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 21, 2016 at 2:00 p.m. in the Sugar Maple Ballroom, room 400 at the Dudley H. Davis Center.

MEMBERS PRESENT: Chair Donald McCree*, Vice Chair Robert Brennan, President Thomas Sullivan, David Aronoff**, David Brandt, Bernie Juskiewicz, Joan Lenes, Ed Pagano, Lisa Ventriss, and Jeff Wilson

OTHER TRUSTEES PRESENT: Board Chair David Daigle

REPRESENTATIVES PRESENT: Faculty Representatives Andrew Barnaby and Laura Gewissler, Foundation Representative Richard Ader* and Alumni Representative Myron Sopher, Staff Representative Sonya Stern, Student Representatives Jake Guarino and Andrew Dazzo, and Graduate Student Representatives Nikisha Patal and Weiwei Wang (on behalf of Roger DaGama)

PERSONS ALSO PARTICIPATING: Vice President for Finance and Treasurer Richard Cate, University Budget Director Alberto Citarella, Controller Claire Burlingham, CEO and President of the UVM Foundation Rich Bundy, and Director of Capital Planning and Management Robert Vaughan

ABSENT: Staff Representative Cheryl Herrick and Graduate Student Roger DaGama

*Participated via conference call
** Departed the meeting at 3:00 p.m. and joined by phone for the remainder of the meeting

Vice Chair Robert Brennan called the meeting to order at 2:03 p.m.

Approval of Minutes

A motion was made, seconded, voted to approve the minutes of the May 20, 2016 meeting.

Summer Session Tuition

Budget Director Citarella introduced a resolution approving summer session tuition rates. He explained that the administration was asking for a continuation of the summer pricing structure that has been implemented for the past two summers: a 30% discount to the previous spring's tuition rate. He noted that this discount structure has been successful, as summer tuition revenue increased this past year, and both student credit hours and overall tuition are up since this structure was put in place.

In Summer Session 2016, this practice and the increased emphasis from the Colleges and Schools on summer enrollment increased summer revenue by roughly $1 million compared to Summer Session 2015.

The recommendation for Summer Session (summer 2017) is to set tuition at $440 per credit hour for in-state students and $1,113 per credit hour for out-of-state students.

Total Cost of Attendance for Global Gateway and Pre-Master's Programs (Summer/Fall 2017 and Spring 2018)

Director Citarella introduced a resolution setting the proposed total cost of attendance for the Global Gateway (GGP), a matriculation preparatory program for international undergraduate students, and the Pre-Master's Program (PMP), for graduate-level students.

He indicated that for most of the components of these students' charges, the University charges them the out-of-state rates that have been approved by the Board. However, he noted that there were two unique components of their pricing model that made them distinct from other out-of-state students.

The first unique component was the summer tuition rate. For the 2017 Summer Semester, the tuition component of the total cost-of-attendance fee will be set at the same tuition rate as the prior Spring semester, as opposed to the 30% discount rate for Summer Session Tuition of non-GGP/PMP students.

The second unique component was for those Global Gateway students whose program includes a semester of non-credit English as Second Language (ESL) coursework, the tuition component of their total cost-of-attendance fee for that semester will be set at $6,900 per semester for Fall 2017 and Spring 2018.

When asked, Director Citarella noted the pricing policy for the Global Gateways Program has not been a barrier for international students. He added the program continues to see growth.

The following resolutions were presented to the Committee for approval and recommendation to the full Board:

<u>Resolution Approving Summer Session Tuition</u>

RESOLVED, that the Board of Trustees hereby approves the tuition rate for the Summer Session of $440 per credit hour for in-state students and $1,113 per credit hour for out-of-state students. The changes will become effective for the 2017 Summer Session.

<u>Resolution Setting Total Cost of Attendance Fees for Global Gateway and Pre-Master's Programs (Summer/Fall 2017 & Spring 2018)</u>

WHEREAS, the University, after a request-for-proposal process, entered into an agreement with Study Group to provide services to UVM in support of the University's Global Gateway Program; and

WHEREAS, in January 2016, the Board approved amendments to the agreement with Study Group, which included additions to the Study Group Agreement to create a Pre-Master's Global Gateway Program;

THEREFORE, BE IT RESOLVED, that for the 2017 Summer Semester, the tuition component of the total cost-of-attendance fee charged to Global Gateway Program students and Pre-Master's Program student will be set at the same tuition rate as the prior Spring semester.

