

BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

COMMITTEE ON
FISCAL AFFAIRS

MINUTES OF THE MEETING
JUNE 1, 2009

The meeting was called to order at 5:01 p.m.

There were present:

Committee Members:

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

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

Ex-officio:

Hon. Philip A. Berry

Trustee Observer:

Hon. Manfred Philipp

Trustee Staff:

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

Cal. No.	DISPOSITION
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The agenda items were considered in the following order:

I. ACTION ITEMS:

A. APPROVAL OF THE MINUTES OF THE MEETING OF APRIL 6, 2009. The minutes were approved as submitted.

B. POLICY CALENDAR

1. A resolution to authorize the Secretary of the Board to execute a contract on behalf of the Office of the University Controller (OUC) to purchase Proficiency Test Scoring, Re-Scoring and Reporting of (CPE)Scores Services. The contract shall be awarded to the lowest responsive and responsible bidder after public advertisement and sealed bidding by the OUC pursuant to law and University Regulations. Such purchase shall not exceed a total estimated cost of \$3,675,000 per fiscal year chargeable to the appropriate FAS Code(s). The contract term shall be five years with the option to terminate on each anniversary date of the contract.

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

BOARD OF TRUSTEES
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COMMITTEE ON
FISCAL AFFAIRS

MINUTES OF THE MEETING
JUNE 1, 2009

2. A resolution to authorize the Secretary of the Board to execute a contract on behalf of the Office of the University Controller (OUC) to purchase Proficiency Test Form Development, Production and (CPE)Distribution Services. The contract shall be awarded to the lowest responsive and responsible bidder after public advertisement and sealed bidding by the OUC pursuant to law and University Regulations. Such purchase shall not exceed a total estimated cost of \$1,550,000 per fiscal year chargeable to the appropriate FAS Code(s). The contract term shall be five years with the option to terminate on each anniversary date of the contract. Taking and passing the CUNY Proficiency Exam (CPE) is a requirement for the associate degree and for entry into the upper division of CUNY's baccalaureate programs. The University administers the CPE at each of the seventeen Colleges; students who have completed forty-five or more credits of course work are required to take the exam, and students who are registered for their 45th credit have the option to sit for the exam. Students must have met the University minimum standards in reading and writing and have an overall GPA of C or better to be eligible to take the CPE. Students are not eligible to graduate without meeting these minimum standards. As a result, these tests are administered four times yearly to allow students adequate opportunities to pass this qualifying exam.

Senior Vice Chancellor Schaffer noted that contracts are now executed by the General Counsel under the University's Bylaws.

Committee Chair Lhota stated that the Committee could approve sending the existing language to the full Board with the understanding that appropriate editorial corrections would be made.

In response to a question, Vice Chancellor Malave noted several reasons for the costs associated with the program. In addition to inflation and an increase in the number of students to whom the test is administered, ACT significantly understated their cost structure in the initial bidding. The University recognized that when the contract was re-bid ACT would correct their pricing. The University had a tremendous deal in the costs associated with this program in the initial go around.

In response to a question, Chancellor Goldstein stated that the value of the CUNY Proficiency Exam as a metric is assessed on a regular basis and that it has proven to be an effective tool in understanding students' readiness to proceed.

Chancellor Goldstein noted that the initial contract was an incentive price with vendors bidding against each other to get in the door, but it was not a realistic price.

In response to a question Senior Vice Chancellor Schaffer stated that this is a one year contract; the University is in the midst of an RFP for this service. It was impossible to get the RFP out in time for the coming year so the administration is looking to extend the current contract for one year.

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

3. A resolution to authorize the General Counsel to execute a contract with Lincoln Center Institute (LCI) for the provision of an arts education collaboration between The City University of New York (CUNY) and LCI, under a single source procurement between LCI and CUNY pursuant to law and University regulations. The term of the agreement shall be for three years with an option for two, one year renewals at the pricing provided in said

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agreement and in the University's best interest. The agreement shall commence as of September 1, 2009, and the University's purchases shall not exceed \$140,000 per fiscal year chargeable to the colleges' and Central Office appropriate FAS Codes during the applicable fiscal years.

In response to a question, Vice Chancellor Malave stated that the instructional staff of the Lincoln Center Institute will not be covered by the CUNY labor agreement as they are not University employees.

