Minutes of the VSC Board of Trustees Finance and Facilities Committee held Monday, February 22, 2017 at the Office of the Chancellor, Montpelier, VT—APPROVED May 9, 2017

The Vermont State Colleges Board of Trustees Finance and Facilities Committee met on Wednesday, February 22, 2017 at the Office of the Chancellor, Montpelier, VT.

Committee members present: Jerry Diamond, Church Hindes (Chair), Chris Macfarlane (Vice Chair), Linda Milne (arrived at 2 pm), Martha O'Connor, Aly Richards

Absent: Tim Jerman, Bill Lippert

Presidents: Nolan Atkins, Elaine Collins, Joyce Judy, Pat Moulton, Dave Wolk

Chancellor's Office Staff:
Tricia Coates, Director of Governmental & External Affairs
Todd Daloz, Associate General Counsel
Sheilah Evans, System Controller/Senior Director of Business Operations
Elaine Sopchak, Administrative Director, Office of the Chancellor
Jeb Spaulding, Chancellor
Steve Wisloski, Chief Financial Officer

From the Colleges:
Scott Dikeman, Dean of Administration, Castleton University
Barb Flathers, Assistant to the Dean of Students, Johnson State College
Loren Loomis Hubbell, Dean of Administration, Lyndon State College
Laura Jacobowski
Barbara Martin, Dean of Administration, Community College of Vermont
Sharron Scott, Dean of Administration, Johnson State College
Lit Tyler, Dean of Administration, Vermont Technical College

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

2. Consent agenda
   a. Approve minutes of January 9, 2016 meeting
   b. Grants and Endowments

Chair Hindes reviewed the individual consent agenda items. None were removed from the agenda. The consent agenda was approved unanimously.

3. Legislative Update

Tricia Coates, Director of External and Governmental Affairs, updated the Committee on legislative activity. The Senate and House passed the final Budget Adjustment Act, which included $770K of funding for unification.

Partnerships in the Statehouse and with faculty unions, students, and higher education partners are strong this session. The VSC has testified in multiple committees on our appropriations request and the governor's budget proposal. We have educated a lot of new legislators about the VSC.

There is a $2M capitol appropriations request for this year, and $2M for next year; this is a $600K increase. Institutions Committee testimony has gone well.

The VSC's most recent testimony has been on dual enrollment. Trustee Richards asked about the demographics of students who receive dual enrollment funds. The VSC serves the vast majority of free and reduced lunch students, and they are continuing at almost double the rate of their peers.

4. Discussion of first half results and outlook for balance of FY2017
5. Initial discussion of FY2018 budget

CFO Wisloski stated that items 4 and 5 would best be discussed together. The presidents would speak to the following three questions: the colleges' performance in the first half of the fiscal year, forecasts for the second half, and forecasts for fiscal 2018. This conversation is the first step in a 3-meeting FY18 budget development process. At the April 10 meeting the Committee will see pro forma budgets. The Committee will vote on the budget at its May 31 meeting.

Mr. Wisloski reviewed a simplified revenue and expense spreadsheet. At this time the projected deficit is $3.8M. Enrollment is one variable; a 1% increase adds ~ $1.3M in revenue. If the state appropriations increase of $4M goes through, a 15.4% increase, this resolves the deficit. Salaries/ wages/FICA, healthcare, and TIAA blended equals about a 3% increase. The increase in healthcare costs is still not confirmed. A 5% increase (rather than the average 8%) will reduce the projected deficit. Potential efficiency improvements and upcoming debt restructuring will also positively affect the deficit. Chair Hindes reminded the Committee that at the April 10 meeting the numbers should be updated from these numbers, which are based on December 31, 2016.

Vermont Technical College Interim President Pat Moulton reported that the FY17 projected loss of $685K is now projected to be a $279K loss. Tuition receipts are up. They are still struggling with residential enrollment and conferences/events. They are looking to efficiencies and other revenues to cover the deficit, as well as one-time quasi-endowment funds. They have implemented a number of AGB recommendations. There has been an uptick in applications, particularly computer science, where they've done additional marketing. They are offering room and board scholarships for transfers and other groups of students. There is slight uptick in transfer applications. For FY2018 they are looking at a .5% enrollment increase with a continued decline in residential enrollment; an 8% increase healthcare; and increasing oil costs. Vermont Tech is looking at a balanced budget for FY2018. Any potential surplus will go to enhancing the student experience. Mr. Wisloski stated he will present a proposed 10-year plan for recapitalizing debt repayments from the colleges back to the system.

