

## **Unapproved minutes of the Board of Trustees special meeting Monday, January 27, 2014**

*Note: These are unapproved minutes, subject to amendment and/or approval at the subsequent meeting.*

The Vermont State Colleges Board of Trustees conducted a special Board meeting on Monday, January 27, 2014 at the Office of the Chancellor, Montpelier, Vermont.

The following were present:

Trustees: Jerry Diamond, Lynn Dickinson, Michelle Fairbrother (by phone), Tim Jerman, Bill Lippert, Karen Luneau, Chris Macfarlane (by phone), Jim Masland (arrived late), Linda Milne, Martha O'Connor, Heidi Pelletier

Absent: Kraig Hannum, Gary Moore, Colin Santee

Presidents: Joe Bertolino, Phil Conroy, Joyce Judy, Barbara Murphy

Absent: Dave Wolk

Office of the Chancellor:

Tim Donovan, Chancellor

Tom Robbins, Vice President and Chief Financial Officer

Annie Howell, Director of Academic Research and Planning

Elaine Sopchak, Executive Assistant to the Chancellor

Members of the Public:

Tess Conant, VSCUP President

Ben Johnson, AFT VT

Chris Smith, VSC FF Vice President

Steve Zind, Vermont Public Radio

Vice Chair Jerman called the meeting to order at 1:00 p.m.

Trustee Jerman informed the group that Vermont Public Radio is recording the meeting for a news story. The first agenda item is an update on the business plan for VTC. Chancellor Donovan reminded the Board that when they approved budgets last May, they approved a deficit budget at VTC with a four-year plan, and year one is partially over. The plan will allow the college to overcome challenges strategically in terms of cost reductions and program development refinement. The fall semester was the first revenue

cycle of that plan. The information being shared today is for the first quarter of the year—the second quarter ended on December 31, 2013 so those books are not closed yet. Those materials will be in the Board meeting materials for February.

Trustee Diamond asked to clarify what information will not be included in today's discussion. CFO Robbins informed the Board that he is now analyzing second quarter data as part of the normal cycle. Trustee O'Connor reminded the Board that when this subject came before the Finance and Facilities Committee in May, it was decided the Board would receive an update in six months, and this is that update. Chancellor Donovan explained that this information was originally planned to be shared during the normal Finance and Facilities Committee cycle but that trustees requested more information; Trustee O'Connor and Chair Moore suggested the update be added to this meeting's agenda.

President Conroy explained that VTC's business plan runs from the fall 2014 semester to spring 2017 and includes 12 enrollment periods. The college submitted a budget in FY2014 that projected a \$1.4M deficit, a combination of \$975,000 from a \$2.5M Board-approved line of credit from system assets to be repaid at 4.5% interest. The Board had also approved the use of up to \$1.5M from VTC's quasi-endowment; the deficit includes \$450,000 from this quasi-endowment. The college is still spending down these funds. The \$450,000 being spent this year is specifically targeted for marketing infrastructure. Last year \$150,000 was used to begin VTC's new branding effort, and this year the marketing implementation will cost \$450,000. Presently VTC is projecting a \$2.4M deficit, a million dollars higher than previously anticipated. The \$2.4M deficit includes the \$450,000 from the quasi-endowment. President Conroy explained that this is because fall 2013 enrollment is off by 70 students, primarily in two categories. More students progressing from an Associate's degree to a Bachelor's degree chose to return to work rather than continue. In the nursing program, VTC was not able to enroll Associate's degree or LPN certificate students because the college lost 27 slots at clinical sites around the state. It was anticipated that the BSN program would help make up for this, but out of 42 applicants only 19 registered and only 15 are continuing with the program. Loss of revenue from these students also affected the college's room and board projection: there are 104 empty beds (a \$500,000 loss over the year). These projections cover the full year, not just a semester.