FURTHER RESOLVED, for those Global Gateway students whose program includes a semester of non-credit coursework, that the tuition component of their total cost-of-attendance fee for that semester shall be set at $6,900 per semester for Fall 2017 and Spring 2018.

A motion was made, seconded, and Trustees voted unanimously to approve both resolutions as presented.

Report of the Investment Subcommittee (ISC)

ISC Chair Robert Brennan started the discussion by reminding Committee members that the beginning of 2016 was a bad year for investing markets and few asset classes performed well. However, there has been remarkable recovery. He noted that the endowment, as of August 31, 2016, was at $451 million.

ISC Chair Brennan reviewed the supplemental materials provided by Cambridge Associates and distributed at the meeting comparing UVM's year-to-date performance with its benchmark. As of August 31, 2016, the portfolio returned 5%, which is a turnaround from its previous downturn and slightly above the benchmark.

Board Chair David Daigle noted that Cambridge Associates has renegotiated the fee structure with certain hedge fund managers on behalf of their client base, which is benefiting UVM's portfolio.

ISC Chair Brennan briefed new members on two policies up for annual review. The Endowment Budget Policy sets the percentage of the endowment to be available for spending. The Endowment Administration Fee Policy sets what is paid for administrative support, including staffing, legal fees, and investment advisor fees. The ISC has reviewed both policies and recommend they be reaffirmed with no changes.

ISC Chair Brennan presented the following resolutions for Committee approval and recommendation to the full Board:

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 2017 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
Board of Trustees - October 18, 2014
Board of Trustees – October 3, 2015
Board of Trustees –

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
Board of Trustees - October 18, 2014
Board of Trustees – October 3, 2015
Board of Trustees –

A motion was made, seconded, and Trustees voted unanimously to approve both resolutions as presented.

Socially Responsible Investing Advisory Council

Vice President Cate introduced a resolution which will restructure the oversight and broaden the role of the Socially Responsible Investing Advisory Council (SRIAC). This will include recommendations on the administration of the Clean Energy Fund and support the activities of the Association for the Advancement of Sustainability in Higher Education (AASHE) Stars Initiative.

This resolution transfers the reporting line of the SRIAC from the Investment Subcommittee to the Vice President for Finance and Treasurer and expands their recommendations beyond those regarding the endowment. Vice President Cate noted that the recommendation to restructure the SRIAC came from the council itself.

Vice Chair Brennan presented the following resolution for Committee approval and recommendation to the full Board:

Resolution Authorizing Amendments to the Socially Responsible Investing Advisory Council

WHEREAS, the Board on November 8, 2012, established the Socially Responsible Investing Advisory Council (SRIAC), whose charge was to consider specific investment policy proposals based on moral, ethical or social criteria; review the impact of any such proposal on current and potential University investments; solicit input on policy proposals from the campus community at large; and forward its investment policy recommendations to the Investment Subcommittee, which in turn shall report its recommendations to the Budget, Finance and Investment Committee; and

WHEREAS, the Investment Subcommittee in January 2016, instructed the administration to restructure and broaden the role of SRIAC at the University to better serve the University in its commitment to be a responsible and proactive institution; and

WHEREAS, the Socially Responsible Investing Advisory Council made a formal recommendation in July 2016 to the Vice President for Finance and Treasurer, specifically, that the Socially Responsible Investing Advisory Council broaden its role to support the Vice President for Finance and Treasurer in fulfilling his/her responsibilities related to the administrative oversight of the Clean Energy Fund, and any other issues as determined by the Vice President for Finance and Treasurer; and

WHEREAS, the Budget, Finance and Investment Committee, following a favorable recommendation from the Investment Subcommittee, recommends that the Board accept the Advisory Council's recommendations;

THEREFORE, BE IT RESOLVED, that the Board hereby accepts the recommendation of the Socially Responsible Investing Advisory Council and delegates responsibility for the Socially Responsible Investing Advisory Council to the Vice President for Finance and Treasurer.

A motion was made, seconded, and Trustees voted unanimously to approve the resolution as presented.

Vice President's Report

Vice President Cate started the conversation by congratulating the Controller's Office team and Chair of the Audit Committee, as once again, the University has a clean audit this year. Grant Thornton completed their field work regarding the financial statement audit and issued their opinion on October 17, 2016. There were no material weaknesses or significant deficiencies. The A-133 federal audit should be issued early next week. After that, the annual financial report will be issued.

