance Financial Implications

Responding to a previous request, Vice President Cate and Director Vaughan reviewed a deferred maintenance fiscal analysis based on *Sightlines* peer comparison data (Attachment 2).

Annual stewardship spending is not keeping up with the rate of depreciation expense. The current backlog is about \$321 million, 13% higher than in FY 2008. However, it would be an estimated \$181 million more than that if the historical investments had not been made.

Major factors affecting this issue are the unlikelihood of increased state capital support; debt funding needs to be reserved for strategic facilities needs, and the best way to achieve the annual stewardship target is to incrementally increase the general fund allocation for this purpose.

Trustee Bain challenged the administration to review the capital approval process in a more current light, to consider other options and research what other institutions are doing in this area. He stressed that the current process is not sustainable and something different is needed to address this looming problem. Vice President Cate spoke about repurposing the University's historic wood frame structures through the use of outside developers. Director Vaughan

mentioned that the revised Housing Master Plan is considering using third-party developers for new housing options. A suggestion that individual colleges and schools use their year-end reappropriations to fund some of their buildings' projects was echoed by President Sullivan, adding that transitioning to an incentive-based budgeting model will merge well with this challenge. Trustee Young added that deferred maintenance is one of the risks included in the University's risk/opportunity portfolio.

Trustee Wilson thanked the administration for the presentation and found it helpful. He commented that this is an extensive challenge and suggested that the committee adopt a policy addressing deferred maintenance based on recommendations from the administration. Chair McAneny concurred and charged the administration to develop a plan to better fund deferred maintenance for the committee to consider.

Reallocation of 2007 and 2009 bond Balances for Deferred Maintenance Projects

Vice President Cate explained that a handful of closed projects have minor positive bond balances and requested the reallocation of these balances for use in addressing priority deferred maintenance issues. The 2007 bond balance is \$55,500 and the 2009 bond balance is \$59,412.

Chair McAneny presented the following resolution:

Resolution Approving Reallocation of 2007 and 2009 Bond Balances for Deferred Maintenance Projects

WHEREAS, the University wishes to manage its debt in the most cost-effective way in accordance with its Board-adopted Debt Policy; and

WHEREAS, in 2007 and 2009, the Board of Trustees authorized the issuance of General Obligation Bonds for various capital projects; and

WHEREAS, the University initially authorized the expenditure of these two bond proceeds for certain projects that have been completed to a level whereby a remaining balance of funds will not be expended; and

WHEREAS, the University now wishes to authorize the expenditure of \$55,500 from the 2007 bond proceeds and \$59,412 from the 2009 bond proceeds toward priority deferred maintenance projects;

NOW, THEREFORE, BE IT RESOLVED, that the Vice President for Finance and University Treasurer, or his successor or designee, is hereby authorized to reallocate \$950 from the Gutterson Parking Garage, \$12,888 from the Carbon Monoxide Detection, \$5,469 from the DeGoesbriand Fit-up Phase I, \$3,137 from the 438 College St. Renovation, \$5,234 from the Cook Commons Renovation, \$ 21,899 from the Research Lab Renovations, \$5,923 from the Athletic Assessment Report, \$1,092 from the Waterman SFS/GCA Renovations, \$49,598 from the Terrill Hall Renovation, \$198 from

the Colchester Research Facility, and \$8,524 from the Athletic/Wellness Study to finance \$114,912 of priority deferred maintenance projects; 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.

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

Approval of Summer Session Tuition Rates

Budget Director Citarella explained that based on an analysis of summer tuition rates at other institutions in the region (Attachment 3, Appendix A), the Vice President for Enrollment Management and the Dean of Continuing and Distance Education have recommended that the University alter its practice of pricing summer tuition at 15% below that of the previous semester. In an effort to be more competitive and recognizing that financial aid is only available to students for two semesters, they have recommended that the 2014 summer tuition be set 30% below that of the 2013-2014 school year. A detailed analysis of the results of the outcomes of this new practice will be conducted next fall to determine whether the educational and financial goals of making this change have been realized.

