

**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 Wednesday, April 13, 2016 at 1:00 p.m., 427A Waterman Building.

MEMBERS PRESENT: Chair Don McCree, Vice Chair Robert Brennan*, President Thomas Sullivan, David Brandt, Ed Pagano*, and Jeff Wilson*

REPRESENTATIVES PRESENT: Faculty Representatives Andrew Barnaby and Laura Gewissler, Foundation Representation Richard Ader*, Alumni Representative Myron Sopher, Staff Representatives Sonya Stern and Cheryl Herrick, Student Representatives Jake Guarino Graduate Student Representatives Nikisha Patal and Mairi-Jane Fox

ABSENT: Trustees David Aronoff, Bernie Juskiewicz, Joan Lenes, Lisa Ventriss, and Student Representative Jacquelyn Langham

PERSONS ALSO PARTICIPATING: Board Chair David Daigle, Provost and Senior Vice President David Rosowsky, Vice President for Finance and Treasurer Richard Cate, University Controller Claire Burlingham, and University Budget Director Alberto Citarella

* By means of conference phone.

Chair Don McCree called the meeting to order at 1:05 p.m.

Approval of Minutes

A motion was made to approve the minutes from the February 5, 2016 meeting. Trustee Jeff Wilson, referring to page 8, inquired about the status of the analysis Cambridge Associates is putting together of the University's endowment investments. Chair McCree explained he and ISC Chair Brennan went through an initial set of reports from Cambridge Associates, but an analysis of the hedge fund holdings is not yet available.

Vice Chair Rob Brennan advised the Committee of the confidential nature of the report, noting some holdings may not be able to be disclosed.

Trustee David Daigle added that the data compiled is extensive totaling a couple of hundred pages. He explained that Vice Chair Brennan and the Office of General Counsel will work with Cambridge Associates to meet the requests from the February Board meeting, while maintaining confidentiality. Detailed data will be shared during the May BFI meeting with a brief summary report to the Committee of the Whole. Chair Brennan reminded Committee members that ISC meetings are open meetings and encouraged members to attend if they have further questions.

The motion was, seconded and it was voted to approve the minutes of the February 5, 2016 meeting.

FY 2017 Budget Assumptions and Proposed Tuition Rate

Before starting the budget discussion, Chair McCree acknowledged this is his first meeting as the Chair of the BFI Committee and this is Rob Brennan's first meeting as Vice Chair. He also welcomed new Trustees David Aronoff and David Brandt, and Staff Representative Sonya Stern.

Provost David Rosowsky opened the discussion by noting this is the University's first year of budgeting under Incentive-Based Budgeting (IBB). He explained the University has begun to see evidence of the impact of IBB, the most apparent being in the revenue projections that the Colleges and Schools provide. The Provost noted that IBB is not only operating, but working well. The University has seen strong revenue growth in areas such as Summer and Graduate Education, as well as emerging strategies in the Colleges and Schools on campus.

The Provost explained that Colleges and Schools are not only increasing summer enrollment, but finding ways to provide programs and classes more efficiently. Units are developing new programs and thinking strategically about the true cost of programs. Under IBB, units are making multi-year investments in programs; Colleges and Schools are thinking strategically about library holdings; and units are thinking strategically about the recruitment and retention of students.

Provost Rosowsky stated that most direct evidence for the success of IBB is that under the old budgeting model, all units would have taken a budget cut this year. However, under IBB, five of the nine academic units had net growth in their budgets.

Provost Rosowsky then asked Vice President Richard Cate to review the specific line items of the proposed budget included in attachment 2 of the meeting materials. Vice President Cate reminded Committee members about the budget process and noted a 3% tuition increase and a 1.1% base budget reduction for cost centers, which will help provide additional revenue to cover projected cost increases.

Vice President Cate explained in-state enrollment continues to decline due to shrinking demographics. Some of the change in the composition of undergraduate enrollment is already reflected in actual enrollment for the current year. Two contributing factors to the reduction in the number of in-state students and the increase in out-of-state students are the cumulative and continuing decline in the number of graduating high school seniors in Vermont and growth in our international student population as a result of the Global Gateway Program. President Thomas Sullivan added that the decrease in graduating high school students is being seen throughout the many areas of the country, but even more so in Vermont.

When asked if there is a 30-year projection of graduating high school students in Vermont, Vice President Cate explained that around 2020, it is projected the decline of graduating high school students should level out, but there is only marginal growth projected after that year. The administration will provide the long-term history of the number of Vermont high school graduates and the number that enrolled at UVM.

