**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 14, 2014 at 8:30 a.m., 427A Waterman Building.

MEMBERS PRESENT: Chair David Daigle, Vice Chair Robert Brennan*, President Thomas Sullivan, Carolyn Branagan*, ***, Joan Lenes, Donald McCree, Dale Rocheleau, Raj Thakrar*, Lisa Ventriss, Jeff Wilson* and Mark Young

REPRESENTATIVES PRESENT: Alumni Representative Afi Ahmadi, Staff Representatives Patty Eldred and Tobey Clark, and Graduate Student Representatives Owen Myers and Christian Jordan

ABSENT: Faculty Representatives Don Ross and Randy Headrick, Foundation Representative Richard Ader, and Student Representatives Adam Kaufman and Rachel Burt

OTHER TRUSTEES PRESENT: Board Chair Debbie McAneny, Ron Lumbra, Samantha Lucas**

PERSONS ALSO PARTICIPATING: Provost and Senior Vice President David Rosowsky, Vice President for Finance and Treasurer Richard Cate, Vice President for Enrollment Management Chris Lucier, Interim Vice President for Research John Evans, UVM Foundation CEO and President Rich Bundy, University Budget Director Alberto Citarella and University Controller Claire Burlingham

* By means of conference telephone
** Arrived at 9:30 a.m.
*** Left the meeting at 10:35 a.m.

Chair David Daigle called the meeting to order at 8:33 a.m.

**Approval of Minutes**

A motion was made, seconded and voted to approve the minutes of the February 7, 2014 meeting.

**FY 2015 Budget Assumptions and Proposed Tuition Rate**

Before starting the budget discussion, Chair Daigle welcomed new Trustee Donald McCree and current Trustee Raj Thakrar to the BFI Committee. He also welcomed new Trustee Ron Lumbra who was in attendance.

Chair Daigle noted that this is his fourth year serving on the Board of Trustees and acknowledged that reviewing and approving the budget process is one of the most important responsibilities of the Board. He commended President Sullivan for recognizing and acting on the importance of access to and affordability of a University of Vermont education.

Chair Daigle reminded Committee members that in February a proposed tuition increase of 3.4% was set forth. This moderate increase places the University at very good level compared to its peer institutions.

Provost Rosowsky echoed the Chair's comments and referred to the University's Strategic Action Plan's four elements: affordability and access, academic excellence, strategic investments, and efficiency and effectiveness. He said that these elements underpin the nearly year-long process to develop this budget proposal.

The Provost then outlined the cost drivers behind the FY 2015 proposed budget, including a $3.2 million carry-over from the FY 2014 net tuition revenue shortfall, an increased commitment to financial aid, the impact of the Affordable Care Act on health insurance costs (an additional $1.2 million cost), increased cost of premiums and other benefits, competitive wages, and the need for strategic investments to ensure quality competitiveness.

The strategies used to address these challenges include generating new revenue from an increased international enrollment, expanded and/or new summer, Masters, distance and online programs, and a more equal ratio between the tuition increase and the financial aid increase. In addition, and depending on the final outcome of contract negotiations, a moderate benefits package adjustment will most likely be made.

Provost Rosowsky summarized the FY 2015 general fund budget by saying that there is a proposed 4.4% increase in revenue and a 1.8% increase in expenses.

Chair Daigle then asked Vice President Cate to review the specific line items of the proposed budget.

In-state headcount continues to decline due to shrinking demographics. The University is maintaining the same percentage of Vermont students; however, the pool is smaller. The uptick is that there is an increase in out-of-state enrollment.

As mentioned at the February meeting, the current proposal is based on a tuition increase of 3.4%, however, the President will continue to review further data and possibly recommend an even lower percentage. Regardless of the data, the recommended increase will not be more than 3.4%.

Chair Daigle asked about the increased number of out-of-state students and how that affected selectivity. Vice President Lucier stated that a record volume of applicants have been received which is directly connected to the University's broadened target range.

Sponsored facilities and administration cost reimbursement is projected to be higher than budget. This is a result of an increased spending rate on grants as well as less severe outcomes from the federal sequester than expected. Vice President for Research Evans joined the discussion on grants and it was noted that the increased spend rate is not something to rely upon for future planning purposes, but it is helpful for now.

The major factor in the Internal Activities Cost Recovery increase is that Residential Life is putting more money back into the general fund. Their across the board savings do not directly impact residential life projects but choices will have to be made regarding the allocation of resources.

Through expansion and growth of its business, Continuing Education (CE) continues to generate a fairly strong revenue stream.

Vice President Bundy was included in a conversation on unrestricted annual giving and endowments. The Committee was reminded that donors are more inclined to give restricted gifts than unrestricted ones. There has been progress in recent years to increase the transparency of information that is available to the deans. This transparency is also critical in the fund-raising process.

