BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

COMMITTEE ON FISCAL AFFAIRS

MINUTES OF THE MEETING
APRIL 6, 2009

The meeting was called to order at 5:00 p.m.

There were present:

Committee Members:
Hon. Joseph J. Lhota, Chair
Hon. Marc V. Shaw, Vice Chair
Hon. Valerie Lancaster Beal
Hon. Carol Robles-Roman
Hon. Kathleen M. Pesile
Prof. Karen Kaplowitz, faculty member
Hon. Simone Lamont, student member
President Kathleen M. Waldron, alternate COP liaison

Ex-officio:
Hon. Philip A. Berry

Trustee Observer:
Hon. Manfred Philipp

Trustee Staff:
Senior Vice Chancellor and Secretary of the Board Jay Hershenson
Senior Vice Chancellor and General Counsel Frederick Schaffer
Mr. Steven Quinn

University Staff:
Chancellor Matthew Goldstein
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**

REVISED

The agenda items were considered in the following order:

I. ACTION ITEMS:

A. APPROVAL OF THE MINUTES OF THE MEETING OF FEBRUARY 2, 2009. The minutes were approved as submitted.

B. POLICY CALENDAR

1. A resolution to authorize the Colleges of The City University of New York to purchase high-end scientific equipment under any existing State of New York or City of New York or Department of Education of the City of New York contracts or pursuant to a contract that results from an appropriate procurement process and that includes contract terms and conditions that have been approved by the Office of the General Counsel. Such purchases shall not exceed a total cost of $3,000,000 during the fiscal year ending June 30, 2010. This resolution enhances the opportunities for faculty to obtain state of the art

scientific equipment during CUNY's Decade of Science to further advance instruction and research and allow the University to expedite the procurement process.

Prof. Manfred Philipp asked if the committee could be provided with a list that was passed under the previous such resolution so that they could see what goods were purchased.

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

2. A resolution to authorize The City University of New York to adapt a revised Schedule of tuition and fee charges for students in the John Jay College new online Master of Public Administration Inspector General Program effective fall 2009. This will be the college's first degree available online. The students enrolled in the program will pay the prevailing in-state tuition for graduate students and a distance learning fee per online course, which will be $300.00 for the Fall 2009 semester. Revenue from the fee will cover costs associated with face to face meetings at the Association of Inspectors General conferences as well as technical support services for students that are not already available to all John Jay College students.

Vice Chancellor Malave proposed passing the resolution without the language relating to the $300 per semester fee—both to allow further discussion and because the University is prepared to cover the costs associated with the program. He noted that in the initial year the fee would only generate a little under $40,000. The University, in its investment capacity, can afford to fund the program at this time and revisit the fee at a later date.

Committee faculty member Karen Kaplowitz stated that she had been informed this program did not have to go through college governance because it is not a new program, just a different delivery of the program. She noted that she had agreed with President Travis and Provost Bowers that a resolution would be brought before John Jay's governance body this semester to develop an annual assessment and evaluation process for this program and to determine whether to move toward a completely online program. This is a hybrid program, mostly online. Yearly college-wide discussions to see how the program works, to what extent it benefits students, and how it can be improved, were also agreed upon. She stated that, with the agreement of the provost and the president, she would be voting in favor of this resolution.

Chancellor Goldstein stated that the important thing is that the issue of the fee be discussed on campus through governance. Since that was not the case, the fee component will be pulled until that deliberation has taken place.

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

3. A resolution to authorize the General Counsel to execute a contract on behalf of LaGuardia Community College for the installation of a new telephone system under existing New York State Contract No. PT58097 and PS58098 pursuant to law and University Regulations. Such purchase shall not exceed a total estimated cost of $600,000 chargeable to City Capital Budget. The existing telephone system is past its useful life and can no longer serve the growing demands of the college in terms of capacity and capabilities. Following discussion, the item was approved for submission to the Board.

II. INVESTMENT SUB-COMMITTEE:

Chief Investment Officer Janet Krone introduced Mark Fowler and Thomas Smitt-Jeppesen of Cambridge Associates.