In response to a question, Vice Chancellor Malave stated that this is a continuation of an arrangement that the University has had since 1994.

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

4. A resolution to authorize The City University of New York to adopt a revised schedule of tuition and fee charges for students enrolling in Baruch International Executive Programs effective Fall 2009 and that students enrolling in these programs pay the prevailing in-state tuition for graduate students and a separate program fee of \$3,000 and be it further resolved that the Board of Trustees of The City University of New York authorize the General Counsel and Senior Vice Chancellor of Legal Affairs to execute a contract on behalf of Baruch College to purchase services to operate the Executive Programs for a period of one year. The contract shall be awarded on the basis of best value to a responsive and responsible offer or after public advertisement and timely submission of sealed proposals pursuant to law and University Regulations. Baruch College offers a sequence of graduate level courses leading to Executive Master Degrees. These programs, an international extension of the one offered locally by Baruch operate in Israel, Singapore, Paris and Taipei. The separate program fee will help meet additional costs associated with the operation of international programs.

In response to a question, Vice Chancellor Malave stated that this is the same program at pretty much the same price that Baruch has run for quite a long time. This is a cleanup resolution to make clear that the total price that students in these programs abroad have been paying actually have two components to them. One is the tuition and the other is a fee which covers the cost the University incurs from a contract to provide apartments to the faculty when they go overseas, the foreign airfare, the rental of space and so on.

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

II. KPMG AUDIT PLAN:

University Controller Kaufman stated that the 2009 fiscal year audit process has officially begun and KPMG will be visiting our colleges to test the business processes and controls at each of those schools. KPMG will also be determining our compliance with federal regulations as reflected in the OMB Circular A-133. This phase of the audit will run from June 1 through August 14th and upon completion of the work at the colleges KPMG will turn its attention to the Office of the University Controller. During that phase KPMG will be determining if the amounts reported in our financial statements are materially correct. At that time KPMG will also contact colleges regarding any variances they may see in tuition revenue, in deferred revenues and receivables and other accounting activities. The phase in the Controller's Office begins September 1st, it extends through October 30th and, of course culminates in the publication of the University's 2009 financial statements. In addition, KPMG will also prepare a management letter and internal

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control report, both of which are shared with the Board along with the financial statement audit and the A-133 audit.

University Controller Kaufman stated that nine colleges have been specifically identified for test work related both to the financial statements and to the A-133 audit. Those nine schools are Baruch, Bronx, Hunter, John Jay, Kingsborough, Medgar Evers, The Graduate Center, The CUNY School of Law and York. The remaining colleges will be visited between June 29th and August 14th. At the schools that are not part of the nine, the focus will be on compliance with the A-133 rules and regulations.

University Controller Kaufman noted that, in addition, this year KPMG has informed us that they will be adding additional test work that has to do with an information technology audit. Because we implemented the CUNYFirst General Ledger last July, what KPMG wants to do is to review the controls and security in that system as well as to look at the reconciliation between our old or existing Legacy system and the new CUNY First system.

In response to a question, University Controller Kaufman stated that this year the University is paying KPMG approximately \$675,000. It is a five year contract that increases each year by a said amount. This year, because of the extra work that they will be doing on the information technology, it will probably run us an additional \$25,000 to \$30,000.

III. VICE CHANCELLOR'S REPORT:

Vice Chancellor Malave stated that, at the senior colleges, there has been an increase in overall state funding to cover continuing obligations and to engage in a minor investment program. This investment program includes the University's commitment to a financial aid program for students who will be challenged by the increases in tuition. The program also includes a minor investment in additional full time faculty and some important student services, including financial aid offices. Given the state of the economy the University is also making sure that its career counseling offices are properly positioned to assist students as they graduate and enter the job market. Finally, the University is working to make sure that returning veterans who come to CUNY have access to the appropriate services.

Vice Chancellor Malave noted that there is some level of uncertainty in Albany and that the University is taking action both centrally and at the colleges to make sure that appropriate fiscal reserves are established. The colleges understand that there could be a mid-year budget reduction. The semester begins midway through the state fiscal year and hopefully by that time we will have a good idea of whether or not there will be a reduction.

