BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

COMMITTEE ON FISCAL AFFAIRS

MINUTES OF THE MEETING APRIL 4, 2011

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

There were present:

Committee Members:
Hon. Joseph J. Lhota, Chair
Hon. Peter S. Pantaleo, Vice Chair
Hon. Valerie L. Beal
Hon. Kathleen M. Pesile
Prof. Terrence Martell, faculty member
Mr. Kevin McKessey, student member

Ex-officio:
Hon. Philip A. Berry

Trustee Observer:
Hon. Sandi E. Cooper
Hon. Cory Provost

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

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
University Deputy Executive Controller Miriam Katowitz

Cal. No. **DISPOSITION**

The agenda items were considered in the following order:

II. ACTION ITEMS:

A. **APPROVAL OF THE MINUTES OF THE MEETING OF JANUARY 31, 2011.** The minutes were approved as submitted.

B. **POLICY CALENDAR**

1. The City University of New York – Purchase of Unarmed Security Guard Services. A resolution to authorize the General Counsel to execute contracts on behalf of the University to purchase unarmed security guard services from Allied Barton Security Services, Andrews International, FJC Security Services Inc., Securitas Security Services USA and U.S. Security Associates Inc. without competitive bidding and pursuant to law and University Regulations. Such contract shall not exceed a total estimated cost of $12.6 million for the period of March 2011 through December 2011.

   In response to a question Associate Vice Chancellor Sapienza stated that the contract will not involve competitive bidding due to the urgency involved. For many years the colleges have been able to purchase security services, contract guards, through a contract with the State Office of General Services. Some of the unions have protested because under this contract the University has been paying the state prevailing wage rate instead of the city prevailing wage rate. The state prevailing wage rate is about $15 an hour, the city prevailing wage rate is about $25 an hour. The Office of the State Controller and the Office of General Services have decided that they are no longer going to be in this business and the University can no longer use that contract. The agreement ended as of March 9, 2011 and the University will now be paying the city prevailing wage. The five firms noted in the resolution are currently providing services to the colleges and have agreed to continue until the University can get a new contract in place. This resolution will take the University through the end of the calendar year. An invitation for bid is being put out to try to get one or two vendors to give the University best pricing rather than have contracts with all five in the future.

Executive Vice Chancellor Dobrin noted that the University is simultaneously looking at using something called a CSA title which will allow the hiring of full time staff at a lower level title than peace officer. The salary of that title is consistent with the state prevailing wage rather than the city prevailing wage.

In response to a question Associate Vice Chancellor Sapienza confirmed that the contracts specified in this resolution are for temporary purposes only. He stated that the invitation for bid should be out within the next couple of weeks and a new contract will hopefully be able to be in place by the beginning of the calendar year.

In response to a question University Controller Kaufman stated that the five firms listed are the ones that were authorized by the State Office of General Services. There are a number of smaller agencies and probably a few additional large agencies, so there are a sufficient number to do a competitive bid.

In response to a question Associate Vice Chancellor Sapienza stated that John Jay students provide security services on that campus and the administration at John Jay has suggested utilizing the students at other campuses as well. It is something that is under consideration.

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

2. The City University of New York – Purchase of OCLC Services for Libraries. A resolution to authorize the General Counsel to execute a contract on behalf of the University to purchase enterprise library membership and various online database and cataloging services from Online Computer Library Center, Inc. (OCLC). Such purchase shall not exceed a total estimated cost of $1.8 million for the three-year term of July 1, 2011 through June 30, 2014. This contract with OCLC will permit the continuation of mission-critical university-wide library services currently provided by NYLINK, who is phasing out operations in June 2011.

In response to a question Associate Vice Chancellor Sapienza stated that these are estimated costs for the three year term not to exceed the $1.8 million. If things do change in terms of pricing, the University will have the opportunity to make changes there. This is what the University was paying NY Link, so there is no increase in the contract going to this new vendor.

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

3. CUNY School of Law – Revised Application Fee. A resolution to authorize The City University of New York to increase the CUNY School of Law application for admission fee from $50.00 to $60.00 effective June 1, 2011; to authorize the CUNY School of Law to accept such a fee through the processing facility of the Law School Admissions Council (LSAC), subject to the normal LSAC processing fee; and that such fee may be waived by the dean of the CUNY School of Law for any applicants whose Law School Admissions Test fee was waived by the LSAC or in other case of extreme financial hardship. The increase in the fee is to be applied to the handling of the online application process by LSAC. The increased fee is similar to what other law schools in the country charge and allows the CUNY School of Law to remain competitive with the market.

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

III. INFORMATION ITEMS:

A. Report by Associate Vice Chancellor Matthew Sapienza

Update on State and City Budgets

Associate Vice Chancellor Sapienza stated that the State budget was agreed to on March 31st. The governor and the legislature came to an agreement for an on time budget. For the senior colleges the deductions that were proposed in the executive budget carried through to the adopted budget. There is a $11.9 million reduction for the current year that the state rolled into next year as a reduction, plus an additional $83.2 million in new cuts, for a total of $95.1 million in reductions for senior colleges. The total reductions over the last four fiscal years is now $300 million. So the senior college cuts remain. The one item on the senior colleges that changed significantly from the executive to the adopted budget is that the executive budget recognized the additional revenue that the University was projected to collect from the 5 percent tuition increase that was imposed this spring and that was $40 million. The Assembly budget bill also recognized that. However, the Senate bill did not and in the final budget agreement that $40 million was not recognized in CUNY's budget.

