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 Friday, February 5, 2010 at 10:00 a.m., in the Silver Maple Ballroom, 401 Dudley H. Davis Center.

MEMBERS PRESENT: Chair Debbie McAneny, Co-Vice Chairs Samuel Bain and Robert Cioffi, Carolyn Branagan, Bill Botzow, Jason DePatie, Daniel Fogel, John Hilton Jr., Susan Hudson-Wilson, John Snow, Donna Sweaney, and Mark Young

REPRESENTATIVES PRESENT: Faculty Representative Albert Joy, Alumni Representatives Walt Blasberg and Meg Guzewicz, Staff Representatives Kit Ardell and Rodman Cory, and Student Representatives Kate Ash and Nick Cafarelli

OTHER TRUSTEES PRESENT: Board Chair Ian Boyce, Board Vice Chair Frank Cioffi, Trustees Claire Ayer, Johanna Donovan, James Betts, Christopher Bray, Harry Chen, David Potter, Adam Roof, Bill Ruprecht, and Jeanette White

PERSONS ALSO PARTICIPATING: Vice President for Finance and Administration Richard Cate, Associate Vice President for Budget and Resource Management Ted Winfield, Director of Capital Planning and Management Bob Vaughan, Vice President for Student and Campus Life Thomas Gustafson, Assistant Vice President for Student and Campus Life Annie Stevens, Director for the Center of Health and Wellbeing Jon Porter, and Controller Claire Burlingham

ABSENT: Faculty Representative Donald Ross

Chair Debbie McAneny called the meeting to order at 10:05 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the October 23, 2009 meeting.

Net Assets Discussion

In response to questions raised at October’s meeting, the Committee continued a discussion of net assets. Net assets include all forms of financial resources including cash and accounts receivable. Associate Vice President Winfield reviewed the status of net assets under management as recorded in the University financial statements at the end of FY 2008. The University’s net assets totaled $114.1M at the end of FY 2008 and $126.1M for FY 2009. The detailed numbers for FY 2008 were provided. Net assets of $35.9M are restricted in nature and may only be used for designated purposes. The remainder ($78.2M) is unrestricted but $44M of the amount is reserved for specific purposes. Of the remaining unrestricted, unreserved $34M, $8.6M is in accounts receivable and the remaining $25.4M is cash. This cash is primarily
reflected as net assets held in Treasury Operations. A discussion ensued regarding the existing controls over spending in each of the accounts. Associate Vice President Winfield noted that if the financial viability of the University was at stake there is approximately $50M in available cash, which combines Treasury Operations with other sources such as reappropriations and plant funds. The $25M in unencumbered cash amounts to 8.8% of the University’s annual general fund budget and would cover about one month’s general fund operating expenses. Vice President Cate felt that the University’s cash reserves were not adequate both in terms of the attitudes of the rating agencies and the ability to respond to significant adverse events. He referred to a negative outlook reported by Moody’s. Trustee Hudson-Wilson asked that the Committee be provided with more detail as to what makes up the University’s total cash. She cited three categories: free cash reserves ($25M), cash with outside obligations (such as insurance payments and other regulatory requirements), and “emergency” dollars in the system that can be accessed in extreme situations. Vice President Cate responded that the detail is available and will be provided to the Committee.

After some discussion the Committee asked that further research be completed and brought back to the Committee at a future date together with a proposed liquidity policy outlining appropriate cash targets. In addition, the Committee requested regular monitoring and reporting of the reserve balances.

Associate Vice President Winfield also provided background on the University’s current reappropriation allocation process. Administrative practice allows for savings of unspent resources to be managed within academic departments to be used toward multi-year projects. The use of reappropriated funds requires the approval of the Provost. Academic deans annually submit spending plans to ensure that spending is consistent with the strategic objectives of the University. Trustee Hudson-Wilson stated that she wanted to see tighter controls with regard to reappropriation, including a clearer understanding of what the carry forward spending authority was originally approved for and its use in subsequent years. The Committee requested annual reporting of the uses of reappropriated funds, including amounts redirected to strategic initiatives and with a goal of ensuring balances do not extend in perpetuity.