To control FY14 expenses VTC has cut discretionary spending 20% and frozen equipment purchases funded from tuition funds. What is being spent is grant funded. Discretionary spending will be scrutinized again, even after the 20% cut. The one area VTC is not sacrificing is the quality of the student experience. There is a soft freeze on vacant positions except those affecting quality of student experience or contribute to the financial goals of the business plan. They have eliminated a senior administrative position and two faculty retirements are not being refilled. The college is examining the sale of underperforming assets, including land in Williston purchased in anticipation of future use. A faculty group is looking at course and program redundancy and streamlining academic administration. Ian Smith leading a faculty discussion with CCV

to increase the pipeline of CCV students to VTC, particularly regarding the new STEM program at CCV.

In FY15 a number of initiatives are planned to bring back stability. Trustee O'Connor confirmed with President Conroy that what he is sharing is all in the original business plan. Vermont Tech is undergoing rebranding implementation right now. VTC has adopted a philosophy similar to VMEC's: "fail fast, fail cheap." They have established a pricing task force to review tuition fees and financial aid policies to increase revenue and enrollment and are implementing a complete revision of the institutional financial aid program. They are looking to attract more in-state and out-of-state students through a combination of need and merit-based grants. The pricing task force has recommended a lab fee, which will be implemented in fall 2014. The faculty contract calls for an increase in the way lab instruction is paid. Historically VTC paid .55 of a lecture credit for a lab credit. This has increased to .67 and now costs the college \$512,000 annually. The college needs to recover that cost.

Chancellor Donovan explained that in the last faculty contract the VSC agreed to equalize the lab rate across the colleges. Most courses are 3 credits, and lab science courses are generally 4 credits. The first 3 credits are for lecture, and the teaching load is the same as other courses. For each lecture credit the class generally meets for one 50-minute period per week. The lab part meets for 3 hours for 1 credit. The teaching load for faculty with labs is three times as much as a lecture due to the nature of the work, preparation, and follow-up. Faculty are paid a differential of 2/3: 2 credits of workload for a 3 hour lab. At VTC the differential was 50%, and now it has been adjusted to equal that of the other colleges. President Murphy stated that full-time students pay a package rate for 12-18 credits, there is no way to recover through the tuition rate the lab expenses some colleges pay. Trustee Diamond asked if the lab rate is the same for CCV. President Judy confirmed this. Chancellor Donovan stated that CCV does not have some of the auxiliary services built around lab preparation. For example, Tess Conant, Chemical Hygiene Officer at Lyndon State, does lab preparation for faculty; CCV does not have someone to do that. Castleton's and Johnson's lab fee is usually \$40 per lab credit. At VTC it is \$35. Trustee Milne asked why VTC's was not \$40 as well. President Conroy answered that \$25 of the lab fee will go towards the increase in instructional cost; \$10 will go to financial aid, and the last \$5 will go towards repairing and replacing lab equipment. They do not want to go above \$35 because of the number of labs students take—VTC is a lab intensive curriculum. A \$35 lab fee per course is an average increase of about \$450 per student per year. They do not want labs priced beyond what students can afford to pay. Some students have a lab with every course so the cost can be very high. Trustee Diamond asked what the increase to the college would be now that the differential is going up to .67. President Conroy answered that the total cost is \$875,000, with \$512,000 of that going towards the cost of instruction. CFO Robbins added that cost already exists and now the revenue from the lab fees will start covering it. President Conroy said that the original business plan did not include this element but after the first semester of the business plan they concluded that the lab instruction costs must be recovered. Trustee Diamond asked if the extra \$5 was a deal breaker. President Conroy

answered that they started analysis at \$20 and looked at other colleges, comparing how many labs VTC students take versus other schools.

