BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

COMMITTEE ON FISCAL AFFAIRS

MINUTES OF THE MEETING
FEBRUARY 2, 2009

The meeting was called to order at 5:02 p.m.

There were present:

Committee Members:
Hon Joseph J. Lhota, Chair
Hon. Marc V. Shaw, Vice Chair
Hon. Valerie L. Beal
Hon. Carol Robles-Roman
Hon. Kathleen M. Pesile
Prof. Karen Kaplowitz, faculty member
President Eduardo J. Marti, COP liaison

Ex-officio:
Hon. Philip Alfonso Berry

Trustee Observers:
Hon. Manfred Philipp

Trustee Staff:
Senior Vice Chancellor and Secretary Jay Hershenson
General Counsel and Senior Vice Chancellor Frederick P. Schaffer
Deputy to the Secretary Hourig Messerlian
Mr. Steven Quinn

University Staff:
Chancellor Matthew Goldstein
Int. Executive Vice Chancellor and University Provost Alexandra Logue
Executive Vice Chancellor and Chief Operating Officer Allan H. Dobrin
Vice Chancellor Ernesto Malave
Vice Chancellor Garrie Moore
University Controller Barry Kaufman
Chief Investment Officer Janet Krone

Cal. No. **DISPOSITION**

The agenda items were considered in the following order:

I. ACTION ITEMS:

A. APPROVAL OF THE MINUTES OF THE MEETING OF JANUARY 5, 2009. The minutes were approved as submitted.

B. POLICY CALENDAR

1. A resolution to authorize the General Counsel to execute a contract on behalf of the Office of the University Controller to enter into a contract with a vendor who will offer healthcare screening services. These services provide on-campus cholesterol screening and glucose screenings for students, faculty and staff during the annual wellness festivals held during the spring semester at each of the college campuses. Such purchase shall not exceed a total estimated cost of $660,000. The contract term shall be five years with an option for the University to terminate on each anniversary date of the contract.

After asking several questions which were responded to by Vice Chancellor Ernesto Malave, Trustee Kathleen Pesile stated for the record that she was not happy with a sixty month contract in these economic times. She noted that the University can be much more effective in negotiating cost when there are other contractors who want CUNY's business.

Committee Chair Joe Lhota stated that the University is doing this with the ability to end the contract annually, so it can re-bid if prices go down, instead of going through the actual procedures and following state law. The University could end the contract in any twelve month period.

Following discussion, the item was approved as amended for submission to the Board.

II. REPORTS:

A. Report by Vice Chancellor Ernesto Malave:

Report on State and City Budgets. Vice Chancellor Ernesto Malave stated that since the Committee last met in January, there have been a number of developments on the state budget side. Chancellor Goldstein testified before the Senate Finance Committee and the Assembly Ways and Means Committee. The legislature is wrapping up this week and is taking testimony on portions of the Governor's budget, including the Governor's efforts to address the $1.7 billion shortfall in the current year, which for CUNY means a potential $4.2 million reduction for the community colleges.

In terms of the state's overall Executive budget, the budget for the senior colleges provides an increase of almost $51 million in overall support. That is an increase in funding of almost 3 percent. It includes reductions in state support of approximately $65 million, but this is offset by the recommendations in the Executive budget for increasing tuition by $600 for the full time undergraduate students at senior colleges, and 20 percent across the board for graduate students. As a result, the state has $115 million to offset its $65 million reduction in support for a net increase of approximately $51 million.

Vice Chancellor Malave stated that the budget includes an increase in support to cover mandatory costs. In addition to covering mandatory costs, the Governor's budget provides the University with the ability to get back some of the tuition revenue to make a modest investment program of $22 million. In the past, the state would raise tuition to completely or partially eliminate a state budget gap. This will be the first time the state plans to use the revenue to make an investment program. The central administration looks forward to this budget holding in Albany, so that the University can enter fiscal year 2010 in a fairly stable budget environment.

Vice Chancellor Malave noted that while the University is challenged by the levels of uncertainty, it is committed to crafting an investment program to maintain CUNY's full time faculty hired over the past ten years. Going forward, the University is going to need to make that investment in full time faculty in order to keep pace with growth in enrollment.

