

**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 13, 2015 at 8:30 a.m., 427A Waterman Building.

MEMBERS PRESENT: Chair David Daigle, Vice Chair Don McCree, President Thomas Sullivan, Robert Brennan*, Bernie Juskiewicz, Joan Lenes, Ed Pagano, Dale Rocheleau, Lisa Ventriss, and Jeff Wilson*

REPRESENTATIVES PRESENT: Faculty Representatives Don Ross, Staff Representatives Leslye Kornegay and Cheryl Herrick, Student Representative Roger DaGama, and Graduate Student Representatives Nikisha Patal and Mairi-Jane Fox

ABSENT: Trustee Samantha Lucas, Faculty Representative Randy Headrick, Alumni Representative Mike Reardon, Foundation Representative Richard Ader, and Student Representative Maya Donoghue

OTHER TRUSTEES PRESENT: Debbie McAneny, David Brandt, Curt McCormack, and Tristan Toleno

PERSONS ALSO PARTICIPATING: Provost and Senior Vice President David Rosowsky, Vice President for Finance and Treasurer Richard Cate, Vice President for Enrollment Management Stacey Kostell, University Budget Director Alberto Citarella and University Controller Claire Burlingham

* By means of conference telephone

Chair David Daigle called the meeting to order at 8:39 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the February 6, 2015 meeting.

FY 2016 Budget Assumptions and Proposed Tuition Rate

Before starting the budget discussion, Chair Daigle acknowledged this is Trustee Don McCree's first meeting as the Vice Chair of the BFI Committee. He also welcomed new Committee members Trustees Bernie Juskiewicz, Ed Pagano, and Samantha Lucas and Staff Representative Leslye Kornegay.

Chair Daigle acknowledged that reviewing and approving the budget process is one of the most important responsibilities of the Board. He noted that during his five years as Chair of the BFI

Committee, these discussions have become more difficult, as generating net revenue has become more challenging.

Provost David Rosowsky agreed and reviewed the budget process, indicating there would have been a potential gap between revenues and expenses of \$6.3 million if the administration had not made adjustments to the budget. The potential gap was addressed by implementing a 2.3% reduction in the budgets of academic units and a 2.8% reduction in administration units. Provost Rosowsky explained the Budget Group met individually with each dean and their budget staff to determine how their unit would deal with budget cuts in the upcoming fiscal year. He noted each unit leader responded well and found ways to decrease expenses. He explained the Budget Group is already looking ahead to see what factors will impact FY 2017.

Provost Rosowsky then asked Vice President Richard Cate to review the specific line items of the proposed budget.

Vice President Cate explained the budget started with a new (restated) base due to the shift to Incentive-based Budgeting (IBB). As mentioned at the February meeting, the current proposal is based on a tuition increase of 3.4%.

Vice President Cate explained 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. Vice President Cate noted that although there are 10 less VT students than last year's enrollment, there are 146 more out-of-state students. The international student population has also grown due to the Global Gateway program.

When asked about the process of compiling student enrollment information, Vice President Cate explained he and Vice President for Enrollment Management Stacey Kostell talk on a regular basis about expense assumptions and Vice President Kostell will explain what she expects for student enrollment in the future.

President Sullivan explained the University sets academic standards and expectations with regards to SAT scores, class ranks, demographics, etc. and then looks at how the market reacts to those standards. Based on the standards the University sets, Vice President Kostell looks at the market and notes how many qualified students the University can enroll.

Trustee Pagano asked if there was enrollment information on graduate student enrollment. Vice President Cate explained there has been a slight decrease in graduate enrollment. Provost Rosowsky added that this decrease is being seen in all higher education institutions, and through IBB, the University is working to increase graduate enrollment.

President Sullivan emphasized higher education is seeing a downward curve in qualified high school students and noted this year showed the highest percentage of enrolled Vermont first year students the University has seen in a long time. Provost Rosowsky emphasized the University is admitting every qualified Vermont student.

Chair Daigle charged other Committee members to be ambassadors of this point and recommended Vice President Cate dedicate a page in the Annual Financial Report and other University publications to this information.

University Budget Director Alberto Citarella then walked through the FY 2015 Restated Budget, emphasizing that it is purely an accounting restatement and the University and the shift to IBB has not affected the amount of the final budget.