Chair McCree requested information from Vice President of Enrollment Stacey Kostell regarding the Universities around the country who are providing out-of-state students with in-state tuition rates to increase enrollment.

Vice President Cate explained that the University is anticipating growth in the summer program. He noted that Colleges and Schools are offering summer programming that attracts more students and more of the summer courses being offered are getting higher enrollments. This is primarily due to the fact that Colleges and Schools are being strategic in the summer courses they offer and courses are geared toward student interests

Vice President Cate noted a total projected increase in expenses of 4.4% and emphasized this is not a 4.4% increase over the FY 2016 General Fund base budget. He explained only two percentage points from salary, wage, and benefits increases are a result of base budget increases. There is a \$1.5 million increase in accounting changes, which are expenses the University already had that will now show up in the General Fund Budget. There is a \$2.6 million increase in strategic investments in the academic units, such as hiring additional faculty and building classrooms to grow certain programs which will in turn increase revenue.

When asked if the strategic investment in academic units were directed by the units themselves, Provost Rosowsky clarified that units requested the strategic investments made. President Sullivan added that while these investments are currently real costs, they are long-term investments which will positively impact the University in the future.

Vice President Cate explained there is a \$1.25 million increase in deferred maintenance and noted the University is almost half way to its target. There is also \$1.0 million which will be used on a one-time basis to augment the general fund allocation for debt service related to the STEM Complex.

University Budget Director Alberto Citarella then walked through the FY 2017 General Fund Budget proposal. He noted the budgeted recurring revenue in the FY 2017 proposal represents a 4.4%, or \$14.5 million increase, in the budgeted recurring revenue in FY 2016.

Director Citarella noted that FY 2016's budget actuals are significantly better than last year's budget actuals. He emphasized the additional money received from new tuition this year is an added advantage for this year only.

When asked how units are using this surplus, it was explained that some units are using this money to invest strategically or bridge the budget deficits they're facing. All units have reserve funds and some are putting a portion of this surplus into those reserves.

Budget Director Citarella then noted the following budget elements:

- Undergraduate Tuition is projected to increase by 3.9%
- Graduate Tuition is projected to increase by \$2.8 million primarily driven by growth in many of the professional master's degrees
- There is no anticipated growth in non-degree tuition and will be at budget in FY 2016

- Summer Session Tuition is projected to increase by \$1.0 million primarily driven by an increased focus by many of the Colleges and Schools on teaching during the summer session. This summer will be the third consecutive summer that tuition has dropped one-third of the price point, resulting in a substantial increase in enrollment.
- Medical Tuition is projected to increase by \$1.1 million due to an increase in enrollment of 10 students
- State Appropriations are projected to be flat. President Sullivan added that the Vermont Legislature is finding it difficult to increase State appropriations for any recipient.
- Sponsored Facility and Administration Cost Reimbursement are projected to be flat
- Internal Activities and Cost Recovery are not part of the General Fund, but units pay into this fund because they utilize functions within the General Fund. There is no projected increase in those activities and therefore, no projected increase in those funds coming into the General Fund.
- Unrestricted Annual Giving is projected to decrease by \$300,000, however, this reduction is being offset by a \$400,000 increase in student aid from restricted gifts.
- Other Income is projected to increase by \$2.2 million

Regarding General Fund Expense, Budget Director Citarella noted:

- Wages and Benefits are projected to increase by 4.5%, driven primarily by a 4% increase in faculty salaries and an expected average increase of 2.25% in staff salaries
- Operating and Equipment is projected to increase by \$2.6 million. Roughly \$1.5 million of this expense growth is associated with the Orientation revenue and OTC revenue, which were part of another fund in the University's total budget, but are now being recognized in the General Fund.
- New Facilities is projected to increase by 30%, driven primarily by the expansion of the Chiller Plant
- Plant Improvements, Insurance, Water/Sewage is projected to increase by 30.5% due to an increase in the budget for deferred maintenance
- General Fund is projected to increase by \$500,000

When asked about the affiliation agreement between the University and the Foundation, Vice President Cate explained the agreement has one more year and then it will be renegotiated.

Vice President Cate reminded Committee members that the Board sets maximum rates for room and board fees during the February meeting and explicit rates will be approved at the May Board meeting.