President Conroy described a new guaranteed job placement program for students in fall 2014. If within 6-12 months of obtaining a Bachelor's degree from VTC a graduate does not have a job, they can come back and take more courses at VTC's expense. This is primarily a marketing tool. There are also two other task forces. A task force of 23 faculty and staff are focusing on innovation and entrepreneurship and developing new revenue based programs, including academic minors and applied business programs in innovation engineering, entrepreneurship and lean systems. They hope to have a certificate program in entrepreneurship and innovation as soon as fall 2014. There is also a task force of students, faculty and staff working on improving the residence halls, with the goal of increasing resident students, especially in the junior and senior year. They are putting more emphasis on the Bachelor's degrees and more students living on campus.

Regarding enrollment, VTC is rebuilding its marketing infrastructure; however marketing spending is not higher than it has been historically. Generally they spend about \$350,000 on marketing; this year's \$450,000 in spending is an exception but is also barely adequate. VTC is increasing both its out-of-state and in-state marketing. They have redeveloped VTC's brand and restructured the staff around marketing advancement in order to be more contemporary with other colleges of similar size. They have increased staff by reallocating positions within the college. They have implemented a comprehensive new student search, and there are now 32 points of contact with potential students. A completely rebuilt website is scheduled to launch in March 2014. They have implemented an electronic and social media ad campaign. There is already evidence of success: so far this year there has been an 11.4% increase in applications, including a 13% in Vermont applications and a 19% increase in out-of-state applications. Trustee O'Connor asked and President Conroy confirmed that these increases are for fall 2014. President Conroy continued that VTC has also developed an international recruitment plan and will release an RFP for international marketing services. The international recruitment plan calls for an increase of 150 international students over four years. VTC has doubled the number of international students since President Conroy started, from twenty international students to 60. They have successfully restored the 27 clinical practice placement sites for next year. They are in Middlebury, St. Albans, and Springfield; they are working on securing more sites for the Randolph campus as well.

Two additional revenue generating projects are coming online. The anaerobic biodigester will start generating electricity around March 1<sup>st</sup>. VTC has been making bond payments on this project for the past two years with no offsetting revenue. President Conroy is confident it will generate revenue next year. The dairy and produce plant is moving forward with funding from the round two TAACCCT grant. It will be operational next fall. VTC's recent projects have been groundbreaking and have been able to overcome many challenges. VTC's partner in the dairy and produce plant is Sodexo. Last summer, in partnership with Sodexo, VTC's market garden fed three campuses; Sodexo also purchased and distributed VTC dairy product. VTC is also working with Sodexo to make

the Williston campus available as a summer conference site managed by Sodexo facilities in the Burlington area.

As a result of these many initiatives, President Conroy anticipates that VTC will be back on projection by next year. It is a very complex plan, and the college community has come together to address many issues that need to be viewed strategically and not reactively. Next fall is when the first round of effort will be realized from this first year of the plan. President Conroy expressed gratitude for the support of leadership at the Office of the Chancellor. VTC has a unique position in New England higher education, and President Conroy stated they are not abandoning that strategy of growth. The slope of recovery and growth will be different than what was originally hoped.

Chancellor Donovan stated that last spring the Chancellor's Office worked with VTC leadership to develop the business plan. He asked VTC at that time to look to the Chancellor's Office and the Board as the bankers to do due diligence and oversight. Since July Director Dan Smith has been assigned half time to VTC, and CFO Tom Robbins is now VTC's interim CFO. It is not time yet to start a search for a new dean of administration for VTC. Colleges' using central office resources is not unprecedented. Central office personnel have filled interim roles at the colleges before. There is not a lot of excess capacity at the VSC so we are using the resources we have to assist the institutions as they need it. There is an extra load on both Director Smith and CFO Robbins but all are glad to have more eyes on the situation. Both CFO Robbins and Chancellor Donovan have been meeting with President Conroy and his dean on a monthly basis at a minimum. The last month or so has become more intense.