**Strategic Financial Plan Update**

The Committee conducted an annual review of the University’s Strategic Financial Plan (SFP). The SFP is rooted in the University’s financial statement, which is prepared in accordance with the requirements of the Government Accounting Standards Board (GASB). The SFP is intended to be used as one tool that allows for the modeling of scenarios comprising elements of the University’s financial statement over time. The SFP is not a long-term budget plan. At a later meeting the Board will be provided with a ten-year budget plan that should provide a more easily understood view of the University’s finances.

Associate Vice President Winfield provided an overview of the assumptions built into Version 8.0 of the SFP. The forecast is built from FY 2009 audited financial results and runs for ten years through FY 2019. Undergraduate enrollment met total growth targets in FY 2010. Future enrollment growth is essentially flat for the balance of the forecast. The forecast also recognizes that long-term capital debt is capped at current levels. In keeping with past practice, the
assumptions underlying the specific scenario modeled in SFP 8.0 are conservative and do not include the outcomes of events and initiatives that cannot be foreseen with considerable precision and confidence.

Post retirement medical benefits (GASB 45) account for a $24.5M negative impact on net assets each year, highlighting the continuing need to frame a benefit shift to reduce this impact. Analysis is underway to support modifying these benefits to lessen the financial impact. The debt burden ratio is in compliance with current policy throughout the forecast while the viability ratio, because of the steep drop in net assets in FY 2009 (due in part to GASB 45 requirements and a decline in the endowment), is not in compliance with policy throughout the term of the plan.

Co-Vice Chair Bain asked what level of tuition increase the University can really sustain. Also, what is the prospect of new debt in the future and the University’s plan for repayment? Vice President Cate replied that the hope is to return strategies addressing some of these issues at a future meeting. Trustee Snow suggested that the Board reconvene an ad hoc group to evaluate the effectiveness of the University’s debt ratios, in particular as it relates to GASB 45, and to make recommendations for changes as needed.

Report of the Investment Subcommittee

Robert Cioffi, Chair of the Investment Subcommittee, led the Committee through a brief discussion of Long-Term Investment Pool allocations and performance through December 31, 2009. The endowment ended the quarter at $291.9M, up 14.3% for the FYTD with Cambridge median up 14.5%. The endowment was up 22.5% for the trailing 1 year and up 4.3% for the trailing five years. The University beat Cambridge median for both of the trailing years. During the January 2010 asset allocation meeting, the ISC made the following modifications to policy target allocations: increasing Global ex US Equity from 22% to 25%, decreasing Fixed Income from 10% to 8%, and decreasing Cash and Equivalents from 3% to 2%.

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<tr>
<th>Current Targets</th>
<th>New Targets</th>
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<tr>
<td>US Equity</td>
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<tr>
<td>Global ex U.S. Equity</td>
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<tr>
<td>Developed Markets</td>
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<td>Emerging Markets</td>
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<td>Marketable Alternatives</td>
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<td>Real Assets</td>
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<td>Fixed Income</td>
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<td>Cash and Cash Equivalents</td>
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Co-Vice Chair Bain commented that UVM receives incredible service from Cambridge Associates. The University could tighten the ranges but there is no need to at this time. Chair
Cioffi reminded the Committee that Cambridge Associates consults but the ISC makes the final decisions.

The ISC interviewed one current private equity manager as part of its ongoing due diligence.

Controller Burlingham led the Committee through the proposed changes to the Cash Management Policy and described the University’s cash inflows as being cyclical in relation to fall and spring tuition revenue, with cash outflows being consistent throughout the year. Chair McAneny questioned the addition of the sentence “Investments may not include structured products” as added to the Cash Management Policy as a result of the Investment Subcommittee meeting in December. Co-Vice Chair Bain said that the University wants to receive its fair share of returns but needs to be careful about what it chooses for investment vehicles. He stated that it was important that administration not look at this pooled cash like the endowment, especially during this time. Chair McAneny commented that she finds this added restriction may be a drawback because some of the Long-term pool asset group is invested in units of the endowment, and therefore such pooled cash would not be in compliance with the Cash Management Policy.

At 12:08 p.m. the Budget, Finance and Investment Committee recessed. The Committee reconvened at 1:20 p.m.