The recommendation for Summer Session (summer 2014) is to set tuition at \$400 per credit hour for in-state students and \$1,010 per credit hour for out-of-state students.

Kaplan Bridge Program Fee – Summer 2014

Budget Director Citarella reported that four years ago, the Educational Policy & Institutional Resources (EPIR) Committee authorized the administration to enter into an agreement to establish a U.S.-Sino Pathways Program (USPP) at the University of Vermont. Beginning in summer 2014, the program will be expanded to include students from Nigeria, as well.

All Kaplan Bridge Program students will attend a summer session to complete their preparation for studies in the U.S. Students attending other consortiums will participate in a bridge program at Northeastern. UVM has elected to operate its own bridge program consisting of 10-13 credits over a 10-week period beginning May 24, 2014.

The proposed Kaplan Bridge Program all-inclusive fee for Summer 2014 (including tuition, room and board and student fees) is \$15,945, a 3% increase from last year.

Controller Burlingham then presented information on the Global Gateways Program. The administration is requesting approval on setting program fees for the Global Gateways Program for international students entering a two-semester program commencing spring 2014 and a two-semester program commencing summer 2014. Students who are recruited by Study Group need to be charged on a total cost of attendance basis which includes out-of-state tuition, room and board, and all other fees and costs associated with enrollment at the University in a manner

which is consistent with the terms and conditions set forth in the agreement between the University and Study Group. With an enrollment target of 20 students, there are currently 24 applicants. Inflationary costs are reflected in the difference between the Spring 2014 and Summer 2014 fees.

The following resolutions were presented to the committee for approval:

Resolution Approving Summer Tuition and Kaplan Bridge Program Fee

RESOLVED, that the Board of Trustees hereby approves the tuition rate for the Summer Session of \$400 per credit hour for in-state students and \$1,010 per credit hour for out-of-state students. The changes will become effective for the 2014 Summer Session.

BE IT FURTHER RESOLVED, that the Board of Trustees hereby approves an all-inclusive fee for the Kaplan Bridge Program for Summer 2014 of \$15,945, pending re-approval of that academic initiative via the Board of Trustees Executive Committee.

Resolution Approving Global Gateways International Student Tuition

WHEREAS, the University, after a request-for-proposal-process, entered into an agreement with Study Group, an international private-sector provider of education and training for international students, to provide services to UVM in support of the University's recruitment of academically qualified and diverse international students and its development of an international pathways program; and

WHEREAS, this program will prepare undergraduate international students to successfully matriculate to degree status, persist, and graduate, and to support the University's larger internationalization efforts; and

WHEREAS, the first cohort of international students through this program is expected to begin their course of study at the University beginning in January 2014 and the second cohort in May 2014; and

WHEREAS, the students need to be charged on a total cost-of-attendance basis that includes tuition, room and board, and all other fees and costs associated with enrollment at the University in a manner in accordance with the terms and conditions set forth in the agreement between the University of Vermont and Study Group;

THEREFORE, BE IT RESOLVED, that the following rates are established:

Global Gateway Program 2 Term beginning Spring 2014: up to \$50,553

Global Gateway Program 2 Term beginning Summer 2014: up to \$51,685

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

Bond Refunding/Issuance Work Group Update

Chair McAneny, who leads the Bond Refunding/Issuance Work Group, updated committee members on the Work Group's activities since June.

The Work Group met several times, and has concluded that the potential refunding opportunities for the Series 2005 bonds have decreased notably since the start of the year, negating the committee's previous consideration to refund.

The Chair concurred with Trustee Bain in the importance of staying prepared to take advantage of future refunding opportunities should they arise. The Work Group will continue to meet as necessary to monitor the market and keep the committee apprised on any major changes.

Chair McAneny also referenced The Yuba Group's August 30, 2013 Peer Comparisons presentation (Attachment 4) providing data on how the University compares to public and private peer institutions according to rating agencies, Moody's, and S&P.