Trustee Milne asked about the drop in this year's enrollment in nursing and inquired about what is being done about the Associate's degree students who left for work instead of continuing onto earning a Bachelor's degree. President Conroy answered that the college is making efforts to have students go from an AA program to a BA program. Some programs conclude with an AA, and those students could transfer to a different program but have chosen not to. VTC is looking to increase enrollment in the BA programs. Placement rates for BA programs are better than AA placements, and earn 20-40% more pay. VTC is making this case to students. VTC has also restructured its financial aid system after discovering that VTC's institutional aid packages are the least generous of all the VSC colleges. They have revamped the program to favor Vermonters. They are looking incentivizing students to go on to a Bachelor's degree. One of the promises they have made is that if a student chooses to go on to earn a BA after an AA, VTC will freeze their tuition at the rate where the student enters a BA program, an incentive that would cost the college \$800. They are raising awareness with students that if they persist to a BA they will make more money. Trustee Milne asked if there are any indicators to show whether this idea works. President Conroy shared that VTC now has a full-time institutional research staff member, with the result that decisions are based on actual data. They are starting to track data much more scientifically.

Trustee Pelletier asked why students stopped taking courses after earning an AA. President Conroy answered that this is mostly a financial decision. VTC is beginning to

see students who left to work full-time starting to migrate back as readmitted students. Chancellor Donovan stated that it is important to remove barriers to people coming into VTC at some place other than the beginning. For example, making VTC programs inviting to CCV students is important because if there is only a rigid sequence to be followed, VTC won't optimize its potential market. President Conroy said VTC is trying to develop a pipeline. They must assume now that most new students are going to come to VTC with some kind of college credit, like dual enrollment for example. To capitalize on that they are working with tech centers and high schools to help students get to college in exchange for help on math readiness.

Trustee Fairbrother asked President Conroy to share with the Board in February more detailed information on where VTC will make up the deficits, and what specifically will change that won't create another deficit. She also asked to see a budget scenario including a tuition increase between 0-2%.

President Conroy explained that the \$2.4M deficit is projected, not actual. The four-year plan has factored in a 2% tuition increase. He also stated that the lab fee increase is not included right now (\$875,000).

Trustee Milne restated that in FY15 VTC will be back on plan, but will not have made up the deficit. President Conroy answered that the plan has not factored in the lab fee, which is annual. The business plan currently calls for a 2% increase and an 4-5% increase in enrollment; his projection is that adding in the lab means profitability will occur faster than expected. This analysis has not been completed yet.

Chancellor Donovan reminded the Board that when they looked at the plan last May it was not as a road map but as a directional document that turned the curve on revenue and expenditures so they become positive again. A number of things are being looked at and not all will play out the way expected. For example, at Lyndon State, the Music Business and Industry program was designed for 50 students; President Bertolino confirmed there are now 150 students enrolled. All of the colleges are looking at what investments to make that will be strategically important to improve revenue. Enrollment drives this. An unexpected million dollar shortfall equates to 50 students at an average of \$20,000 per student. Most immediate, short-term costs are fixed; it is difficult to make rapid shifts when 80% of costs are people, and people are what defines what the VSC offers. We need to stay focused on what makes our institutions' products attractive. In the current world where there is so much emphasis on a well-prepared workforce in technical areas there is no reason why VTC cannot be very successful.

Trustee Jerman reminded the Board that President Conroy mentioned some good increasing applications statistics, and that when June arrives the Board needs to support his plan to make sure these statistics hold through September.

Trustee Lippert stated that this business plan is not something President Conroy can do on his own. It is a multifaceted initiative that has engaged VTC's community broadly. He applauded President Conroy's approach and understanding that there is not just one major

think that can be done to improve the situation. Trustee Lippert also stated that in recognizing that some things may not work, they must also learn from how they fail. VTC lost 27 nursing slots and then replaced them. He asked President Conroy to share what was learned from resolving this problem.