After further discussions regarding changes to the Cash Management Policy, the sentence “Investments may not include structured products” was removed and a new paragraph “For all of the asset groups described below, the Treasurer will develop in conjunction with the Board of Trustees Investment Subcommittee (ISC) a list of approved funds and fund managers from which the Treasurer may select managers as appropriate. This list will be reviewed and approved annually by the ISC” was added.

Vice President Cate asked the Budget, Finance and Investment (BFI) Committee to approve the following resolution regarding the review and approval of amendments to the Cash Management Policy, formerly titled the Statement of Objectives and Policies Related to Cash Balances.

**Review and Approval of Amendments to the Cash Management Policy**

WHEREAS, in October 1993, the Board adopted a Statement of Objectives and Policies Related to Cash Balances to govern the investment of UVM pooled cash, which it updated most recently in November 2006; and

WHEREAS, the Budget, Finance and Investment Committee was charged with the periodic review of the Statement of Objectives and Policies Related to Cash Balances;

WHEREAS, on December 17, 2009 the Investment Subcommittee reviewed the Statement of Objectives and Policies Related to Cash Balances and is recommending it be renamed the Cash Management Policy and amended as appended;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby approves the modified Cash Management Policy.
The Committee voted unanimously to approve the resolution Review and Approval of Amendments to the Cash Management Policy for recommendation to the full Board, as revised and appended to the minutes.

**Capital Project Financial Feasibility Review**

Director Vaughan explained the project scope, costs and funding plan for the proposed Simpson Residential Dining Hall & Retail Store renovation. The Simpson Residential Dining Hall & Retail Store is located on the Redstone Campus of UVM and is the main morning and evening dining facility for 1,200 students who live there. The project consists of new entries to the dining hall and store, and renovations to the dining hall, store, and kitchen. The new floor plan includes new Connector Hallway to all three Residence Halls, Kosher Kitchen, new entries, air conditioning, and exterior site-work, window replacement, and new loading dock and service entry.

Assistant Vice President Stevens said this is the last residential dining facility slated for renovation on the UVM campus. This new facility is key in addressing students’ needs. Director Vaughn stated that the total project cost of $7.2M will be accomplished through the use of residential life unrestricted plant funds. There was a brief discussion as to why this project was not ranked in the Capital Projects Ranking System. The Committee requested that the Capital Projects Ranking System be revisited and that all Residential Life projects be ranked with the goal of having only one priority list.

The Committee was asked to approve the Simpson Residential Dining Hall & Retail Store renovations at a cost not to exceed $7.2M. The Committee voted to approve the Simpson Residential Dining Hall & Retail Store Resolution for recommendation to the full Board (11-1).

**Simpson Residential Dining Hall & Retail Store Resolution**

WHEREAS, the Educational Programs and Institutional Resources Committee carefully reviewed the program, scope, and preliminary estimate of $7,200,000 for the Simpson Residential Dining Hall & Retail Store (the “Project”) at its October 2009 meeting and found it an institutional priority, consistent with the Strategic Capital Plan and worthy of further consideration; and,

WHEREAS, the Educational Programs and Institutional Resources Committee also endorsed the Project at its October 2009 meeting and remitted it to the Budget, Finance, and Investment Committee for financial review and approval at a subsequent meeting; and

WHEREAS, the Division of Student and Campus Life has budgeted $7,200,000 of its unrestricted plant funds for this project;

NOW, THEREFORE, BE IT RESOLVED, that the Vice President for Finance and Administration and University Treasurer, or his successor or designee, is hereby
authorized to utilize the Student and Campus Life unrestricted plant funds to finance the $7,200,000 Simpson Residential Dining Hall & Retail Store 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.

Vice President’s Report

Vice President Cate updated the Committee on the status of the pending bond issue (Series 2010A & 2010B). The University will be using taxable Build America Bonds in the amount of $9M for the Greening of Aiken project. Build America Bonds include a 35% interest rate subsidy. The University did attempt to use Economic Recovery Zone Bonds but the State’s authorizing language was problematic. Pricing is planned for next week, with closing the following week. The potential $22M partial refunding of the tax exempt General Obligation Bond Series 1998 will go forward if the interest savings threshold of $250,000 is met.