- **President's Strategic Initiatives Fund**

Vice President Cate reminded Committee members that when the President's Strategic Initiatives Fund was created by the Board, the administration was asked to report annually on the fund. This fund's sources originate from one-time events such as the sale of property and the President makes decisions on how to strategically spend it. Vice President Cate noted that there are two key commitments that are to be funded from this source and they are the Alumni House and the UVM Rescue Building, both of which have been approved by the Board and have moved forward in development.

When asked about strategies to replenish this fund, Vice President Cate explained that while there is carryover, money gets reinvested quickly.

The following represents the current balance and obligations for the President's Strategic Initiatives Fund:

Balance as of July 1, 2015	$ 902,537
Commitments	
• Rescue Building – ($300,000)	
• Alumni House – ($400,000)	
	$ (700,000)
Unencumbered Balance June 30, 2016	$ 202,537

- **Revenue Contracts Update**

Vice President Cate explained that he took a number of previously approved revenue contracts, each of which had a value in excess of $1 million, to the Executive Committee for ratification in September. The Controller's Office is working with the Office of General Counsel to look at and develop procedures regarding tracking, monitoring, and reviewing revenue contracts to ensure that they are appropriately routed in the future. Vice President Cate will be requesting a policy change from the Governance Committee, which would eliminate the need to bring to the Board revenue contracts that have values of less than $1 million.

- **Budget to Actuals**

Budget Director Citarella reported on the end-of-year results of the FY 2016 budget, noting that units spent $9.3 million less than budgeted and actual revenues were $8.2 million over budget. Of this balance, $15.1 million will be re-appropriated for future use by academic and administrative units against strategic priorities to be reviewed and authorized annually by the Provost.

When asked how a unit justifies a re-appropriation request, Director Citarella explained that these requests can only happen three times a year and require the Provost's approval. These requests are for one-time investments like start-up packages or facilities upgrades and a unit must have a positive fund balance.

Director Citarella explained his team has a good sense of what the University's numbers will be throughout the year and they had some indication that units were spending less this year.

Vice President Cate emphasized that this means that units are spending less money than what was approved by the Board. He added that units can accrue some money from one year to create such things as faculty startup packages.

Director Citarella then explained the University ended the year with revenues $8.2 million higher than budgeted and the primary driver behind this was undergraduate tuition net revenue, which came in above budget by $5.8 million. He added that Summer Session net tuition revenue was below budget by $744,000 for the fiscal year but that this was due primarily to a timing issue where a disproportionate share of 2016 Summer Session revenue was recorded in FY17 versus FY16.

When asked about out-of-state tuition, Vice President Cate explained that there is a continuing decline in graduating high school seniors in Vermont. The University continues to bring in more students, while also being more selective.

When asked if there is a limit to the undergraduate population, President Thomas Sullivan explained that as the student body grows, the administration must look at faculty, residence halls, and facilities year by year to ensure the University has the capacity as well as the competency to meet the needs of a growing student population. Currently, the University still has room to grow.

When the STEM Complex is complete, the University will grow in terms of enrollment and will also have more physical capacity to handle more classes and labs. President Sullivan noted that a large percentage of students will go through the STEM Complex because of chemistry, as 35% of students major in STEM careers and over 90% of students take STEM courses.

Fundraising Update on Capital Projects

UVM Foundation President and CEO Rich Bundy updated the Committee on fundraising progress on capital projects, including the STEM Complex and Alumni House.

President and CEO Bundy explained that the STEM Complex will be funded by a mix of private gifts and non-debt funding. As of October 18, 2016, the Foundation had already secured $9.3 million in non-debt funding. The remaining non-debt goal is $16.7 million. The donor pipeline remains robust, and the Foundation remains confident that a high percent of the non-debt goal will be achieved through donor funding.

In regards to the Alumni House, it is considered a completed project, as the building is now in use. Of the $11.2 million non-debt goal and total project cost, all of which is anticipated to be privately funded, as of October 18, 2016, $9.9 million has been raised in non-debt funding. The Foundation is continuing efforts to raise the remaining $1.25 million.

President and CEO Bundy indicated that the Alumni House had its first revenue-generating event five days before the building opened. Already, 144 events have been scheduled in the space. Many are events from units within the University, but they are starting to see community interest in using the space as well.

Capital Projects

Director of Capital Planning and Management Robert Vaughan was invited to present four capital project requests. He began by describing Phase 2 of the Converse Hall Residential Life Deferred Maintenance project. This project will require extensive exterior restoration of the stone exterior elements above the roof line on Converse Hall, as well as the complete replacement of the slate roof and all of the flashings. Phase 1 was approved for $2.0 million in October 2015. The estimated cost for Phase 2 is an additional $2.0 million, which will be supported by unrestricted plant funds that currently exist in Residential Life.