Lyndon State College Interim President Nolan Atkins shared that Q2 has a positive variance over $800K, better relative to last year. Tuition and fees are below budget, but room and board revenue is higher than expected. The $1M budget adjustment committee will produce ~$839K in savings; the majority will roll forward to FY2018. Last year's deficit budget was balanced with carry forward and capital fund reserves; strategic reserves are still intact and they will be using less than anticipated. Enrollment of the incoming FA16 cohort is at expectations; returning student numbers are down slightly, as are spring enrollments. In sum, enrollments are slightly below budget. Retention is lower and a larger number of students is considered academically at risk. Out of state tuition revenue is down. Summer 2016 (FY17) term enrollment exceeded expectations, so May/June have the potential to improve revenue. The projected $1.9M deficit is now at $1.165M. They will preserve some reserves to roll forward to FY2018.

Johnson State College President Elaine Collins reported that the college's budgeted $1.27M deficit is now $1.3M. They have started investing in unification. There have also been reductions in giving; these are offset by expected bequests. The plan is to collect unification costs in a separate line item and not the primary JSC budget. They are delaying hiring and keeping vacancies open, while discretionary spending is on hold. They will be on budget by the end of June and will use strategic reserves to account for any remaining negative balances.

President Collins also presented an initial FY2018 budget for Northern Vermont University. Her best case estimate of enrollment is 1.5% growth at Lyndon and 2.5% at Johnson. Worst case is a 2.5% decline at Lyndon and flat enrollment at Johnson. Their focus is on increasing yield and deposits. Lyndon is on target; at Johnson there is a strong uptick in online and distance education. She predicts that applications for first year students will remain steady. Estimates on residential enrollment are for a best case of an increase of 40 at Lyndon and 15 at Johnson; worst case estimates are 15 at Lyndon and 5 at Johnson. Enforcement of two-year residential requirement at Lyndon will help, as well as increased opportunities at Johnson for housing. Savings from Lyndon's $1M challenge will be permanent. New leadership will be established by July 1. For FY2018 wages will see a 3.5%; insurance 7%; TIAA 12%. There will also be an increase of $100K per campus for equipment. President Collins stated they are assuming expenses will be funded by external resources. Critical impacts will be the state appropriation, debt refinance, enrollment, residential housing, curriculum refinement, and benchmarking of key administrative services. At Lyndon, the bottom line best case is a $385K deficit; worst case $1.7M deficit. At Johnson, the best case will be a $558K deficit, and worse case $1.5M deficit. The total best case scenario for NVU is a $942K deficit; worst case a $3.3M deficit. Net deficit after reserves: best case $0, worst case $1.479M deficit. The best case assumes a $2M increase to state appropriation.

Trustee Diamond inquired whether the distribution of the state appropriation among the colleges will change. Chancellor Spaulding responded that given the short-term reality for the next few years, the appropriation should continue to be distributed five ways, and over a few years they can consider how to refine the distribution. The distribution depends somewhat on what happens to Governor Scott's budget proposal, which includes an outcomes model for distribution of new appropriations. Inflationary increases for subsequent years will also require the VSC to keep tuition increases under inflation. Mr. Wisloski stated that the unification report submitted by the Chancellor's Office recommended a five-college split of the appropriation through FY2020.

Chair Hindes requested the Committee take up item 7 due to time. Mr. Wisloski explained the need for a debt management policy. Trustee Diamond moved and Trustee Macfarlane seconded to adopt new Policy 432. The Committee approved the new policy unanimously.

6. <u>Debt restructuring update</u>

Mr. Wisloski updated the Committee on the status of the debt restructuring process. Until recently the options were to handle the bond ourselves, use the bond bank, or use the state's moral obligation funds. They are now considering only options one and two. The bond bank has been working on a new structure that does not use moral obligation and so does not require a reserve fund. Mr. Wisloski expects pricing from the bond bank in late March/early April and will update the Commitee in April.

7. Review and approval of debt management policy

Approved as stated above.

8. Quarterly cash and investments review

An investment subcommittee consisting of Chiar Hindes, Trustee Macfarlane, Chancellor Spaulding, and Mr. Wisloski is scheduling a meeting with Morgan Stanley in March.

Returning to presidents' reports regarding Items 4 and 5:

CCV President Joyce Judy reported that the college still has a half of summer semester revenue to book. Over 500 high school students and 120 early college students are currently enrolled. 73% of VTC nursing students who graduated last year started at CCV. There are 435 students in the production technician program—these numbers are not in official enrollment figures. She projects a decrease in enrollment; they are on target to make FY2017 budget. For FY2018, CCV will budget for a decrease in enrollment. Healthcare costs are a variable.

Castleton University President Dave Wolk reminded the Committee that the college maintained the tuition freeze. Scholarships have increased significantly—they are over $1M higher and they may need to consider a cap. They have made major cuts in services, supplies, and non-essential spending, but have experienced $350K in unexpected capital expenses. They will temporarily tap into strategic reserves. He expects enrollment to remain steady, and retention is the highest it's ever been. Spartan Dome is finally going up and will generate revenue. External revenue centers and conferences/events are going well. Fundraising has increased. Rutland housing is increasing but is revenue neutral. They are hoping to restore rescission cuts. As a result of unexpected capital expenses, they will set aside a small deferred maintenance fund. There is a need to replenish university reserves in FY2018.

