

BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

COMMITTEE ON
FISCAL AFFAIRS

MINUTES OF THE MEETING
JANUARY 31, 2011

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. Valerie L. Beal
Hon. Judah Gribetz
Hon. Kathleen M. Pesile
Prof. Terrence Martell, faculty member
Mr. Kevin McKessey, student member

University Staff:

Chancellor Matthew Goldstein
Executive Vice Chancellor and Chief Operating
Officer Allan Dobrin
Associate Vice Chancellor Matthew Sapienza
University Controller Barry Kaufman
Chief Investment Officer Janet Krone

Ex-officio:

Hon. Philip A. Berry

Trustee Observer:

Hon. Sandi E. Cooper

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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Committee Chair Joseph Lhota welcomed Trustee Judah Gribetz to the Committee.

The agenda items were considered in the following order:

I. ACTION ITEMS:

A. APPROVAL OF THE MINUTES OF THE MEETING OF NOVEMBER 1, 2010. The minutes were approved as submitted.

B. POLICY CALENDAR

1. Borough of Manhattan Community College – Purchase of Custodial Services. Committee Chair Lhota stated that this resolution authorizes the General Counsel to purchase custodial services for its leased spaces at 70 Murray Street, the West Street Trailers and 108 Cooper Street. The contract shall be awarded by the college to the lowest responsive and responsible bidder pursuant to law and University Regulations. Such purchase shall not exceed a total estimated cost of \$414,000 chargeable to the fiscal year ending June 30, 2011. The contract shall include four one year options for the University to renew in its best interest.

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

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II. INFORMATION ITEMS:

A. Report of the Fiscal Affairs Sub Committee on Audit by Subcommittee Chair Peter S. Pantaleo

Subcommittee on Audit Chair Peter Pantaleo called on University Controller Barry Kaufman to report on the meeting of the Subcommittee of January 26, 2011. He stated that the University's external auditors, KPMG, presented their findings on the University's 2010 Consolidated Financial Statements and issued an unqualified opinion on the basic financial statements as of and for the year ended June 30, 2010. In its Management Letter to the Audit Subcommittee, KPMG identified one significant deficiency in internal control regarding the University's financial reporting process. The auditors recommended more timely year-end financial analysis and review of component units. To achieve this, the auditors recommended quarterly financial closes. Dr. Kaufman indicated his agreement with their recommendation but noted that until the various legacy systems are converted to CUNYfirst the University would implement a mid-year close and a year-end close.

B. Report by Associate Vice Chancellor Matthew Sapienza

Update on State and City Budgets

Associate Vice Chancellor Matthew Sapienza stated that the Governor is scheduled to issue his budget at 1 o'clock tomorrow. It is certainly expected that it is going to contain reductions for the University, just as other state agencies are going to have reductions, but the administration is hopeful that they will be manageable. This is just the first act of the budget dance in Albany and the legislature will have their chance. The Chancellor is due to testify in front of the state legislature on February 10th on the executive budget. As soon as the budget is out tomorrow the administration will quickly begin its analysis and the Chancellor will communicate to the trustees and the college presidents the effects of the executive budget on CUNY.

Associate Vice Chancellor Sapienza stated that the University received some good news recently on the City budget. The Mayor in his November financial plan had implemented about \$600 million worth of cuts to all city agencies in order to try to reduce the city deficit for next fiscal year. The CUNY community college piece of that was about \$12 million in Fiscal Year 2011 and \$16 million in Fiscal year 2012. The good news is that the City Council restored \$4 million of that cut in the current year. The Mayor will be issuing his preliminary budget for the next fiscal year on February 17th. Again, as soon as information is available an analysis will be sent to the trustees and to the college presidents.

In response to a question Associate Vice Chancellor Sapienza stated that the University's budget does not include legislative inflators mandating increases in spending. Increases in the University's mandatory costs are expenditure driven and mostly follow the rate of inflation. Possible gubernatorial action against hidden inflators should not have any impact on the University.

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C. Report by Chief Investment Officer Janet Krone on Investments

Market and Performance Update

Chief Investment Officer Janet Krone stated that 2010 was a volatile year, but the University's investment fund ended the year positively. A lot happened in the fourth quarter. The developed global equity markets rose about 12-13 percent, depending upon which currency one is looking at. U.S. equities were up 15 percent, and emerging market equities were up 19 percent. Given that the Federal Reserve has maintained policy rates at such low levels, the credit markets in the U.S. have increased this year as well with the Barclay's aggregate up 6.6 percent and Barclay's high yield bonds up 15 percent. Commodities also rose sharply for the year. The Investment Pool ended the year up 11.8 percent, so that the market value at the end of the year was close to \$160 million. Two of the University's asset classes are indexed—U.S. equities and U.S. fixed income—so the University saw benchmark-like returns. The other asset classes use actively managed strategies and there all of the University's portfolios beat their benchmarks, in some cases by a substantial margin.

Chief Investment Officer Krone stated that at its next quarterly meeting on February 7th the Subcommittee on Investment will consider the redistribution of the non-marketable alternatives allocation. There will also be a presentation by a speaker from Skadden Arps about the New York Prudent Management of Institutional Funds Act (NYPMIFA). The Office of Budget and Finance will be holding an information session for the colleges on the NYPMIFA on February 3rd. NYPMIFA is basically an extension of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which was never passed in the State of New York. The difference being that the latter regulations allow prudent invasion of corpus. The fiduciaries are also held to a much higher standard under the New York law. There are all sorts of criteria that must be considered when coming up with the investment policy and spending policy. The decision has to go to the Board and the Board could decide to allow invasion or not allow invasion. Given the onerous aspects of the New York law if you do allow invasion you are then subject to notifying every one of your participants.

In response to a question Chief Investment Officer Krone stated that invasion refers to invasion of the original gift that was made by a donor, an endowed fund. The University has a spending policy which allows 5 percent of the rolling twelve quarter average market value. The new regulation allows the Board discretion to invade the original gift even if the fund were under water, but it has to be prudent invasion, taking into consideration the needs of the University, of that particular school, and different economic factors. There are eight factors that have to be taken into consideration. You first need to notify the donors if they are available and give them 90 days to respond. Your accounting becomes relatively more complicated because you would have different spending regimes that you need to track going forward. Regardless for any new gifts that are made beyond September 17 of 2010 when the law was enacted those can invade the corpus on a prudent basis.

In response to a question University Controller Kaufman stated that attorney Dan Kurtz of Skadden Arps, the University's consultant on the subject, made it clear that the University is the fiduciary for funds in the Investment Pool accepted by the University from the colleges. For those funds that are with the foundation, the foundation is the fiduciary.

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In response to a question Chief Investment Officer Krone stated that NYPMIFA falls under the Attorney General's office.

In response to a question Chief Investment Officer Krone stated that the Chief Investment Officer works within the Office of the University Controller, which is within the Office of Budget and Finance. The position reports directly to the University Controller and on a dotted line to the Associate Vice Chancellor for Budget and Finance.

The meeting was adjourned at 5:31 p.m.