BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

COMMITTEE ON FISCAL AFFAIRS

MINUTES OF THE MEETING
FEBRUARY 1, 2009

The meeting was called to order at 5:05 p.m.

There were present:

Committee Members:
Hon. Joseph J. Lhota, Chair
Hon. Peter S. Pantaleo, Vice Chair
Hon. Kathleen M. Pesile
Hon. Carol Robles-Roman
Prof. Terrence Martell, faculty member
Cory Provost, student member
President Eduardo J. Marti, COP liaison

University Staff:
Chancellor Matthew Goldstein
Executive Vice Chancellor and Chief Operating Officer Alan Dobrin
Interim Senior Vice Chancellor Marc V. Shaw
Associate Vice Chancellor Matthew Sapienza
Chief Investment Officer Janet Krone
University Controller Barry Kaufman

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**

The agenda items were considered in the following order:

I. ACTION ITEMS:

A. APPROVAL OF THE MINUTES OF THE MEETING OF NOVEMBER 2, 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 for vehicle liability insurance. The contract shall be awarded to the lowest responsive and responsible bidder after public advertisement and sealed bidding by the Office of the University Controller pursuant to law and University Regulations. Such purchase shall not exceed a total estimated cost of $1,469,400, for the initial one year term. The contract term shall include up to four one-year options for the University to renew in its best interest. This contract will provide a single automobile insurance policy to cover all the vehicles owned and operated by both senior and community colleges. Following discussion, the item was approved for submission to the Board.

2.

II. REPORTS:

A. Report by Associate Vice Chancellor Sapienza

- Report on 2011 State Executive Budget

Associate Vice Chancellor Matthew Sapienza stated that on January 19th the Governor issued the State Executive Budget. Certainly it is not a good news budget for any of the state agencies, and certainly not for CUNY. While all of the mandatory cost increases included in the University's budget request were fully funded--including a $91.3 million increase in mandatory costs--that was offset by an $84.4 million reduction in state aid. There were two components to the $84 million in reductions. One was a $63.6 million reduction in operating aid to the senior colleges. The other piece was $20.8 million that the Governor is hoping to generate through agreements with the labor unions to generate savings.

Associate Vice Chancellor Sapienza noted that the Governor's budget also called for some changes and increased flexibility in terms of tuition and procurement. It grants authority to the Board of Trustees to increase tuition beginning in 2011 by no more than two and a half times the five year rolling average of the HEPI index, and to establish differential tuition both by campus and by program. It also calls for tuition revenue to be put off line in a separate account, instead of included in the state budget along with state aid for CUNY as it currently is. Lastly, the budget calls for changes to the procurement guidelines that are currently in place. Currently whenever we want to purchase something over $20,000 we have to go out and get three bids, register the contract, enter into the contract, and it could take several months before we actually receive that item on our campuses. What is being called for is for the University to be put on post audit, so that we can go out and purchase the equipment, purchase the item, receive the services, and the state controller would then audit the purchases.

Associate Vice Chancellor Sapienza stated that at the community colleges the Governor's proposed budget is calling for a reduction in the per FTE base aid amount of $285 per FTE, which equals about $22 million. This comes on top of the $130 per FTE reduction that was included in the deficit reduction proposal the University sustained this year-- which will equal $9 million when it annualizes next year. The state did recognize the University's need for additional rental aid at the community colleges, which is $1.8 million and they recognized the enrollment growth in the base aid formula--an additional 8,000 FTEs which equals about $18 million. While that increase in FTEs appears to offset a good chunk of the $285 per FTE reduction, because of this higher enrollment the University has greater expenses. That $18 million is needed to cover those expenses and not to offset a reduction.

Associate Vice Chancellor Sapienza noted that in student financial aid the Governor is proposing a reduction in all TAP awards of $75 per award. In addition, the proposal calls for some ideas put forth last year which the legislature rejected: the elimination of TAP eligibility for all graduate students; inclusion of all private pension income in TAP eligibility; and making students who are in default of state and federal loans ineligible for TAP. The proposal also increases the minimum academic standards that students must meet in order to maintain their TAP eligibility. They must achieve a minimum of fifteen credits by the end of their second semester along with a 1.8 grade point index.