Vice Chancellor Malave stated that, at the community colleges, the State of New York—in part because of federal stimulus funding—was able to restore aid to community colleges that was originally slated to be cut by ten percent in the executive budget.

Vice Chancellor Malave stated that the City of New York is entering the final stages of budget negotiations between the Mayor and the City Council. The City Executive budget contained tens of millions of dollars in reductions in part related to the budget negotiation process with the City Council. There are maintenance of effort requirements for the City of New York which stabilized the budgets for the community colleges at about \$25 million. Above the maintenance of effort requirements, however, the University will need about \$16 million in order to cover the costs of collective bargaining and benefits and other mandatory needs. The last reports received are that negotiations are proceeding and proceeding well; the University will hopefully receive some kind

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of relief. The Mayor and the City Council are trying to wrap this thing up in the next few weeks. As with the senior colleges, we do not expect any major instability. Like the State of New York, however, the City of New York is facing budget concerns and the community colleges will be asked to set aside the appropriate reserves until we know a little more about where we are in the middle of the state fiscal year in October. There are a number of things outside of the community college budgets that are still challenges on the city level, including financing of the Black Male Initiative as well as several centers and institutes. Vice Chancellor Malave noted that the Mayor's Executive budget provided for the full financing and restoration of the Peter F. Vallone Scholarship Program, an important program for our students particularly in this environment.

IV. INVESTMENT SUB-COMMITTEE:

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

Mr. Smitt-Jeppesen stated that we are in the middle of a powerful market rally that has been going on since March 9th. The big question is whether this is sustainable or whether this is a rally that ultimately will fail. What has us somewhat optimistic is that we are seeing some green shoots out there. There are still some major head winds out there, however. One of the things that has us somewhat concerned is that normally things do not really turn around until you have seen abandonment in the investment community. What makes the picture very murky is that this is a feedback mechanism, the mere sentiment that things are getting better might in fact make it better. We urge people to be cautious in this environment given the high level of uncertainty out there.

Mr. Smitt-Jeppesen stated that May was a good month for most of the markets. The U.S. equity markets were up five to six percent. The non-U.S. markets were up even more. EAFE, which is the developed non-U.S. market was up about twelve percent, fueled partly by a falling dollar. Emerging markets were up seventeen percent. We do not yet have the University's management specific returns through May but, based on index returns, it looks like CUNY's portfolio should be up around five percent in May. This return brings CUNY to around twelve percent for the quarter to date.

Mr. Smitt-Jeppesen noted that the University is in a period of transition, coming off a portfolio that has a high bond allocation. That is being drawn down slowly as other strategies are implemented. The University also has an overweight to U.S. equities, but is gradually moving into emerging markets as decided at the last meeting. He added that the University's investment managers are performing in line with expectations.

In response to a question Mr. Smitt-Jeppesen stated that Cambridge Associates would have the final report ready no later than ten business days after the month's end, and would send it to the University at that time.

The public meeting of the Committee on Fiscal Affairs' Subcommittee on Investment was adjourned at 5:30 p.m. to go into Executive Session.

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The Executive Session of the Committee on Fiscal Affairs' Subcommittee on Investment was called to order at 5:30 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
President Eduardo J. Marti, COP liaison

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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

Cal. No.	DISPOSITION
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The agenda items were considered in the following order:

IV. INVESTMENT SUB-COMMITTEE

A. ASSET ALLOCATION IMPLEMENTATION

**** (THOMAS SMITT-JEPPESEN AND MARK FOWLER OF CAMBRIDGE ASSOCIATES GAVE A PRESENTATION ON PROSPECTIVE REAL ASSETS MANAGERS) ****

Following discussion, the Executive Session of the Committee on Fiscal Affairs' Subcommittee on Investment was adjourned at 5:42 p.m.

BOARD OF TRUSTEES
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COMMITTEE ON
FISCAL AFFAIRS

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The Public Session of the Committee on Fiscal Affairs' Subcommittee on Investment was reconvened at 5:42 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
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Board Jay Hershenson
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The agenda items were considered in the following order:

IV. INVESTMENT SUB-COMMITTEE

A. ASSET ALLOCATION IMPLEMENTATION

A motion was put forward to accept Wellington Management as one of the University's new asset managers.

Following discussion, the motion was passed.

The meeting was adjourned at 5:45 p.m.