Budget Director Citarella noted the following restated budget elements:

- Undergraduate Tuition increases by \$9.7 million
- Graduate Tuition decreases by \$1.0 million
- Non-Degree Tuition increases by \$6.9 million
- Summer Session Tuition increases by \$11.7 million because all tuition revenue is now coming to the General Fund, instead of through Continuing & Distance Education
- Continuing Education Cost Recovery will now be zero, a decrease of \$11.8 million
- Athletics Department Other Revenue will be increased by \$1.75 million. In past years, Athletics frequently came in over budget by this amount providing them with additional spending authority. This is now a more accurate representation of what they are bringing in.
- Funding in support of Continuing & Distance Education operation now appears as a line item in the General Fund expense budget, \$5.620 million

President Sullivan explained that 76% of resources fund salaries, benefits, financial aid, and scholarships and that gross tuition makes up 75% of the University's revenue.

Board Chair Debbie McAneny asked what the restated budget can be compared to and if the University's auditors helped to determine how to deconstruct the general fund. Vice President Cate responded that the restatements were a result of simply moving revenues and expenses from other funds to the general fund, that the statement of the University's overall financial position was unchanged, and that the accounts were in balance.

President Sullivan explained that three years ago, it was not transparent where the Continuing Education revenue went. He explained that after Continuing Education took out expenses for operating and then net tuition was used to help fund the schools and colleges and other units in the University. Revenue was always coming in through Continuing Education and being transferred to academic units; the budget restatement creates transparency of where each dollar coming in is going now. Provost Rosowsky emphasized the purpose of IBB and the budget restatement is to untangle what has been tangled in the past and present a clearer, more accurate budget.

Trustee Robert Brennan asked why a financial gap was not shown in the FY 2015 restated budget. Vice President Cate stated there was a balanced budget in FY 2015. If nothing had been done and expenses were allowed to roll forward, there would be a need for an additional \$6.3 million dollars in revenue, which would not allow the University to meet its goal of financial affordability.

President Sullivan explained that when a gap is anticipated, strategies of how to bridge that gap are put in place before the budget is brought to the Board. Vice President Cate added an anticipated gap is not a problem the Board should have to solve. He noted the University is on track to have a balanced budget in FY 2015 and there will be more detailed information at the May Board meeting.

Vice President Cate went on to explain the University has a total operating budget of \$625 million. He explained the University has a number of enterprises and each income/expense activity is a separate account. In many cases income and expense activities are established to respond to federal requirements.

Vice President Cate explained restricted funds can only be used for a specific, pre-determined purpose, including gifts to the Endowment. He noted that these budgets are not brought to the Board because it has been predetermined how that money must be spent. Board Chair McAneny clarified that Trustees only approves the general fund budget.

Vice President Cate noted financial aid shown in the general fund is not an expense, but a negative revenue. President Sullivan added that the money in the general fund is only a part of the scholarship financial aid package and there are other sources that support student financial aid.

Vice Chair Don McCree inquired how the University determines how much financial aid will be spent a year. Vice President Kostell explained that the University already knows how much it will spend for second, third, and fourth year students, as the amount of financial aid a student receives their first year is normally the same for that student's remaining years. The University then looks at the freshman class and transfer students, however transfer students receive less merit aid. Vice President Kostell added that when there is a tuition increase, the student is responsible for covering that cost.

Vice President Kostell then fielded questions regarding student financial aid. Of note:

- The University provides financial aid that is merit-based, need-based, or a blend between both merit and need.
- Merit-based financial aid is given to retain qualified Vermont students, but the vast majority of financial aid is a blend between both need and merit.
- As the University's reputation continues to improve, merit-based scholarships may decrease.
- There is a greater investment in academic support programs to enhance academic programs, which allows the University to increase selectivity of students who enroll.
- It is one of the University's goals to be financially affordable to students and the average student loan debt compared to competitors is lower.
- In terms of retention, the University has the added challenge of having more out-of-state students. However, there is an 87% retention rate from first year to second year students.
- With the shift to IBB, colleges within the University are even more motivated and dedicated to retaining students than they were before.

Vice President Cate then walked through the FY 2016 budget proposal revenue assumptions. Of note:

- Medical Tuition flows through the general fund budget, but is not funded by the University. The Board sets tuition rates for the College of Medicine, but through a different process.
- State Appropriation has remained relatively flat. This represents one of the smallest percentages of the budget and has not grown in past years, but has not suffered significant cuts as has been the case in many other states.

Vice President Cate then moved on to the general fund expenses noting expense budgets are projected to increase by \$7.55 million in FY 2016 representing a 2.3% increase over the restated FY 2015 budget. He explained that the 1.9% wages, benefits, start-ups and stipends increase does not mean there will be a 1.9% pay increase and cuts have been made in units across campus to balance the budget.

Chair Daigle asked if the quality of programs and faculty has decreased due to budget cuts and if there are things the University can do in the longer term to be more efficient in regards to faculty and staff, as the University cannot continue to lower headcount every year. Provost Rosowsky emphasized that although headcount is going down, the quality of programs and faculty is staying the same. He added units are trimming expenses wherever possible and raising revenues where they are able. There has been an extensive review of programs and units are meeting revenue objectives.