FY 2015 Budget Process

Provost Rosowsky outlined the administration's budget-building process which entails extensive engagement process with the campus community on how to align some of the tradeoffs and the budget with the President's priorities. Units will receive preliminary targets in November, the Provost will review budget plans in December. Committee members will review a preliminary budget in February and a budget proposal in April. Final adoption of the budget by the Board is scheduled for May.

The primary revenue sources include tuition, state appropriations, indirect cost recovery, endowment income and gifts, and income/expense activities. Cost drivers are compensation, financial aid, facilities, debt service, and utilities.

At 11:48 a.m. over 100 representatives from the Vermont Student Climate Culture Club entered the meeting room, demonstrating their request that the University divest from fossil fuel holdings. Chair McAneny acknowledged the students' presence and their rights to voice their opinions in a peaceful manner. She then asked the students to, in turn, respect the Board and other members of the University community. The students went silent in a mock die-in, simulating what they believe to be the fatal effects of climate change brought about by fossil fuel combustion. Chair McAneny resumed the business of the meeting.

Provost Rosowsky proceeded with his overview. Going into the FY 2015 budget process there is a \$6.7 million revenue-related gap from FY 2014; indirect cost recovery from grants are expected to be about \$800,000 less this year; existing benefits costs will increase; wages and salaries must remain competitive; critical infrastructure investments are necessary and the FY 2015 budget must be structurally balanced.

Strategies and tradeoffs that will be considered include generating new revenue, making moderate adjustments to benefits packages, modest budget reductions, reasonable tuition increase and competitive financial aid strategy.

Provost Rosowsky reiterated that this will be an ongoing, collaborative, and manageable process.

Chair McAneny recessed the meeting at 12:00 p.m.

Chair McAneny reconvened the meeting at 1:38 p.m.

Report of the Investment Subcommittee (ISC)

ISC Chair Bain began by thanking fellow Subcommittee members David Daigle and Rob Brennan, as well as consultants Cambridge Associates and the University administration for all their good work. Without their collective excellent work the University's endowment would not be in the robust condition it is in today, a healthy \$400 million.

Endowment Performance Update

Recent ISC activity includes the approval of a \$5 million commitment to Lone Star Real Estate Fund III, and trimming \$1 million from Discovery Capital.

The Socially Responsible Investing Advisory Council recommendations on fossil fuel divestment are being considered very seriously. ISC discussions on this topic will continue to be conducted in open session. ISC members are committed to devote extra time to research and analysis of the information provided.

The Subcommittee chose to make no changes to asset allocations at this time. Year-to-date bond allocations are about 6% and the University portfolio continues to perform well, and be broadly diversified.

Trustee Wilson inquired why hedge funds were still in the portfolio. Chair Bain explained that historically, hedge funds have been the second best performers, but the Subcommittee will continue to monitor their performance.

Chair Bain briefed new members on two policies up for annual approval. The Endowment Budget Policy sets the percentage of the endowment to be further invested. The Endowment Administration Fee Policy sets what is paid to the University for administrative support. Representative Joy sought clarification on the purpose of the endowment administration fee. Trustee Bain answered that it was for services that would otherwise need to be contracted out if not provided by University administration. He again remarked on the excellent value received, and particularly thanked Assistant Controller Kathy Snell.

Chair McAneny brought forth the resolutions for Committee approval, which, she noted, were endorsed by the Investment Subcommittee:

Resolution Reaffirming the Endowment Budget Policy

RESOLVED, that the *Endowment Budget Policy* is reaffirmed as reads below:

BE IT RESOLVED, that the annual budget for spending from Endowment be set at 4.5 percent of the average market value for the previous thirteen quarters ending December 31 of the prior calendar year; and

BE IT FINALLY RESOLVED that the Investment Subcommittee will review and make recommendation to the Budget, Finance and Investment Committee regarding the reaffirmation or revision of the *Endowment Budget Policy* each year no later than December 31.