In response to a question from committee member Terrence Martell about guidance to the campuses regarding the initial budget, Chancellor Matthew Goldstein stated that the Council of Presidents was briefed in detail this morning. He added that there is going to be a series of individual meetings with each of the presidents by senior members of the administration talking about enrollment patterns, recent hires, and prospective hires. There has been an extensive amount of guidance and there is more yet to come.

- Report on City Preliminary Budget

Associate Vice Chancellor Sapienza stated that on January 28th the Mayor issued the city preliminary budget. A few months back the Mayor had put out a call letter to all agencies asking for reductions in the current year of 4 percent and in 2011 of 8 percent and for CUNY that equated to $9.5 million in the current year and $15.4 million in 2011. In the Mayor's preliminary budget those numbers held. So CUNY's reductions were not brought down. They were $9.5 million in the current year, $15.4 million next year. It is still early in the city budget process. The Mayor is most likely going to be issuing his executive budget in late April and then the City Council will have their turn at the budget when it comes to the adoption process. It is still early, but the University administration is concerned about the community college situation given the state reductions in the executive budget and these proposed reductions on the city side.

Associate Vice Chancellor Sapienza noted two additional items about the city preliminary budget: the ASAP program funding was increased from $6.5 million to $6.8 million in 2011, and the CUNY Prep Program was also fully funded in 2011 at slightly under $3.6 million.

B. Report on Investments

- Market and Performance Update

(THOMAS SMITT-JEPPESEN AND MARK FOWLER OF CAMBRIDGE ASSOCIATES GAVE A PRESENTATION)

In response to a question from Vice Chair Berry regarding emerging markets, Mr. Jeppesen stated that the answer depends on timeframe. There are risks in the emerging markets right now on a tactical basis just because it has been up, when it goes up 79 percent there is certainly risk of a pull back as was seen in the latter part of January. Strategically we do think that the emerging markets will still grow long term more than the U.S. and the other developed economies, not just the U.S. but also the others. And we also think there are some currency imbalances that make the emerging markets a valid play long term.

In response to questions from committee member Terrence Martell regarding asset allocation, Committee Chair Lhota stated that, when the committee first adopted the current target asset allocation, it was thought that it was not the right time to enter the hedge fund and alternative investments markets. That decision needs to be revisited.

C. 2009 Financial Statements - KPMG

University Controller Barry Kaufman stated that KPMG is here today to speak about the financial statements. They will appear before the committee a second time, probably at the April meeting, to talk about the A-133 audit as well as the management letter and the internal control report.

(SHELLY MASI AND ERIN SCHEMBARI OF KPMG GAVE A PRESENTATION)

In response to a question from committee member Martell regarding two bookkeeping errors found during the audit, Ms. Masi confirmed that both errors occurred in prior years and had no material impact on the current statement or prior statements.

In response to several questions regarding two bookkeeping errors, Ms. Masi confirmed that the errors were misclassification errors at two of the campus foundations and were not material at the University level.

In response to several questions regarding the audit firms handling the foundation audits, Ms. Masi confirmed that these firms are known to KPMG professionally. As part of the independence confirmation KPMG sends to these firms, all the responsible partners are asked to confirm that they are aware of the standards they are reporting under, that they are using generally accepted accounting standards, and whether they are using government accounting standards. KPMG also does a check of all of the firms to ensure that they are not under state watch, and do not have any judgments or claims against them.

In response to a question from committee member Martell regarding the involvement of the audit sub-committee in the audit scope, University Controller Kaufman stated that it has varied in different years. Usually when KPMG has come to the audit, the materials are sent to the audit committee. That was not done this past year, but can be done if the committee wishes. In the past, communications for the engagement letter have gone to the Vice Chancellor for Budget and Finance, and discussion as to what the audit was to consist of and the work that KPMG would be doing has been with the full committee.

In response to questions from committee member Martell regarding new disclosure requirements for the swap values of derivative instruments, Ms. Schembari stated that the valuation is performed by the counterparty, generally the bank. As part of the audit procedures internal valuation specialists at KPMG do review those valuations, but KPMG is prepared to accept the banks' statements. This is not something that is going to be difficult to adopt. The values are already known, they will just be reported on the balance sheet next year.

In response to several questions regarding the consideration of American Recovery and Reinvestment Act funds as a high risk program, Ms. Masi confirmed that the federal government is designating the programs high risk as that designation will ensure that the programs are audited to determine that the money was used as legislatively required. The high risk designation does not translate into fines if we do not pass the audit.

The meeting was adjourned at 6:05 p.m.