

**UNIVERSITY OF MASSACHUSETTS**

**AMHERST•BOSTON•DARTMOUTH•LOWELL•WORCESTER**

**MINUTES OF THE MEETING OF THE  
COMMITTEE ON ADMINISTRATION AND FINANCE**

**Wednesday, June 3, 2009; 8:00 a.m.**

**Amherst Room**

**225 Franklin Street – 33rd Floor**

**Boston, Massachusetts**

**Committee Members Present:** Chair Karam; Trustees Boyle, Johnston, Koffman, Kulenovic, Lawton, Reville and Tocco; Chairman Manning

**Committee Members Absent:** Trustees Collins, King-Shaw and MacAfee

**University Administration:** President Wilson; General Counsel Heatwole; Executive Vice President Julian; Senior Vice Presidents Gray and Williams; Vice President Smith; Chancellors Holub, Motley, MacCormack, Meehan and Collins; Mr. MacKenzie, Executive Director, Building Authority; Mr. Douglas, Budget Director; Ms. Wilda, University Controller; Vice Chancellors for Administration and Finance Hatch, McLaughlin, Yestramski and Jenal; Mr. Harrison, Director of Auditing; Mr. Lenhardt, Deputy Chief Operating Officer; Mr. O’Riordan, Associate Vice Chancellor for Financial Services, UMass Lowell

**Faculty Representatives:** Professor May, UMass Amherst; Professor Ashrafi, UMass Boston; Professor Gibbs, UMass Dartmouth; Professor Carter, UMass Lowell

Chair Karam convened the meeting at 8:06 a.m. The first item on the agenda was the **Chair’s Report**. Chair Karam reported that we are currently experiencing the worst recession in decades while the unemployment rate in Massachusetts is over 8%. The economic malaise has contributed to declines in state tax revenue and state tax revenues are likely to collapse from an unprecedented \$3.1 billion from FY2008.

President Wilson and the Chancellors continue to do a very difficult but commendable job of leading the University and the campuses through very treacherous times. As we meet, the state budget for FY2010 still has not been set and there are significant questions about how the upcoming year will unfold given the continued decline in state revenues.

Chair Karam then reviewed the agenda including the approval of the University’s FY2010 operating budget while remembering that budgets are plans and in these rapidly changing times, must be adaptable.

The next item on the agenda was **Consideration of Minutes of the Prior Meeting of the Committee**.

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It was moved, seconded and

**VOTED**: To approve the minutes of the February 12 and February 20, 2009 meetings of the Committee.

Under the **President's Report**, President Wilson reported that he and the Chancellors will continue to make difficult and sometimes painful choices to assure the University's viability for this and future generations of students. The sound financial management of the University during the most trying economic times has been recognized and externally validated. Since the last meeting of this Committee, both Standard and Poor's and Fitch's rating services have affirmed the A+ credit rating of the University. This is important for the interest rates we pay on our debt and it is even more important in what it says about prudent stewardship.

The University continues to monitor closely the state appropriation process for FY2010. It is only after this process has been finalized that we will be able to nail down all of the financial plans for the campuses and System Office. Even as this process unfolds, we are working on alternative scenarios for reducing expenditures and maximizing revenues. The challenge has become even more pronounced with the ongoing deterioration of the Commonwealth's revenue picture. The steep drop-off in state tax collections has forced the Commonwealth to use over \$400 million in Federal stimulus funds in FY2009 to replace Chapter 70 payments to the state's K-12 schools. The Commonwealth had hoped to reserve all stimulus stabilization funds for use in FY2010 and 2011. This change means that there will be little to no federal stimulus funding available for UMass and the rest of public higher education in FY2011. The funding cliff that Secretary Reville referred to in our last meeting has just moved 12 months closer. This shift requires that we look at our operating budget plans with the next two fiscal years firmly in mind.

Whatever the outcome of the state appropriations process, we will be ready with the requisite action steps that will assure a balanced budget result in the new fiscal year. Over the coming months, we will also refine our plans for FY2011. The University administration must become more agile in responding to short-term changes, we must also improve our long-term vision, as the economic challenges buffeting this country and this Commonwealth are multi-year in nature. We are up to this challenge and look forward to working with the Trustees, the Governor, and the legislature to safeguard the University of Massachusetts as a strategic asset for the Commonwealth.