Adopted by: Board of Trustees – May 13, 1995
Reaffirmed: Board of Trustees – September 8, 2007
Board of Trustees – September 5, 2008
Board of Trustees – October 24, 2009
Board of Trustees – October 30, 2010
Board of Trustees – October 22, 2011
Board of Trustees – November 8, 2012
Board of Trustees – October 26, 2013

Resolution Reaffirming Endowment Administration Fee Policy

RESOLVED, that the *Endowment Administration Fee Policy* is reaffirmed as reads below:

BE IT RESOLVED, that the Board of Trustees hereby approves a 0.25 percent fee applied to the University endowment for FY 2013 to cover reasonable costs associated with endowment administration, management and operation; and

BE IT FURTHER RESOLVED, that on a fiscal year basis, the fee will be reviewed and assessed annually as 0.25 percent of the average market value of the University endowment for the previous thirteen quarters ending December 31 of the prior calendar year; and

BE IT FINALLY RESOLVED, that the Investment Subcommittee will review and make a recommendation to the Budget, Finance and Investment Committee regarding the reaffirmation or revision of the *Endowment Administration Fee Policy* each year no later than December 31.

Adopted by: Board of Trustees – September 13, 2003
Reaffirmed: Board of Trustees – September 8, 2007
Board of Trustees – September 5, 2008
Amended: Board of Trustees – October 24, 2009

Reaffirmed: Board of Trustees – October 30, 2010
Board of Trustees – October 22, 2011
Board of Trustees – November 8, 2012
Board of Trustees – October 26, 2013

A motion was made, seconded, and it was unanimously voted to reaffirm the two resolutions for recommendation to the full Board.

Socially Responsible Investing Advisory Council Update (SRIAC)

University Controller Burlingham apprised Committee members of the SRIAC activities since its May meeting. The Council has met several times this semester. Two new Undergraduate student members, one new School of Business faculty member; and one new Rubenstein School of Natural Resources Graduate student member joined the Council. The Fall Town Hall Meeting was held on October 22 and was well attended. Fourteen individuals, all of whom were students, addressed the Council. The Council will now review what was presented and make a decision on what issues they will research further. Their hope is to present recommendations on the identified issues, if any, to Vice President Cate by the end of January/early February 2014 so that he can in turn review them with the ISC in spring 2014.

Capital Projects Annual Deferred Maintenance Funding

Chair McAneny invited Capital Planning and Management Director Bob Vaughan to provide the project scope, costs and funding plan for three deferred maintenance projects. Vice Provost for Student Affairs Annie Stevens, College of Medicine Dean Rick Morin, College of Agriculture and Life Sciences Assistant Dean Skip Fanus, and College of Arts and Sciences Associate Dean Josie Davis joined him to answer project-specific questions. Director Vaughan reported that all three projects received approval from the Educational Policy & Institutional Resources (EPIR) Committee earlier today.

Renovations to the Given Building Courtyard to create the Larner Classroom will accommodate several learning environments. The estimated budget is \$1.25 million with the majority of the funds being donor-supported. Expenses in excess of the amount raised will be covered by the College of Medicine.

The first of several phases of The Miller Research Complex renovation project includes deconstruction of the existing free stall area and construction of an instructional barn. The \$1.8 million total project cost will come from 100% of College of Agriculture and Life Sciences funds with a combination of one-time funds, research endowment, and gift funds. The total project cost will be about \$13 million and the number of Project Phases is undetermined.

The Residential Life FY 2015 Deferred Maintenance project involves renovations and repairs to Slade Hall, sidewalk replacement on the west side, complete furniture replacement throughout the Harris/Millis Residential Complex, and bathroom upgrades and two roof repairs to the Trinity Back Five buildings. Director Vaughan explained that there was no debt associated with

any of the projects. The \$4 million cost will be accomplished through the use of the unrestricted plant funds that currently exist in residential life.