Vice Chancellor Malave stated that the situation for the community colleges is more challenging because the legislature is recommending a reduction of 10 percent as part of the 2010 budget. This translates, not as a year-to-year cut of $16.8 million, but as the absence of the additional revenue that would be needed to address the needs of enrollment growth. The community colleges are funded by an enrollment formula that provides $2,675 per FTE, which means that growing enrollment has generated additional revenue for the community colleges. In fact, this budget provides an additional $13.2 million in revenue from enrollment growth to offset this cut. Year-to-year there is a reduction of $3.6 million, preventing the University from meeting the needs posed by growing enrollment. The Board's action to raise community college tuition by up to $400 was necessary in order to avoid any roll back of the investments that were made over the past several years. As with the senior colleges, it enables the system to move forward and provides a measure of stability in fiscal 2010.

Vice Chancellor Malave stated that currently the state is attempting to finalize the mid-year budget. Board members will be alerted by the Chancellor as to whether or not CUNY will have to implement the $4.2 million reduction.

Vice Chancellor Malave stated that in addition to the operating budget needs, there are a number of financial aid proposals, and changes in the TAP program that are being considered by the legislature, which would be costly to restore. The Governor anticipates $47 million in savings as a result of the changes that are included in his Executive proposals, some of which look reasonable and some of which CUNY has concerns about. To the extent that the legislature attempts to restore resources to the financial aid programs, this will take away from their ability to address the other budget issues.

Vice Chancellor Malave noted that on the city side, the city administration released updates of the January plan and the preliminary budget for fiscal 2010 several days ago. The Mayor had previously proposed a series of so-called Program to Eliminate the Gap reductions when he issued his first modification in November, which included a mid-year reduction of $5.1 million for the community colleges in the current year and a $9.5 million reduction in fiscal 2010. As a result of negotiations, the City Council and the Mayor were able to agree on a restoration package for the current year, and the $5.1 million challenge in the current year has been restored.

Vice Chancellor Malave added that in fiscal 2010, however, in addition to the $9.5 million reduction, the Mayor has indicated that agencies should consider another 7 percent reduction in city support which translates to $12.7 million in additional cuts to the community colleges. While CUNY still has some budget challenges at the community colleges in the current budget, the recognition by the Mayor that the University is generating revenue via tuition increases to substantially offset that reduction will enable a measure of stability.

Vice Chancellor Malave stated that there are other reductions that are included in this preliminary budget. The Mayor's Executive Budget is not released until the end of April or early May, so it is too early to speculate about what is going to happen in the out years. The other piece is the $7 million for the Vallone scholarship program, and it is not surprising that it would not be included in the Mayor's preliminary budget in the out years.

Vice Chancellor Malave noted that CUNY faces some budget pressure, but has a fairly stable budget environment. To the extent that the State of New York provides some relief on the $16.8 million, there may actually be a very substantial growth environment at the community colleges. Between that, and provisions in the law that require the City of New York to maintain effort, the University may be in a situation that will enable it to make more than a modest investment in full time faculty at the community colleges.

Investment Subcommittee Report. Chief Investment Officer Janet Krone stated that the administration has been working with Cambridge Associates to come up with a plan to cautiously implement the new asset allocation, given the current environment. The priorities that were established initially are to start by reducing exposure to U.S. equity to the target allocation and to increase the allocation to non U.S. or international equity, and to keep everything else at the status quo for the time being. The University is also maintaining the status quo with the fixed income portfolio, given the tight conditions in the credit markets and the costs of transitioning there. These revisions will be accomplished through terminations within the domestic equity portfolio for four different mandates, two of which are small cap equity and one is a mid cap equity and the other is a large cap equity. This would free up approximately $26 million which would then be redeployed to establish a more core index exposure for the domestic equity portfolio; and a part of that can be used to increase the funding to the non U.S. portfolio. This will most likely be implemented by the end of the first quarter, pending market conditions. The University recently put the portfolios out to bid for pre-trading cost estimates and expects to get those back this week. The Committee will be kept apprised of that and the costs involved.

CIO Krone noted that at its April meeting, the Subcommittee on Investment will consider a recommendation to look at the emerging market area in which the University is not currently invested, and possibly consider the real asset component of the new asset allocation.

CIO Krone stated that going over the performance of the total portfolio for the calendar year 2008, numbers were down 29.5%, which underperformed the policy benchmark by about 140 basis points. However, there were two asset classes which outperformed on a relative basis: fixed income and convertibles. This will be maintained until liquidity in the bond market improves and it is not so terribly expensive to transition in that area.

The meeting was adjourned at 5:29.p.m.