President Wilson concluded on a more upbeat note: the five campuses are competing vigorously for the special research grant funds that are a key part of the Federal American Recovery and Reinvestment Act. The campuses have advanced in the aggregate 314 grant requests totaling \$258.7 million to date. President Wilson commended the Chancellors and their enterprising research faculty members for the many hours of extraordinary effort that went into the preparation and submission of these grant proposals ahead of the Federal deadlines. The

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expansion of our University's research profile over the past several years provides us with a firm basis for optimism.

The next item was the **Senior Vice President's Report**. Senior Vice President Gray reported that \$8.83 million in year-end capital funds are available for projects and that we recently launched the Human Resource upgrade.

The next item was **Report of the Building Authority**. Mr. MacKenzie reported that the Building Authority has completed 18 major projects since 2004, totaling \$560 million.

Chairman Manning had a question about how much all of the Building Authority projects would be over budget? Mr. MacKenzie replied that most projects have been on budget; some have been over and others have been under. The Board approves all projects before the design stage.

Trustee Tocco stated that the Board should pass a resolution regarding the use of alternative procurement in all of the Building Authority projects and stated his discomfort at raising student fees while the issue of procurement is still not settled. It was agreed that this would be a future agenda item.

The first item for action was **Establishment of the Nancy Donahue Endowed Professorship, UMass Lowell**. Chancellor Meehan noted that this would be the first campus endowment on the Lowell campus.

It was moved, seconded and

**VOTED**: To recommend that the Board take the following action:

In accordance with sections 1A(e) and 11 of Chapter 75 of the General Laws, to establish an endowed professorship to advance the study of the arts at the University of Massachusetts Lowell to be known as the **Nancy Donahue Endowed Professorship in the Arts**. (Doc. T09-030)

The next item was **Amendments to Land and Facilities Use Planning Policy**. The amendment is intended to clarify the obligations of the campuses in seeking to comply with the applicable rules and regulations related to tax-exempt bonds.

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It was moved, seconded and

**VOTED**: To recommend that the Board take the following action:

To amend the Land and Facilities Use Planning Policy by adding the following language:

**PRIVATE USE**

Any facilities of the campuses that are purchased, constructed, renovated, rehabilitated, improved or otherwise funded by use of funds from a tax-exempt bond issue are subject to limitations as to use by a private party under federal tax law. Private use means the use of such facilities or portions thereof by any individual or entity that is not a state, a political subdivision thereof or integral part of a state or political subdivision thereof, including the federal government and charitable organizations. "Use" can include, but is not limited to, ownership, leasing, management or sponsorship of research occurring in a bond-financed facility. Private use may jeopardize the tax-exempt status of the bonds. The Vice Chancellors for Administration and Finance will ensure that the campuses establish procedures to prevent exceeding limitations of such private use of the facilities that are set forth in the tax certificate delivered by the University to the issuer in connection with the issuance of the bonds, including annually informing the issuer of any private use activities in subject facilities. If a campus has any doubt as to the existence of a private use, it will consult with the issuer of the tax exempt bonds and with bond counsel to the issuer regarding the impact of any proposed or existing use of the facilities on the tax-exempt status of the bonds. (Doc. T93-122, as amended)

The next item was **Amendments to Policy on Naming Policies** which is in line with the previous vote to comply with rules related to tax-exempt bonds.

It was moved, seconded and

**VOTED**: To recommend that the Board take the following action:

To amend the Policy on Naming Facilities by adding the following language:

The naming of University facilities may constitute private use and thus might be subject to the Land and Facilities Use Planning Policy regarding private use. If a campus has any doubt as to the existence of a private use, it will consult with the issuer of the tax exempt bonds and with bond counsel to the issuer regarding the impact of any proposed or existing use of the facilities on the tax-exempt status of the bonds. (Doc. T93-127, as amended)

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The next item was **Amendments to Investment Policy**. The amendments involve minor adjustments to the policy created last year to move funded reserves to the UMass Foundation.

It was moved, seconded and

**VOTED:** To recommend that the Board take the following action:

To amend the Investment Policy and Guidelines Statement for the Operating Cash Portfolio by making the following amendments:

- Elimination of the Equity and Alternatives Assets classes from the asset allocation.
- Increase Fixed Income allocation from 57% to 62% with a slight reduction in the Intermediate Bond component from 25% to 20% and a slight increase in the Short Duration Bonds from 22% to 32%.  
Increase Cash from 23% to 38%. Cash is defined as short term liquid investments consistent with Institutional Money Market Funds. (Doc. T92-031, Appendix F, as amended)

The next item was **Amendments to Quasi-Endowment Policy**. President Wilson indicated that the original policy helped to move funds through the Foundation; the amendment is to temporarily suspend the movement of funds to the quasi-endowment over the next two years due to the fiscal environment.