He next described the Larner Learning Commons project, stating that up to 7,000 square feet of existing space in the Larner Medical Education Center will be renovated. Renovations will include library space, quiet study space, offices, production and learning studios, conference and active learning space. The estimated budget is $2.1 million, which will be entirely supported by College of Medicine gift funds.

Director Vaughan described the Billings Library Renovation Project, which was originally planned as a two-phase project. It is now proposed to sequentially construct this project over a single timeframe due to the scheduled completion of the new dining hall associated with the new First Year Housing and Dining Project. The estimated cost of this project is $8.5 million. The UVM Foundation has garnered commitments of $8.5 million for this project but $4.3 million of that amount will not be available until some years after the proposed construction timeframe. Therefore, $4.3 million from the unencumbered proceeds from the recent sale of County Apartments will be used for this purpose. Once the gifts are received, the resources will be replenished and available for other such strategic initiatives. The current plan is to bid this project by the end of the calendar year and start construction of Phase 1 in February or March of 2017 and be completed by calendar year end of 2017.

Finally, Director Vaughan described the Kalkin Hall Expansion Project. An attachment detailing the project concept and financing that had been revised since meeting materials were distributed was handed out. Renovations include a new 3-story addition and a partial renovation to the first floor of Kalkin Hall, designed to house two 35-seat classrooms, 12 student breakout rooms, 14 faculty offices, graduate student spaces, a 60-seat case method classroom, a multi-purpose room, an expanded student services space, and an upgraded computer lab. The total project cost is $11.0 million. Funds for these expenditures will be drawn from gift funds and general reserves of the University. University funds will be reimbursed by future gift receipts. The breakdown of funding sources is: $1.25 million from gift receipts, $5.9 million from donor commitments, $2.75 million from future rents, and $1.1 million from the Capital Projects Pre-Funding Account. With the construction documents completed and previously bid, the regulatory process will proceed in order to begin construction in the Spring of 2017.

BFI Chair Don McCree explained that he has been working with President and CEO Bundy and Vice President Cate to review cash flow versus pledges and there is enough cash flow to engage in this project.

Vice President Cate added that he has a schedule which documents the money the University has lent itself, what is due back from the STEM, Kalkin and Billings projects, and when the University is expecting to receive that money. He noted he will update that schedule and send it to the Board.

Vice Chair Brennan presented the following resolutions for Committee approval and recommendation to the full Board:

Resolution Approving Larner Learning Commons Project

WHEREAS, the administration today reported on the estimated cost for the completion of the Larner Learning Commons Project and presented a funding plan,

THEREFORE, BE IT RESOLVED, that the Committee hereby recommends to the Board that it authorize the $2,100,000 project expenditures, to be expended in a manner consistent with the report made on this date; and

BE IT FURTHER RESOLVED, that the $2,100,000 of funds for such expenditures be drawn from College of Medicine gift funds.

Resolution Approving Residential Life FY 2017 Deferred Maintenance (Converse Hall, Phase II)

WHEREAS, the administration today reported on the estimated cost for the completion of the Converse Hall (Phase II) Deferred Maintenance Project and presented a funding plan,
THEREFORE, BE IT RESOLVED, that the Committee hereby recommends to the Board that it authorize the $2,000,000 project expenditures, to be expended in a manner consistent with the report made on this date; and

BE IT FURTHER RESOLVED, that the $2,000,000 of funds for such expenditures be drawn from the unrestricted plant funds from Residential Life.

Resolution Authorizing Billings Library Renovation Project Expenditures

WHEREAS, the administration today reported on the estimated cost for the completion of the Billings Library Renovation Project and presented a funding plan,

THEREFORE, BE IT RESOLVED, that the Committee hereby recommends to the Board that it authorize the $8,500,000 project expenditures, to be expended in a manner consistent with the report made on this date; and

BE IT FURTHER RESOLVED, that the $8,500,000 of funds for such expenditures be drawn from the gift funds and general fund assets allocation.

Resolution Authorizing Kalkin Hall Expansion Project Expenditures

WHEREAS, the administration today reported on the estimated cost and a funding plan for the completion of the Kalkin Hall Expansion Project, THEREFORE, BE IT RESOLVED, that the Committee hereby recommends to the Board that it authorize the $11,000,000 project expenditures, to be expended in a manner consistent with the report made on this date; and

BE IT FURTHER RESOLVED, that the $11,000,000 of funds for such expenditures be drawn from gift funds and general reserves of the University, which will be reimbursed by future gift receipts.