The Committee was provided with a FY 2010 budget to actual report as of December 31, 2009. Revenue is tracking above budget, while expenditures are below. At this time it is not expected that the Board authorized draw on the loan fund will be needed to balance the year-end budget.

Center for Health & Wellbeing Proposal

Vice President Gustafson gave a brief overview of the Center for Health and Wellbeing (CHWB). The CHWB is a student-fee funded operation providing a wide array of essential health care services to students. The programs and performance of the CHWB have received high marks from accrediting agencies. However, combining the location of the Center services now in five separate offices across campus has been identified as a priority issue. Further, the limitation in available space for counseling services is particularly critical.

At present only the feasibility study has been completed as a part of the Campus Life Task Force II, which framed a plan for a new facility of approximately 35,000 gross square feet being contemplated, with an estimated cost of $13.8M. This structure would address the concerns that have been identified. The site being considered is on Main Street, across from the Davis Center.

Vice President Gustafson said at this time they were looking for the Committee’s “perspective and reactions.” He proceeded to review several of the methods for financing being explored by the administration. Private philanthropy, government agency grants, and other ways to raise non-debt funds are being explored but it is not clear that these sources will be adequate to move this project ahead on a timely basis. The idea of a specifically designated additional student-fee, such as $100 per year, was put forth for discussion, in combination with fund raising, to build up project funds at the rate of $1M per year. Several Committee members indicated they did not favor this approach to building up capital resources.
Discussion ensued about where this project fell on the Strategic Capital Plan and whether to revisit the existing criteria used for ranking projects using the strategic capital planning tool. Director Porter stated that the scope has changed in the past year with the increase in student medical needs, including psychiatric, eating disorders, substance abuse, depression, and H1N1. The Committee will receive additional information about the proposed project at a future meeting.

**FY 2011 Budget Plan Update**

Associate Vice President Winfield briefed the Committee on the proposed maximum tuition, fees and room and board rates for FY 11. The proposed 6% tuition increase and other components of the FY 2011 budget will be discussed in detail at April’s BFI meeting. The full Board will approve the final FY 2011 budget in May. The Committee reviewed and discussed peer comparison data provided in the Board materials. The University remains in the same comparable position in the peer comparison as it has been for the past few years.

The Committee next reviewed targeted rates for room, board and required student fees. The proposed fees include the impact of an additional $100 fee dedicated to the new Center for Health and Wellbeing facility. In order to market the residence halls and dining facilities to returning students, the Department of Residential Life must offer a student contract containing maximum room and meal plan rates in March and April. Final rates will be brought before the Board for approval in May and will not exceed those proposed today. Together, housing and meal plans rates would increase 4.0% for FY 2011.

**Adjournment**

There being no further business, the meeting adjourned at 2:45 p.m.

Respectfully Submitted,

Debbie McAneny, Chair
THE UNIVERSITY OF VERMONT
CASH MANAGEMENT POLICY

Introduction

This Cash Management Policy governs the investment of UVM pooled cash. The pooled cash includes all funds of the University other than the funds that are held in the University endowment and certain plant, restricted and loan reserves, for which separate investment guidelines have been established. This statement will be subject to periodic review and possible modification by the Budget, Finance and Investment Committee as the Committee considers necessary to achieve cash management and investment requirements.

Investment Objectives

University pooled cash for purposes of investment allocation shall be divided into three asset groups as follows:

Short-term pool: Cash that is expected to be needed for normal operating expenditures within a one-year period. The primary objective is preservation of principal and liquidity. Maximization of investment income without undue exposure to risk is a secondary objective.

Intermediate-term pool: Cash that is expected to be needed within a period of one year to six years. The primary objectives are preservation of principal and maximization of investment income without undue exposure to risk.

Long-term pool: Cash that is not expected to be needed for operational purposes for a period exceeding six years and may be designated as a permanent core. The primary investment objective is to achieve consistent long-term growth of the pool with limited exposure to risk.

Allocation Guidelines

Short-term pool: The average weighted maturity for a short-term portfolio shall be between one day and one year.

Intermediate-term pool: The average weighted maturity for intermediate-term portfolio shall be between one year and six years.

Long-term pool: Permanent core cash may be invested in any investment that is allowable under the University’s Statement of Objectives and Policies for the Endowment Fund and that...
meets the overall objective of achieving consistent long-term growth of the pool with limited exposure to risk.