Vice President Cate continued on with a summary of the expense side of the proposed budget. He mentioned that the 2.9% wages, benefits, start-ups and stipends increase is driven by a number of factors including staffing increases, promotions, sabbatical trends, health insurance rates and other benefits and salary increases. Trustee Ventriss inquired whether the annual increase in health care was part of the contract negotiations. Vice President Cate stated that he does not expect the increase in health insurance premiums for next year to be more than 3%. Chair Daigle requested that the administration produce a trend line on staff and faculty FTE headcount.

Regarding the Energy budget, Vice President Cate mentioned that with the construction of the Science, Technology, Engineering & Mathematic (STEM) project, there may be an opportunity to further centralize chiller capacity, thereby constraining the growth in energy usage that might otherwise occur. Trustee Lenes also mentioned that this is one of the goals of the Green Revolving Loan Fund.

Vice President Cate noted that due to the addition of some buildings to the campus, such as the one recently transferred (no cost) from the US Forest Service, the New Facilities, Rental, Renewal line item is increasing.

Discussion on deferred maintenance and information technology infrastructure resulted in a request to the administration to provide a more detailed picture of the long-term plan. Vice President Cate advised the Committee that the information provided in February will be incorporated into the materials for the May meeting.

Asked if there were any further questions on the general fund budget proposal, Trustee McCree inquired about where Vice President Cate sees risk. Vice President Cate responded that enrollment is the most uncertain part of budgeting. Numbers fluctuate, sometimes significantly, until the final count is determined in September, and then in February for the second semester. National trends in financial aid were discussed and Vice President Lucier added that applicants are receiving more and better financial aid package offers from schools and they are waiting longer to make a final decision as they consider the value equation of each institution. It is becoming an increasingly competitive environment. The administration will provide financial aid roll-forward data per the Chair's request.

Vice President Lucier credited President Sullivan for investing in the student growth markets – potential students in the West and Southwest regions of the country and international students. President Sullivan stressed the importance of maintaining or lowering cost as well as continuously competing in quality.

Budget Director Citarella then provided an overview of and fielded questions regarding the charts included in Attachment 2 of the Committee materials. Of note:

- UVM is competitive when looking at room and board rates, which are on the lower end compared to both our public and private comparators.
- National data on the median cost of attendance would be helpful, but are not readily available.
- The administration will provide total cost of attendance data on comparators.
- The average undergraduate indebtedness at graduation at UVM is $8,000 - $10,000 lower than its peer institutions. Provost Rosowsky will forward an article regarding affordability and cost of attendance from Business Insider.
- Typically, comparisons among public peer institutions are tuition-focused; however, looking at UVM's full cost of attendance after need-based aid tells a very good story.
- UVM's state appropriations per pupil is one of the lowest among its public peers.
- National studies have demonstrated that there is an inverse relationship between the level of state appropriations and institutions' tuition rates.

Chair Daigle then moved on to what he described as an interesting idea on how to address the fluctuating nature of predicting tuition revenue and its impact on building a balanced budget. He asked Vice President Cate to explain the Net Tuition Stabilization Fund proposal.

Vice President Cate reminded Committee members that last June the Board approved the use of $7.7 million of net assets to balance the budget. This was necessary due to a projected net tuition shortfall late in the budget-building cycle. Now, only $3.2 million is projected to be needed.

Calculating tuition revenue is an inexact science and there is concern about the uncertainty of what May's numbers may indicate, therefore, the administration proposes to sequester the balance (about $4.5 million) of the approved $7.7 million for the sole purpose to offset potential shortfalls.

Points raised in the discussion included:

- Fluctuation in tuition revenue is normal.
- It is easier to manage this fluidity from May to September with a contingency fund than it is to develop solutions just before the beginning of the new fiscal year.

- It is important for UVM to be prepared for the new, more competitive environment resulting from the decline in graduating high school seniors in the Northeast.
- Enrollment management discipline cannot be compromised.
- Would it be simpler to continue with the current practice and seek Board approval for additional funds on an as-needed basis?
- This is a modest best practice and a valuable strategic management tool.
- The creation of a contingency fund reduces the volatility of the University's net assets without much extra governance.
- This strategy would give the administration more latitude and the ability to be more proactive. It is a small amount of the overall budget and this is a cleaner process than back-and-forth approvals.
- The administration will continue to provide ongoing updates to the Committee regarding net tuition projections.
- Net tuition stabilization funds are common practice and are a way to manage risk.

Suggestions on criteria for how the fund should be formed/used include:

- Additional revenue (above the base amount) should not be added to the Fund without Board approval.
- Once a withdrawal has been made from the fund, it should be replenished within two years.
- The fund should be capped at a set amount. $4.5 million happened to be the delta this year, but in fact, that amount (about 1.5% of the general fund budget) is a reasonable cap for the time being.
- The sole purpose of this fund would be to offset net tuition revenue shortfalls.
- The BFI Committee will need to review fund activity and its purpose annually at its April meeting.
- Some members thought there should be sunset built in at some point to ensure future BFI members to discuss the importance of the fund.

The Committee agreed to the administration developing a resolution incorporating the above conditions for their review at the May meeting.

**Adjournment**

There being no further discussion, Chair Daigle adjourned the meeting at 10:50 a.m.

Respectfully submitted,

David Daigle, Chair