President Conroy stated that VTC not always worked well with each other. They are now having difficult conversations about how they do business. The community is starting to understand that the power for changes come from down in the organization and not from the top. He thanked the nursing faculty and staff for their courage to have such a conversation. They are currently reacting on a tactical level—for example, replacing 27 seats. But the bigger question is what is the strategy for the program going forward that can ensure maintaining those seats. They need to take a different look at how VTC delivers services students in a changing marketplace. VTC's challenge is that they don't allow themselves to fail, so they are not willing to take risks. They are now giving permission to fail and then move on. Budgets will be done differently this year, building from ground up, and not *pro forma*.

Trustee Macfarlane asked if budgets are broken down by department, and if there are any other besides nursing with a glaring loss. He also referred to President Conroy's mention of a soft freeze on hiring and asked who determines the hiring. Finally, he asked if there are any plans to look into making cuts in VTC's fixed costs.

President Conroy stated that the fixed costs are people, and that they will help VTC improve. Not filling positions affects the quality of student experience. They are reviewing curriculum for opportunities for common courses and consolidation. There are some majors that are more expensive than others; for the first time they are looking at those cost factors. They are making sure there are minimums in sections and at how adjunct faculty are deployed first. Full-time faculty are fully loaded; need to make sure those sections have enough students to make them profitable. They are looking at the number of credits toward degree—some go beyond 60 for an AA or 120 for a BA—and determining whether they are all necessary.

Chancellor Donovan stated that while 80% of costs are personnel, they not fixed over time but are difficult to change in a dramatic way in a short period of time. Indiscriminate cost cutting will not solve the problem, nor will indiscriminate investment; it must all be very strategic. VTC is also dealing with the fact that five to seven years ago they did have hard freezes in hiring that resulted in holes in services provided. Trustee Macfarlane asked to confirm that projections do not include the new lab fee, and that they assume an increase in tuition. CFO Robbins confirmed that projections from the first quarter do not include the lab fee or tuition, because that is for FY15. Chancellor Donovan stated that the business plan the Board saw in May was predicated on a 2% increase without a change in lab fee structure.

Trustee O'Connor stated that she spent a full day at VTC when the business plan was unrolled. She was impressed with how enthusiastic and willing to work faculty and staff were. She thanked President Conroy for spending time with her and Chair Moore going

over everything. She also thanked the trustees who brought up their issues and questions and for coming together on quick notice. She encouraged anyone who has questions to call her, Chancellor Donovan or President Conroy, and to ask the questions before the February 12<sup>th</sup> Finance and Facilities Committee meeting so they can be answered at the meeting.

Trustee Diamond asked to clarify the \$4M credit: \$2.5M of a line of credit authorized by the Board of Trustees for four years and secured by VTC assets, and \$1.5M LOC drawn down from VTC's quasi-endowment. He asked for the total of VTC college's quasi-endowment.

President Conroy answered that the quasi-endowment was approximately \$3.5M. Liquidating \$1.5M leaves approximately \$1.5M in the quasi-endowment. The restricted endowment is \$2.9M. The college has a combination of endowment and quasi-endowment remaining of \$4.5M. They have not used all of the \$1.5M quasi-endowment; they have spent approximately \$644,000. The remainder is the \$450,000 being spent on marketing this year and \$369,000 not yet allocated. Trustee Diamond asked what assets are securing the \$2.5M four-year loan. President Conroy answered that the assets are the Board-restricted reserve of \$750,000 and the remaining \$1.5M in VTC's quasi-endowment.

Chancellor Donovan explained that when someone gives money to a college for a particular purpose, it goes into a real endowment and can be used only for that purpose unless the donor says it can be used for something else. VTC had a quasi-endowment that was restricted—by the Board, not the donor—to a 5% draw for student financial aid. Last year VTC asked the Board permission to draw down the \$1.5M. Trustee Dickinson asked what was the total of the fund. CFO Robbins responded that there is about \$1.6M remaining in the quasi-endowment and \$2.9M in the restricted endowment.