Secretary Reville asked that the vote add language to state that the waiver is for FY10 and FY11.

It was moved, seconded and

**VOTED:** To recommend that the Board amend the Quasi Endowment Policy by adding the following language:

The President is authorized to suspend required annual unrestricted operational fund contributions to the quasi-endowment for FY10 and FY11. Such suspensions will be approved only under extraordinary financial circumstances. The President will notify the Trustees whenever such a suspension is authorized. (Doc. T07-018, as amended)

President Wilson then gave a presentation on the next item, **FY2010 University Operating Budget**. Some of the University's multi-year financial strategies included:

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- FY09 Revenues dropped by nearly \$3 billion or 14% over the course of the year;
- FY10 Revenues are anticipated to continue to decline below FY09;
- State Revenue Reductions led to UMass cuts of over \$100 million in Fiscal Years 2000 and 2010;
- Peer Institutions are facing the same pressures including forgoing scheduled pay raises, a 30% increase in tuition over the next two years at Washington State;
- The University has a strategy for budget cuts that includes an initial round of cuts, the FY10 Fee increase together with the stimulus funds cushion the reduction in state appropriations;
- More Budget Actions have included the elimination of over 300 positions, college consolidation, furloughs, reduced overtime, office relocation and energy savings.

Senior Vice President Gray gave a presentation regarding the budget; highlights included:

- The down-turn in the economy resulted in dramatic reductions in endowment valuations and investment returns;
- The cuts in the University's appropriation resulted in over \$27 million in lost revenue;
- The response to the crisis resulted in a nearly break even operating margin;
- Some of the considerations for FY10 and FY11 include the probability of a conservative spending plan, the stimulus funds are a short-term solution, a concern over state funding for negotiated labor agreements, no increase in non-mandatory student fees, and the fee rebate if conditioned on stimulus funds returning state appropriation to FY09 levels.

Secretary Reville noted that the State has applied for a waiver for the maintenance of effort requirement for ARRA funds and the need to apply stimulus funds to achieve FY06 funding levels.

Trustee Kulenovic asked how the stimulus funds/maintenance of effort requirements applies to 9C cuts; Secretary Reville replied that the 9C cuts will be an independent procedure.

Chairman Manning indicated that the Board needs to be prepared as the University will face many challenges over the next five years. He noted the work of the Budget Oversight Task Force that will take place over the summer.

Professor May from the Amherst campus stressed the importance of campus facilities and the need to continue planned renovations.

There was more discussion about the subject; Trustee Johnston and Chair Karam commended Trustee Kulenovic for his dedication to the needs of the students and stressed that all Board members are working for the good of the students.

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It was then moved, seconded and

**VOTED:** To recommend that the Board take the following action:

To approve the FY2010 University Operating Budget as contained in Doc. T09-031 and to approve the statements of trust contained in Appendix A of said Doc. T09-031.

The next item was an **Amendment to Mandatory Student Tuition and Fees**. Trustee Kulenovic then read the following statement:

In February, we were presented with a motion to increase student fees by \$1500. While fees are a controversial issue every year, this year they were more so because of, on the one hand, a fiscal emergency and a large budget gap, and on the other hand, expected relief from stimulus funds. In other words, much of the debate was focused on an uncertain, future event.

To compensate for this, another paragraph was included in the motion -- paragraph 8 -- which promises a fee rebate in the event funding is restored by the stimulus. This was a good amendment for several reasons. It ensured that the Board could be cautious in the face of a fiscal emergency while still not treating a worst-case scenario as certain fact. It means that no student next year will have to pay more than necessary. It is also good precedent for the future: we *should* treat fee increases of any size seriously, we *should* acknowledge the need to keep fees under control, and our fee levels *should* be based on the size of the budget gap.

But while students welcome a rebate, a rebate does not affect the actual FY2010 fee level, which still goes up by \$1500. What today's motion does is change Paragraph 8 to apply that rebate to the actual fee, a rollback instead of just a credit on students' bills. That is the only thing it does. Just like the rebate, it is based solely on stimulus funds coming in. Claims that it will cost the University jobs, programs, or for that matter a single dollar in FY10 revenue are patently false. It also does not change the timetable. We know that the state has applied for a waiver to get out of mandatory higher education funding requirements and that waiver was recently granted by the federal government. At no point next year are we going to be able to rest easy. Any loss of funding that would have affected a rebate will affect the rollback in the same way.