In terms of unrestricted annual giving, Faculty Representative Andrew Barnaby asked what fundraising efforts look like relative to how the budget may change moving forward. President Sullivan stated that the University's campaign goal of \$500 million has reached the 60% mark as of this week. He explained that 95% of all dollars donated to the University are pre-designated for a certain purpose and one-third of those dollars goes to financial aid for students. This allows the University to remain affordable for students.

When asked if the money individual units generate from fundraising are included in the General Fund Budget, Vice President Cate reiterated that General Fund revenues and expenses for

Colleges and Schools appears on the budget, but restricted funds for each unit do not, except for the restricted scholarship funds.

When asked if there is more incentive for Colleges and Schools to increase fundraising efforts under IBB, Provost Rosowsky replied that Deans were already well engaged in fundraising but there is a new emphasis on fundraising goals and more transparency within the units.

President Sullivan added that the University does have to put more emphasis on private fundraising, as Vermont does not have the resources to support the University. Therefore, if UVM wants to increase the quality and better support staff, faculty, and students, much of the additional money has to come from private, philanthropic dollars.

Vice Chair Brennan asked if the only place there is an intersection between the philanthropic contributions and the General Fund Budget is in the student aid line item. President Sullivan explained that in terms of scholarship money, this is true. He noted that restricted money going towards student scholarships helps the General Fund Budget and added the biggest cost drivers of the University are wages and benefits for faculty and staff and scholarship and financial aid for students.

Provost Rosowsky explained that the three questions the University needs to continually ask itself are: Are we more competitive in financial aid and are we able to recruit better students? Are we able to retain them? Are we seeing our graduation rates improve?

Trustee David Brandt asked for clarification on the review process to decide which budget items go to Fees and which go to the General Fund. Vice President Cate explained that he sits with a group of people, all of whom require different fees and more money to meet the needs of the students and there isn't always the capacity to increase the fees as they would like. If it is a very specific and direct student need that can be demonstrated, it may be funded by a fee. He added that he looks carefully at the relationship between the fees and tuition and the impact these will have on the students and the University has opted to keep the fees as low as possible. He emphasized the University does not simply increase fees to keep tuition down.

Chair McCree then moved to the next agenda item reminding Committee members that the University issued bonds last year in order to finance the STEM project. This year, the University has an opportunity to take advantage of lower interest rates by refunding the bonds.

Vice President Cate explained that the administration is proposing to keep essentially the same duration with the refunding of the bonds. He stated that last fall when the University last refunded bonds there was a very low 4.01% all-in rate. Now, this rate is half a percentage point lower than it was then, meaning that under the current scenario, if interest rates stay where they are now, the University can achieve present value savings of \$7 million by refinancing these bonds.

Vice President Cate explained that it is a two-month process to refinance and the resolution before the Committee today authorizes him to initiate those activities working with the

underwriters and Bond Counsel. Then at the May 2016 Board meeting, the Committee will be asked to approve a resolution authorizing execution of the bond refunding.

Chair McCree presented the following resolution authorizing the initiation of activities leading up to the bond refunding:

Resolution Authorizing the Initiation of Activities Leading up to Bond Refunding

WHEREAS, the University from time to time refunds some of its existing long-term debt in order to take advantage of lower interest rates; and

WHEREAS, the Board of Trustees Bond Work Group met on March 23, 2016 and unanimously authorized the Vice President of Finance and Treasurer to bring to the Board of Trustees, at its May 2016 meeting, a detailed proposal and accompanying resolution for the refunding of approximately \$82 million of 2005 and 2007 bonds; and

WHEREAS, in order to make all of the necessary preparations for the bond refunding, the Vice President for Finance and Treasurer must engage bond counsel, underwriters, debt advisors and other relevant consultants;

NOW, THEREFORE, BE IT RESOLVED, that the Budget Finance and Investment Committee endorses the Vice President for Finance and Treasurer's intention to enter into all necessary contracts associated with preparing for the 2016 bond refunding issue, funding such obligations from the University's Treasury Operations account, with the understanding that the actual bond issuance is subject to the approval of the Board of Trustees at its May 2016 meeting.

A motion was made, seconded, and the following roll-vote was taken to approve the resolution as presented: Don McCree – Aye, Rob Brennan – Aye, David Daigle – Aye, Ed Pagano – Aye, David Brandt – Aye, Tom Sullivan – Aye, Jeff Wilson – Aye.

Adjournment

There being no further discussion, Chair McCree adjourned the meeting at 2:22 p.m.

Respectfully submitted,

Don McCree, Chair