Trustee Rocheleau inquired about the percentage of faculty and staff within five years of retirement. Provost Rosowsky stated some budget cuts are being met through natural attrition. Vice President Cate added that in higher education, faculty and staff tend to work to an older age as compared to other careers, and the University has a significant number of employees who are over the age of 55.

Graduate Student Representative Mairi-Jane Fox asked if there has been an increase in adjunct faculty due to budget challenges. Provost Rosowsky explained that there has not been an increase and that the University maintains a good balance between tenured and non-tenured faculty. President Sullivan added the University maintains a core of tenured faculty, due to the belief that longevity will improve the quality of education for students.

Vice President Cate continued on with the summary of the expense side of the proposed budget noting that due to acquiring additional structures, such as 439 College Street and Taft School, has resulted in a 20% increase in the New Facilities, Rental, Renewal line item.

He also noted there was a \$300,000 increase to the General Fund Contribution to Debt Repayment line item due to the STEM project.

In regards to the General Fund support for UVM Foundation line item, he noted a declining balance. President Sullivan noted that, in October, there will be a public announcement of the Foundation's campaign goal. The goal is to have 40-50% of the goal committed when this is announced and the Foundation is on track to reach that goal. President Sullivan added the

priorities of the Foundation are in line with the University's strategic action plan: affordability and financial access to students, investments in faculty and staff, and infrastructure and facilities to support faculty, staff, and students.

Chair Daigle commended Vice President Cate on all of his work regarding the budget.

At 10:32, Chair Daigle called for a ten minute break.

Vice President Cate explained the Board sets maximum rates for room and board fees during the February meeting and explicit rates will be set at the May Board meeting.

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

- With respect to gross tuition and fees, the University is at the lower end of private comparators and at the higher end of public comparators.
- The University is competitive when looking at room and board rates, which are on the lower end compared to both our public and private comparators.
- The average undergraduate indebtedness at graduation at the University is much lower than its peer institutions.
- Typically, comparisons among public peer institutions are tuition-focused; however, looking at the University's full cost of attendance after need-based aid tells a very good story.

Vice President Kostell noted that the federal government has a website that shows the loan rate and undergraduate indebtedness at graduation for institutions: College Scorecard (<https://www.ed.gov/category/keyword/college-scorecard>) and suggested that Committee members look through this information.

President Sullivan emphasized the University is focusing on the traditional recruitment of high school students, as well student retention. There has been an increase in international students, which is a new cohort the University had not strategically considered until the last few years. The same can be said for transfer students; now the University looks at applications in a timely manner and much more aggressively.

Ideas were shared on how to increase student retention including inviting a select group of students to campus early on to create a strong relationship with them from the beginning and inviting alumni to talk with new students about their experiences at UVM.

Chair Daigle reminded members that a Net Tuition Stabilization Fund was established last year to cover any shortfalls between the proposed and actual net tuitions. Vice President Cate said that he is required to report annually on that fund's activity and was happy to state that zero dollars were used this year.

Chair Daigle then moved on to the next agenda item and explained the idea behind creating a minimum liquidity policy for unencumbered and unrestricted net assets. He suggested there be a

minimum amount of unencumbered funds that could be available for an emergency situation. The amount could be relative to debt service or operating expenses of the University.

He went on to explain there have been instances in the past where there have been shortfalls in the budget, which create temporary cash flow issues. He reminded Committee members that, as a Board, one of their primary obligations is to ensure the financial condition of the University is sound, even if there is an unanticipated shock. He noted Vice President Cate is in the early stages of gathering data on options for how a minimum liquidity policy could work. Before taking a full proposal to the Board, he wants the data gathering effort to continue and then have a follow-up discussion with the Committee.

Chair Daigle then referenced an email submitted by the Staff Council Office, on behalf of a staff member who wished to remain anonymous, regarding questions on the philosophy of the budget. He acknowledged these were good questions and explained the University has limited revenues that need to balance the budget on an annual basis. Since the cost structure is relatively inflexible, there will always be tradeoffs that need to be made. To this point, the balance has been fair with slightly greater percentage reductions to non-academic units relative to academic units.

Provost Rosowsky echoed this and stated the University has been very transparent on how decisions are made, but there is still work to be done on how information is communicated to the campus. He noted all questions asked have been answered through on campus Q&A sessions, as well as online through the Frequently Asked Questions link on his website.

Adjournment

There being no further discussion, Chair Daigle adjourned the meeting at 11:32 a.m.

Respectfully submitted,

David Daigle, Chair