Where a rebate falls short is in addressing the broader implications of fee increases beyond what students pay next year. While fees often go up when the economy is bad, they do not generally go down even when the economy is good. For this reason, it is extremely important that we never fail to put the brakes on fee increases, that an increase is never larger than necessary. It is not just students opposed to fees who say this. It is not just the federal government, which included "limiting tuition and fee increases" as one of the primary goals of the Recovery legislation. It is the practice of this Board of Trustees, which historically has recognized this need. For the last six years until February, we have imposed strict limits on fee increases, keeping them at or below the Consumer Price Index. In February we broke this trend

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in the name of a fiscal emergency. But Trustees on both sides of the debate continued to emphasize the need for the fee increase to meet the test of absolute necessity. \$1500 was judged to meet this test. A higher level was rejected.

With the addition of stimulus funds in FY10, it is clear that a \$1500 fee increase no longer meets the test and -- if students were expected to pay it next year -- would be considered excessive, hence the rebate. It is therefore absolutely essential that our official fee level going forward is reflected in reality. In Fiscal Years 11, '12 and '13, we'll be faced with continuing crises and many difficult decisions. No one denies that. But we set fees year-by-year for a reason, we have contentious debates every year for a reason, and we impose strict limits for a reason. Even in the most dire fiscal situation, we need to keep one hand on the emergency brake. That is not just my position as a student or a trustee. It is our responsibility and our practice so far, as a Board.

This motion is not an attempt to revisit a decision already made, but rather an attempt to guide our process going forward. It retains all the virtues of the rebate, ensuring that the entire University, including students, benefit from the stimulus funds, it proposes a process that is both fair and based on budget reality, and it ensures that we keep our hands on the levers of this important financial policy.

To summarize: just as with the original motion, nothing happens until we know what the final state appropriation is. Just as with the original motion, all the money going back into students' pockets comes from stimulus funds, not at the expense of jobs, programs, or services. The crucial difference is that -- now that the FY10 situation is clearer and we know the full \$1500 is unnecessary, we can ensure that the size of the fee continues to be linked to the size of the budget gap, as we intended in February. This is not only good practice for next year, but in general, and not *despite* continuing pressures to raise fees, but *because* of these pressures.

Trustee Kulenovic then made the following motion:

To amend Doc. T09-016 by deleting the language of Paragraph 8 and replacing it with the following language:

8. And further, that in the event the American Recovery and Reinvestment Act of 2009 restores State Appropriated Funds to the initial FY2009 level, the fee increase will be rolled back for FY2010.

The motion was seconded.

Trustee Tocco stated that it is premature to make this kind of adjustment because we will not know until October or November about a 9C cut; we can present this amendment again at the last meeting of the calendar year.



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Secretary Reville indicated that the Board last's vote on a rebate of student fees allows the University to respond during uncertain fiscal times.

Chancellor MacCormack speaking on behalf of all the Chancellors stated that the last vote gave the campuses planning tools to work with. The stimulus money will not fill lost revenue, we need a tool to anticipate fees for future years; the Chancellors are committed to a rebate.

President Wilson reported that the current rebate procedure allows for adjustments to be made during the year. The campuses need an idea of revenues over the next couple of years; if the amendment passes, the Chancellors will have to take action immediately.

Trustee Kulenovic stated that all objections to the amendment have been made on the grounds of uncertainty. The amendment is not intended to take away any flexibility.

The amendment offered by Trustee Kulenovic was then defeated.

The next item was **Authorization to Allocate FY2010 State Appropriation**.

It was moved, seconded and

**VOTED:** To recommend that the Board take the following action:

To direct the President to allocate the amount appropriated for the University in Line Item 7100-0200 of the state appropriation act for fiscal year 2010 to the campuses and the central administration of the University, and to notify the Board of Trustees and the House and Senate Committees on Ways and Means of said allocations. (Doc. T09-032)

Chair Karam then announced that the Committee would enter into **Executive Session** to discuss issues relating to **Real Estate**.

The Committee will not reconvene in Open Session, and the Secretary will call the Roll.

It was moved, seconded and

**VOTED:** To enter into **Executive Session** for the purpose of discussing issues relating to **Real Estate**.

Chair Karam voted for the motion as did Trustees Boyle, Johnston, Kulenovic, Lawton, Tocco and Chairman Manning.

The time was 10:09 a.m.

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Barbara F. DeVico  
Secretary to the Board of Trustees