**Performance Objectives**

Short-term pool: The benchmark for the short-term portfolio shall be total return that meets or exceeds the yield of three-month U. S. Treasury securities.

Intermediate-term pool: The benchmark for intermediate-term portfolio shall be total return that meets or exceeds the Barclays Capital U.S. Treasury Index (3-5 Year).

Long-term pool: The benchmark for the investment of the long term pool shall correspond to the benchmarks for each asset class as specified in the University’s *Statement of Objectives and Policies* for the Long Term Investment Pool, including the Endowment Fund.

**Allowable Investments for Asset Groups**

For all of the asset groups described below, the Treasurer will develop in conjunction with the Board of Trustees Investment Subcommittee (ISC) a list of approved funds and fund managers from which the Treasurer may select managers as appropriate. This list will be reviewed and approved annually by the ISC.

Short-term pool: Investments in the short-term portfolio are restricted to U. S. Treasury and government agency securities, money markets, high quality corporate securities, and commercial and bank paper. Investments shall be in marketable securities of the following types and with the noted credit ratings:

1. Debt securities rated Aaa, Aa, A or Baa by Moody’s Investor’s Service, Inc. or AAA, AA, A or BBB by Standard & Poor’s Corporation.

2. Obligations of, or guaranteed by, the United States of America, its agencies or instrumentalities.

3. Obligations of, or guaranteed by, national or state banks or bank holding companies rated B or better. No more than 20% of the funds held in the cash pool shall be
invested in obligations of the institutions within any single holding company.

4. Commercial paper rated A-1 or higher by Standard and Poor’s or Prime-1 (P1) by Moody’s Investor’s Service, Inc.

5. Bankers’ acceptances or negotiable certificates of deposit issued by banks rated B or better. No more than 20% of the funds held in the cash pool shall be invested in certificates of deposit, bankers’ acceptances or floating rate notes of the institutions within any single holding company.

6. Repurchase agreements of banks having Fitch ratings no lower than B secured by the U.S. government and federal agency obligations with market values of at least 100% of the amount of the repurchase agreement.

7. Commingled funds may be used if they are in compliance with the above guidelines.

8. The Commonfund, a non-profit provider of investment products for colleges and universities.

Intermediate-term pool: Investments in the intermediate-term portfolio are restricted to securities rated Aaa, Aa, A or Baa by Moody’s Investor’s Service, Inc. or AAA, AA A or BBB by Standard & Poor’s Corporation.

Long-term pool: Investment of the long term pool shall be restricted to those that are allowable under the University’s Statement of Objectives and Policies for the Endowment Fund and that meet the overall objective of achieving consistent long-term growth of the pool with limited exposure to risk.

Moral, Ethical and Social Considerations

Cash balances will be invested consistently with the moral, social and ethical criteria adopted by the Board of Trustees on recommendation of its Budget, Finance and Investment Committee as related to the Long Term Investment Pool, including the Endowment Fund. Criteria for socially responsible investing shall include, where advisable and consistent with investment quality, return, and safety guidelines, the use of community and State institutions for investment purposes. Where returns are reasonably
equal (within 10 basis points), preferences will be given to Vermont-based financial institutions.

**Investment Management Responsibility and Structure**

Cash management and investment responsibility resides with the Vice President for Finance and Administration and Treasurer through the Controller.

1. Investments may be made internally using allowable instruments and institutions; OR,

2. Investment managers may be engaged to invest University assets consistent with this Policy. Subject to this Policy and a written agreement between the University and the investment manager, the investment manager will be given discretion to select individual securities and to make adjustments to the structure of the portfolio.

**Administration and Reporting**

The Treasurer will report to the Budget, Finance and Investment Committee annually, the following:

1. Balances in each asset group;

2. Investments in each asset group by manager and investment type or fund; and

3. Performance of each individual investment type within each asset group.

As delegated by the Board of Trustees through its resolutions, specified University officials, including the Treasurer, are authorized to open accounts with banks, investment firms, or commercial paper institutions, and/or to execute purchases and sales, in order to implement this investment policy.

This Cash Management Policy will be subject to annual review by the Investment Subcommittee.