Market Performance Update.

Mr. Fowler stated that, using the University's asset allocation and benchmark returns, Cambridge Associates estimates that the portfolio is up about 5.2 percent in March, bringing the returns to negative 5.5 percent for the first quarter. By comparison, the S&P 500 is down about 11 percent over that time period. The conservative or go slow approach to asset allocation and implementing the new policy portfolio has helped the University preserve capital during a down market.

Asset Allocation Implementation.

Mr. Fowler stated that the markets have been hit hard, making valuations relatively attractive. In the near term there could be down sides, but investors who have long enough time horizons and can weather the volatility of equity markets will be served well. Recognizing emerging markets as an area that looked cheap and had better growth prospects than the developed markets, Cambridge Associates began tracking forty or fifty emerging markets managers, narrowing that list to about eleven. A paper search was conducted on that list, narrowing it down to four finalists to interview. Of those finalists Aberdeen appeared to be a good fit as an emerging markets manager for the University. It is recommended that the University average into this allocation over time—starting now with Aberdeen's minimum of $1 million, and then consider bringing that up to the 5 percent policy target over the next couple of quarters.

Mr. Smitt-Jeppesen stated that Cambridge Associates' recommendation is to take this money from Advent, the University's convertible bond manager. They had good performance in March because convertibles came back somewhat and the recommendation is not to eliminate the Advent position altogether, but to draw it down over time because this area is not included in the final asset allocation adopted in 2008. Aberdeen is a publicly traded large UK-based management firm that has been managing emerging market funds since the beginning of the firm in 1983. They have a stable team with few departures, one of the strongest in the business, and a conservative strategy. Their main focus is on high quality growth companies, and their mantra is to know the stocks they invest in. They will meet with management of the companies that they invest in four to five times before actually making an investment. Aberdeen insists on their stocks having a track record and will typically not invest in any new and unproven firms, which has served them well in this market. Emerging markets have more risk and focusing on high quality companies has served Aberdeen well. They will sometimes lag, especially if the market is driven by sentiment more than fundamentals, but during sustained rallies the growth aspect of their strategy makes them perform quite well. They focus on balance sheet strength which, in this market, has been a good thing for them. Aberdeen is not a closet indexer; there are substantial differences between them and the index, which can create deviation from the index performance. So far this has been a good thing, especially in 2008, but there could be periods where they either mis-position or the markets position differently and there can be underperformance versus benchmark. Their total assets under management in emerging market countries are probably close to $15 billion, which is large, but does not seem to have impacted their performance in the long run.

In response to a question, Mr. Smitt-Jeppesen stated that Aberdeen's under performance relative to the market index over the latest review period is an example of Aberdeen's tendency to lag in rallies driven by sentiment. It was a sharp reversal from a downward trend, and their defensive stance—which helped them achieve a good return in 2008—made them lag in this market. All the risk has not necessarily been run out of the emerging markets and the defensive stance that they still maintain to some degree will help them even going forward. It is hard to out perform in both down markets and up markets. There is typically a transition period where one needs to translate into a new market environment.

Mr. Fowler added that the under performance over the latest review period is also due to the cautious approach Aberdeen has taken to China, an approach that served them well last year. During the recent rally China rallied quite strongly and so Aberdeen has been left behind a little.

In response to a question, Mr. Smitt-Jeppesen stated that the review period started on January 23rd because it is a review since the last meeting, which was on January 22nd.

In response to a question, Mr. Smitt-Jeppesn confirmed that Aberdeen is an active manager.

In response to a question, Mr. Fowler stated that Aberdeen's fee structure is 95 basis points. It is a mutual fund vehicle, so you have daily liquidity.

In response to a question, Mr. Smitt-Jeppesen stated that the portfolio managers have been stable over time.

In response to a question, Mr. Smitt-Jeppesen stated that the average turnover is low: about 14 percent annual turnover, which means that the average holding time is somewhere between three and five years.

In response to a question Chief Investment Officer Janet Krone recommended Aberdeen, noting that they have had a consistent long term record of out performing the index. Looking back on historical records it is hard to make a case for indexing the emerging markets entirely.