Trustee Macfarlane asked if the amount is a loan. CFO Robbins stated that it is not a loan, and that it is being invested with SmithBarney. The quasi-endowment was liquidated and is in the bank; VTC is drawing it down as needed: \$600,000 for marketing, \$300,000 to replenish their Board-required reserve, and roughly \$600,000 for capital improvements.

Trustee Diamond clarified that there is still \$1.6M of quasi-endowment that has not been liquidated, and that this is part of the assets being used to secure the line of credit. He asked what comprised the rest of the assets. CFO Robbins answered that it is the Board-required reserve of approximately \$975,000, plus the quasi-endowment of \$1.6M.

Chancellor Donovan reminded the Board that it requires every college to have a reserve of 2.5% of its general funds budget that cannot be touched without Board approval. The colleges are also allowed, but not required, to have up to another 5% in reserve that can be touched with the Chancellor's approval. Trustee Diamond asked if VTC has this additional 5%. Chancellor Donovan answered that it does not. President Conroy stated that going forward VTC will be building a repayment schedule into its budget.



Trustee Diamond asked President Conroy if any of the marketing projects are being done with Lyndon State. President Conroy answered that while VTC does as much of its marketing in house as possible, they don't want to take the risk of having people who are not experts yet in the field trying to generate revenue. During the rebranding prices they have developed templates that staff and students work on. VTC's computer science department was invited to bid on the website but for the level of expertise needed to be successful they want the best people who are already established in the industry. There are a number of things that can use student and faculty help but for this purpose they need the best service for the best price.

Chancellor Donovan stated that most of the colleges go outside for vendors to provide marketing support. President Judy said CCV uses a combination of in house and outside vendors. President Murphy has a Lyndon grad on staff who does many marketing tasks but they also go outside. Trustee Diamond complimented Lyndon State's advertising that he has seen recently. President Conroy stated that there are many conversations happening right now about how the colleges can collaborate more.

Trustee Lippert asked to clarify whether by FY15 VTC will be back on plan, or will be in the black. CFO Robbins confirmed the college will be back on the plan, and therefore back on the path to profitability according to the plan. Trustee O'Connor suggested that the VTC business plan be put on the Finance and Facilities Committee agenda every other meeting for a brief update. CFO Robbins said that once the budget for FY15 is complete they can recast the plan according to those figures.

President Judy asked to return to the topic of lab fees to share that for a 4 credit lab course, CCV pays 6 credits of teacher pay, an extra 2 credits to cover lab costs.

Trustee Jerman called for a short break in the meeting. Trustee Macfarlane and Trustee Fairbrother left the meeting. Trustee Masland arrived to the meeting.

Trustee Jerman called the meeting back to order at 2:35 pm.

Trustee Diamond thanked Chair Moore for his courage in bringing up the issue of higher education funding in Vermont. He asked to officially record his appreciation for the strong stand Chair Moore has taken and the courage he is exhibiting.

Trustee Jerman stated that the goal of this part of the meeting is to come out with a vision statement. A draft version was handed out that Fifth Element has seen it. Trustee O'Connor reminded the Board the draft was sent out a week ago.

Chancellor Donovan asked the Board if the draft vision statement captures the vision statement they want to make. The next step would be to try to identify what are two to three initiatives that would be fertile ground to explore further in the context of the vision statement.

The trustees discussed in depth the crafting of a vision statement for the VSC based on the draft materials presented.

Trustee Luneau offered kudos to Johnson State Professor Tyrone Shaw for his piece regarding higher education funding that was published in VT Digger.

Trustee O'Connor moved and Trustee Masland seconded a motion for the Board to enter executive session ~~four~~ for the purpose of discussing personnel. The Chancellor was invited to take part in the executive session. The motion passed unanimously. Trustee Jerman called for the Board to enter executive session at 3:48 pm.

The Board exited executive session at 4:05 pm and adjourned at 4:08 pm.