Chair Hindes stated he wants to hear more about the scholarship increase and thinks the EPSL Committee would want to hear too. Tuition discounting is another topic the Committee would like to explore in more depth.

9. Other business

The Committee reviewed the upcoming schedule. Chancellor Spaulding reminded the Committee that there will not be a Long Range Planning Committee meeting on March 24, but there could be one on April 10 before the next Finance & Facilities Committee meeting. Mr. Wisloski stated that the governor's proposal to increase the VSC appropriation was based on a 6-year average wage growth of 2.2%; the VSC will need to tie tuition from FY2019 going forward to this number, if the appropriation increase occurs. Since the Board of Trustees approves tuition rates, the Board would need to give permission to follow the governor's request.

10. Public comment

There was no public comment.

Chair Hindes adjourned the meeting at 3:23 p.m.

VERMONT STATE COLLEGES

BOARD OF TRUSTEES

RESOLUTION

VSC Finance and Facilities Committee Business: Consent Agenda

WHEREAS, At its February 22, 2017 meeting the VSC Finance and Facilities Committee discussed the business items outlined below; therefore, be it

RESOLVED, The Committee has voted to approve the items outlined below and recommends them to the full Board:

- Approval of the minutes of the January 9, 2017 meeting
- Approval of the U.S. Small Business Development Center grant in the amount of $1,321,111.19
- Approval of the CCV Urban and Pauline Bergeron Memorial Scholarship Fund
- Approval for the LSC Center for Professional Studies to apply for a USDA Rural Business Development Grant.

February 22, 2017

Manual of Policy and Procedures

Title	Number	Page
DEBT MANAGEMENT POLICY	433	1 of 3
	Date	**6/20/17**

POLICY STATEMENT:

The Vermont State Colleges System (hereinafter, the "System") may incur debt when necessary to fulfill the System's strategic mission. The System's debt management objectives are to:

1) Maintain access to capital;

2) Maintain a credit rating that minimizes the risk-adjusted cost of capital and maximizes favorable business terms; and

3) Limit financial risk.

This policy assigns debt management responsibilities, and sets forth guidelines with respect to debt limits, structuring, issuance, management and use of derivatives.

PROCEDURES:

1) Approval from the Finance and Facilities Committee and the Board of Trustees is required for all debt transactions.

2) The Officer of the Chancellor will initiate and manage all debt transactions.

3) The Chief Financial Officer is responsible for debt portfolio management and compliance with this policy.

DEBT LIMIT:

1) The System's debt limit will target medians and ratios appropriate to a rating of A or the equivalent from Standard & Poor's Ratings Group.

2) The System will maintain a debt service ratio (annual principal plus interest, divided by total expenses) of not more than 6%.

STRUCTURING:

1) Any System debt with a term longer than three (3) years shall be fixed rate.

2) The maximum maturity of any debt issue shall be the shorter of 30 years, or the useful life of the asset being financed.

3) Debt principal shall amortize such that annual debt service on a total portfolio basis is either level or declining over time, and not increasing.

ISSUANCE:

1) The System shall engage a qualified, nationally-recognized independent financial advisor to assist with any debt transaction.

2) Debt may be publicly sold or privately placed, however privately placed debt may not include business terms less favorable than for public debt (e.g., additional financial covenants beyond those contained in the System's bond resolution).

3) Public debt should generally be sold competitively. If a sale is negotiated, the underwriter must provide an estimate of interest rates for each maturity expressed as a spread to AAA-MMD™ or another widely-recognized and readily available independent index (for tax-exempt debt) or U.S. Treasury yields (for taxable debt) prior to the sale, and the independent financial advisor must concur with these rates prior to award.

MANAGEMENT AND COMPLIANCE:

The Chief Financial Officer shall create procedures regarding the investment of bond proceeds, ensuring compliance with all necessary Federal, State of Vermont and applicable regulations, primary and secondary market disclosure practices, and arbitrage rebate monitoring and filing, and report to the Chancellor and the Finance and Facilities Committee at least annually, and also immediately following any material event (e.g., a credit rating change).

DERIVATIVES:

Derivatives (e.g., interest rate swaps) are not permitted. Any derivatives in place prior to the approval of this policy shall be valued no less frequently than annually, and may be held to maturity or terminated with the approval of the Board of Trustees. The System must engage a qualified independent derivative advisor to manage any such termination, and to provide a fairness opinion documenting that the derivative was terminated at fair market value.

OTHER PROVISIONS:

The Finance and Facilities Committee will review this policy on an annual basis or in the interim whenever substantive changes to the guidelines are proposed by the Chancellor.

Any activity or expense related to federal grants or contracts must comply with *2 CFR 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* in addition to the provisions above.

Jeb Spaulding, Chancellor