In response to a question, Ms. Krone noted that the overall amount to be phased into Aberdeen would be in the $5 to $6 million range.

Subcommittee Chair Joseph J. Lhota entertained a motion to proceed with the asset allocation recommendations. The motion was seconded and unanimously approved.

III. AUDIT SUB-COMMITTEE:

A-133 and Internal Control Report.

University Controller Barry Kaufman introduced KPMG Partner Shelly Masi, and Senior Manager Erin Schembari. He noted that the A-133 audit is required as part of the University's participation in the Title IV federal financial aid program. The report on internal controls covers the auditor's findings regarding operational matters.

Ms. Masi gave a brief presentation on the University’s fiscal year 2008 Internal Control/Management Letter. She stated that, as part of the University's annual audit, KPMG visits eight of the colleges and performs internal control procedures. For the remaining colleges KPMG receives an update status on the prior year's comments to see what corrective action has taken place during the current year. Ms. Masi outlined the five areas focused on when performing this internal control test work: tuition management, cash management, procurement and property management, higher level IT controls, and human resources.

Ms. Masi pointed out three comments in this letter that relate to the Office of the University Controller. The first comment regards census data for retired employees. The second comment regards the procurement management and procurement processing. The last comment regards financial aid refunds, which are addressed in the A-133 Audit report.

Ms. Masi gave a brief presentation on the University's fiscal year 2007 A-133 Audit. This audit is conducted in accordance with United States auditing standards as well as the standards applicable to financial audits that are contained in government auditing standards. Additionally, the compliance aspect of this audit is governed by the federal OMB Circular A-133.

Ms. Masi stated that one major program is audited, student financial assistance. The majority of the University's federal funds are administered through RF CUNY and audited separately from the University's A-133 report.

Ms. Schembari noted that, while the majority of compliance requirements are tested at the college level, four items are tested centrally: cash management, matching and earmarking, reporting, and lending policies. The review of the University's lending policies is to ensure that there is no practice of denying students access to lenders and guarantee agencies of their choice is a new requirement this year.

In response to a question Ms. Schembari stated that, starting with details of all of the students from all of the campuses who received federal financial aid, a risk assessment is performed and depending on the results of the previous audits five or ten students are selected from each campus. The government requires a minimum sample of thirty. It is a judgment sample, not a random representative statistical sampling.

IV. REPORT BY VICE CHANCELLOR MALAVE:

State Adopted Budget.

Vice Chancellor Malave stated that Albany concluded their budget deliberations over the weekend and adopted a budget for the State of New York. For the senior colleges, the Governor's Executive Budget included a reduction in State support of approximately $65 million. This reduction was offset by an increase in revenue of $115 million related to a proposal for a $600 increase in undergraduate tuition and a 15 percent across the board increase for other students. This budget allowed the University to meet its continuing obligations in fiscal 2010 and, for the first time, returned tuition revenue to the University for investment purposes—enabling a $22 million investment program. The budget also included, however, a $20 million challenge for the University to continue to reduce costs and to focus that reduction in areas outside of academic and student support services. This represented the only real challenge for the senior colleges in the Executive Budget.

Vice Chancellor Malave stated that the US Congress' passage of a stimulus package providing $24 billion over two years to the State of New York enabled Albany to revisit some of the components of the Executive Budget. This resulted in a full restoration of the $20 million challenge to the University at the senior colleges, enabling the University to focus on the $22 million investment program. He added that, after initial concern that only 20 percent of the tuition revenue was being returned to the University, the Legislature and the Governor agreed on the following: In fiscal 2011, 30 percent of the tuition revenue would be returned; in 2012, 40 percent; and in 2013, 50 percent. All other things being equal, the University can count on at least another $10 million in 2010, another ten above that in 2012, and another ten or eleven above that in 2013.

Vice Chancellor Malave stated that for the community colleges the one challenge in the Executive Budget was a reduction of 10 percent in funding per FTE. That translated to approximately $17 to $18 million which would otherwise have been given to the University. This money was more specifically tied to the stimulus package passed by the US Congress and has been completely restored by the State Legislature with the Governor's agreement.