Vice Provost Stevens responded to Trustee Bain's question on how the room and board fee will be impacted by this project. The fee will not be affected since the funds have been previously budgeted for this project.

Chair McAneny presented the following resolutions for Committee approval:

Residential Life FY 2015 Deferred Maintenance Resolution

WHEREAS, the Educational Policy and Institutional Resources Committee carefully reviewed the program, scope, and preliminary estimate of \$4,000,000 for the Slade Hall, Harris/Millis and Trinity renovations (the "Project") and found the Project an institutional priority, consistent with the *Strategic Capital Plan* and worthy of further consideration; and,

WHEREAS, the Educational Policy and Institutional Resources Committee also endorsed the Project and remitted it to the Budget, Finance, and Investment Committee for financial review and approval; and,

WHEREAS, the Division of Student Affairs has budgeted \$4,000,000 of its unrestricted plant funds for this project;

NOW, THEREFORE, BE IT RESOLVED, that the Vice President for Finance and University Treasurer, or his successor or designee, is hereby authorized to utilize the Division of Student Affairs unrestricted plant funds to finance the \$4,000,000 Slade Hall, Harris/Millis and Trinity renovations; 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.

Miller Research Complex Phase I Resolution

WHEREAS, the Educational Policy and Institutional Resources Committee carefully reviewed the program, scope, and preliminary estimate of \$1,800,000 for the Miller Research Complex Phase I project (the "Project") and found it an institutional priority, consistent with the *Strategic Capital Plan* and worthy of further consideration; and,

WHEREAS, the Educational Policy and Institutional Resources Committee also endorsed the Project and remitted it to the Budget, Finance, and Investment Committee for financial review and approval; and,

WHEREAS, the College of Agriculture and Life Sciences has budgeted \$1,800,000 of its one-time research endowment and gift funds for this project;

NOW, THEREFORE, BE IT RESOLVED, that the Vice President for Finance and University Treasurer, or his successor or designee, is hereby authorized to utilize the College of Agriculture and Life Sciences one-time research endowment and gift funds to finance the \$1,800,000 Miller Research Complex Phase I project; 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.

Larner Classroom Resolution

WHEREAS, the Educational Policy and Institutional Resources Committee carefully reviewed the program, scope, and preliminary estimate of \$1,250,000 for the Larner Classroom project (the "Project") and found it an institutional priority, consistent with the *Strategic Capital Plan* and worthy of further consideration; and,

WHEREAS, the Educational Policy and Institutional Resources Committee also endorsed the Project and remitted it to the Budget, Finance, and Investment Committee for financial review and approval; and,

WHEREAS, the College of Medicine has budgeted \$1,250,000 of its gift funds for this project;

NOW, THEREFORE, BE IT RESOLVED, that the Vice President for Finance and University Treasurer, or his successor or designee, is hereby authorized to utilize the College of Medicine gift funds to finance the \$1,250,000 Larner Classroom project; 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.

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

Other Business

In addition to ongoing conversations regarding deferred maintenance, Chair McAneny called for other topics of interest for future meetings.

Trustee Young voiced his concerns about the lack of long-term information technology (IT) funding and stressed the importance to keep IT as part of the budget planning process. Chair McAneny agreed, adding that, much like utilities, IT affects the University's reputation and core mission. She suggested this is a topic for the Committee of the Whole.

Graduate Student Representative Meyers requested a review of the current graduate student stipend allocations compared to the cost of living in Burlington. President Sullivan said that the EPIR Committee and Provost will be discussing this further.

Trustee Rocheleau recommended that the BFI Committee-related risks and opportunities identified in the enterprise risk map be added to a future agenda for evaluation.

Trustee Bain suggested a discussion on recreation facilities to which President Sullivan responded that the administration plans to bring a recommendation to the Board for future consideration.

Adjournment

There being no further business, the meeting was adjourned at 2:25 p.m.

Respectfully submitted,

Debbie McAneny, Chair