A motion was made, seconded, and Trustees voted unanimously to approve the four resolutions as presented.

Changes in Government Accounting Standards

Controller Claire Burlingham explained the University operates according to standards of the Government Accounting Standards Board (GASB), which has been very active in the last year and there are several new standards that the University has to implement over the next several years.

First, GASB 72, which relates to the fair value measurements and application of the University's investments, has changed. Up until this point, the University has recorded investments at historical cost. Under the new standard, the University will be required to report investments at fair market value. In addition, the University has to disclose how the University arrived at the valuation for alternative investments. Due to the nature of those investments, the value is not easily determined in readily available market disclosures.

Other changes include GASB 74 and 75 which are related to accounting and financial reporting of post-retirement employment benefits other than pensions. GASB 74 is a defined benefit plan that is funded, which the University does not implement, so it does not apply, however GASB 75 does. The effective date for the latter is FY 2018.

Accounting for leases, which if adopted, will go into effect in FY 2020, will require the University to capitalize all leases with a term of one year or more, regardless of the dollar amount. The University is concerned about this because any lease that has a term of more than one year will be subject to the new standard. It is important to capture all of the activity now to ensure the University is in compliance with this new standard when it becomes effective.

Controller Burlingham then previewed the following impacts as a result of changes to the GASB Statements 74 and 75:

- Significant impact on the total liabilities and unrestricted net assets of the University for fiscal year 2018 and beyond
- Postemployment Benefits Other Than Pensions (OPEB) liability will increase by $100 million
- Unrestricted net assets will decline from $27 million to "negative" $209 million
- Viability ratio will decline from 0.57 to 0.16
- Debt burden ratio will decline from 4.50 to 3.28

Board Chair Daigle noted that the whole structure of the University's debt policy will need to change because our ratios will be erratic and this will create more volatility over time.

Vice President Cate emphasized that the true financial condition of the University will remain unchanged. He explained that he and Controller Burlingham have had preliminary discussions with the University's debt advisors as to how rating agencies will look at public universities once this standard is implemented

Deferred Maintenance Funding Discussion

At the Board leadership's request, Vice President Cate presented an option for addressing the current facilities and infrastructure deferred maintenance backlog, estimated at $350 million, as well as future repair and maintenance needs.

He explained that the University has contracted with Sightlines, a campus asset management firm, for more than a decade to track the state of facilities and the degrees to which the University cares for them in comparison to its peer group and national standards. Budget constraints have made the University unable to allocate enough funding for deferred maintenance to stem the growth in the backlog.

Approximately $1.4 million in capital funding the University receives from the State of Vermont, $3 million from Residential Life funding, and about $3 million from other General Fund sources to address deferred maintenance, a total of $7.4 million has been allocated for deferred maintenance. For FY 2017, $1.25 million was added to the deferred maintenance budget. A modest reduction in deferred maintenance of $8 million resulting from the demolition of the Chittenden-Buckham-Wills residential complex, and the demolition of Cook Commons will reduce it by another $20 million.

He noted that through the work with Sightlines, the University should be dedicating an amount closer to $20+ million per year to stem the growth in the backlog and make progress in reducing it.

Vice President Cate then outlined the principles the administration believes should guide the development of any funding option to address deferred maintenance.

Vice President Cate explained the option illustrated in a spreadsheet distributed at the meeting that calls for incrementally increasing funding for facilities and infrastructure improvements by $1.5 million per year for the first three years and by $2 million per year for the subsequent years. It also calls for some modest short-term borrowing in the first few years to make a consequential increase in our investment in facilities while the base budget increases are accruing. The debt service to fund the additional $20 million in debt would bring the University's debt burden ratio to about 5.25% in FY 2020 (current cap is 5.75%).

If this option were to be implemented, at the end of five years the University would be providing base funding for facilities needs at a rate of $18 million per year, which brings the University much closer to the funding level recommended by Sightlines. This would not be adequate to address every single need, but data from Sightlines indicate that this level of investment would significantly improve the situation and stem the growth in deferred maintenance backlog, even though it would not significantly reduce it.

Although it will be important to consider the impact of any additional debt on the University's statement of net position, budget capacity will also be a major consideration. It will be important to find the balance between maintaining tuition at an affordable level and maintaining facilities and infrastructure. The administration will bring more information regarding deferred maintenance to the February Board meeting.

Adjournment

There being no further business, the meeting was adjourned at 4:13 p.m.

Respectfully submitted,

Robert Brennan, Vice Chair