Vice Chancellor Malave stated that in the area of financial aid the Governor's Executive Budget included approximately $47 to $49 million in planned reductions. Most of this reduction was related to a proposal to change the minimum number of credits to qualify as a full time student for purposes of state financial aid from twelve to fifteen. This, and a number of other proposals, would have disproportionately affected CUNY students and generated concern throughout the University about its potential impact. These proposed reductions were restored, in part because of the use of federal stimulus dollars to strengthen the financial aid budget. The one change to TAP that the Legislature agreed to was the consideration of public pensions in the calculation of income.

Vice Chancellor Malave stated that the caveat is: can these numbers hold? This year the University had to give up almost $70 million in support to the senior colleges because the current year budget did not hold. The University will be monitoring the budget very closely, and the independent fiscal monitors will be weighing in. The University needs to be careful not to make an investment of $22 million two months from now as part of an allocation, only to be withdrawing those resources in September and October. The State Controller will issue a more detailed report in the weeks to come and the University Budget Office will be in a position to communicate to the Committee what level of investment program to carry out in 2010. The questions are the size of that investment program and whether or not to embed continuing obligations in the out years as a result of that investment program. The University Budget Office is optimistic that the University will be able to pursue a modest investment program.

New York City Preliminary Budget.

Vice Chancellor Malave stated that on the City side the Mayor is weighing the adopted State budget and its impact on the City of New York. The Mayor's preliminary budget included substantial reductions in city support for the community colleges. Much of that has to do with the Mayor's budget negotiation posture in relation to the City Council, however. There is only so much that the City can do in terms of budget reductions for the community colleges, as it is required to maintain effort. So while the preliminary budget proposal included $46 million in reductions, the Mayor's office has to work with the City Council to restore those reductions.

Vice Chancellor Malave noted that there are concerns about prospective collective bargaining agreements in the out years and whether or not the University will be forced to absorb them. Between the state actions and the city support, however, the University is likely to be in a stable budget environment for the community colleges in terms of the operating budget. There are other areas of the budget that the City of New York finances, however—most prominently the Peter S. Vallone Scholarship Program of $7 million. All of those other programs will face challenges in a difficult budget environment.

Vice Chancellor Malave stated that the University is not yet out of the woods as regards the community colleges. The November action of the Board authorizing a tuition increase of up to $400 is the reason for the measure of stability in the budget environment at the community colleges. It is because of that action that we will be able to make investments in full time faculty and student support services to meet the growing enrollment in our community colleges and meet the needs of those students. The City Council is—like the State Legislature—strongly supportive of the University, and they may find a way to provide the University a measure of budget restoration above what is required by law. This would enable us, perhaps, when we visit the tuition policy, not to implement the full $400 tuition increase.

In response to a question, Vice Chancellor Malave stated that the Chancellor will report at the full Board Meeting on exactly what the University administration is going to do regarding the senior college tuition increase. The full $600 increase is the direction in which the administration is heading. The current budget is based on that number and without the full increase the University cannot pursue the $22 million investment program. There will be many independent assessments of the adopted State budget. The administration is still going through all of the numbers and making projections on enrollment for next year, and will be in a much better position to make a final recommendation at the full Board Meeting.

In response to a question regarding the administration's contingency plan for funding programs when the federal stimulus package funds run out, Vice Chancellor Malave stated that the Chancellor has called for the establishment of a set of budget working groups. These groups will drill down through the overall budget of the University and allow the administration to lay out a set of options for restructuring if it were to become necessary. In a system the size of CUNY, three years to plan for the loss of $18 million is not that much of a challenge.

Executive Vice Chancellor Allan H. Dobrin added that the risk can be mitigated by not spending all of the $18 million on recurring costs. Some of the $18 million will be spent on purchases.

Vice Chancellor Malave noted that one time instrumentation costs related to the Decade of Science are a perfect example.

The meeting was adjourned at 5:55 p.m.