The Governor and the legislative leaders have publicly committed to getting together post budget to try to resolve some of the outstanding higher education issues for both CUNY and CUNY. One of those issues is developing a rational tuition policy for both SUNY and CUNY. The University is hopeful that before the academic year starts later in late August there will be some resolution to this $40 million revenue issue.

Associate Vice Chancellor Sapienza noted that there was some good news in the adopted budget in that there was procurement reform. Both CUNY and SUNY were able to go on a post audit basis for purchasing of goods. The University is still on a pre-audit basis for services, but purchasing of goods is now on a post audit basis which is going to help in terms of getting instructional equipment and other goods into the schools a lot quicker than was possible in the past.

Associate Vice Chancellor Sapienza stated that in the area of financial aid as well, most of the Executive budget recommendations carried forward into the adopted version. There was a slight change in the definition of remedial student for TAP purposes, which was the State Education Department definition, which is what the University was pushing for.

Associate Vice Chancellor Sapienza stated that on the community college side the Governor had proposed a 10 percent cut in base aid, which was $226 per full-time equivalent (FTE) and that equates to about a $17.5 million funding loss for the community colleges. In the adopted budget, however, there was a restoration of $88 per FTE, which equates to a reduced funding loss of about $10.6 million for the community colleges. Over four years the funding at the community colleges has gone down from $2,675 per FTE to $2,122 per FTE, a loss of over $550 per FTE in that time.

Associate Vice Chancellor Sapienza stated that the Mayor issued his preliminary City budget on February 17th. It contained a $16 million reduction to community colleges for the next fiscal year. Subsequent to the mayor issuing this preliminary budget he asked all city agencies for an additional round of cuts. For CUNY and other non-uniformed and non-DOE agencies a cut of 4 percent, which for CUNY amounts to an additional $7.6 million in cuts. Currently the University is looking at potential reductions to the community colleges of $23.6 million in city funds for next year. There are maintenance of effort (MOE) protection provisions that should help with this new round of cuts the Mayor has proposed. The City is almost $30 million short of meeting the maintenance of effort for next year, so once the budget is adopted the University will get some funding back. There is that protection and, of course, the City Council has always been helpful to the University in the adopted budget process.

In response to a question Associate Vice Chancellor Sapienza stated that historically the Mayor has put forth a preliminary budget with a contribution below MOE. Even the executive budget does not usually meet MOE, because under the MOE law the City of New York is required to meet the maintenance of effort, not the Mayor.

In response to several questions Associate Vice Chancellor Sapienza stated that, if the University does not receive authorization to spend the money generated by the 5 percent tuition increase, the effect would be a further budget reduction of $40 million on top of the existing State and City budget cuts. The University has been told by the Governor's office, the Senate and the Assembly, that they will be having discussions post budget on the matter. The administration is optimistic that the University will be given authority to spend the $40 million generated by the tuition increase, avoiding this further $40 million budget reduction.

Chancellor Goldstein noted that early on in the current fiscal year the University realized that, while only $125 million in available tuition revenues were envisaged for the fiscal year, the University was authorized to spend $145 million in tuition revenue from the Income Fund Reimbursable (IFR) accounts. At the request of the University administration the Board of Trustees authorized a 5 percent tuition increase starting in the spring semester, which would increase tuition revenues by $40 million on an annual basis. This allowed the University to make full use of the additional $20 million in spending authorizations in the second half of the current fiscal year. Before requesting the tuition increase, the administration discussed the matter with the Governor's office, the Senate and the Assembly, and was given the go ahead. At the end of the day the Governor included that additional spending authorization, the Assembly included it, the Senate did not. The University does not know what politics were driving the senate to do what they did but it clearly had to do with bargaining positions and legislative maneuvering, and at some point the University should be able to get to the bottom of it.

The Committee on Fiscal Affairs adjourned at 5:31 p.m. to convene as the Subcommittee on Investment.

BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

SUBCOMMITTEE ON INVESTMENT — MINUTES OF THE MEETING APRIL 4, 2011

The meeting was called to order at 5:32 p.m.

There were present:

Committee Members:
Hon. Joseph J. Lhota, Chair
Hon. Valerie L. Beal
Hon. Kathleen M. Pesile
Professor Terrence Martell, faculty member
Hon. Cory Provost, student member

Ex-officio:
Hon. Philip A. Berry

Observers:
Hon. Sandi E.Cooper
Hon. Peter Pantaleo
Mr. Kevin McKessey

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

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
University Deputy Executive Controller Miriam Katowitz

Cal. No.	**DISPOSITION**

The agenda items were considered in the following order:

I. ACTION ITEMS:

A. APPROVAL OF THE MINUTES OF THE MEETING OF FEBRUARY 7, 2011. The minutes were approved as submitted.

II. INFORMATION ITEMS:

A. Performance Highlights – Calendar Year-to-Date Through February 2011

Chief Investment Officer Krone stated that, as the Subcommittee has a full agenda, only a summary of the performance calendar year to date through February will be given, with a more detailed report at its next meeting in June. For the year to date through February, the investment pool is up about 3.5 percent and the portfolio now stands at about $165 million. All of the asset classes in the portfolio had positive returns with the exception of emerging market equities, which has been in negative territory for about the past four months.

The Subcommittee adjourned to go into Executive Session at 5.34 p.m.

BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

SUBCOMMITTEE ON INVESTMENT | MINUTES OF THE MEETING APRIL 4, 2011

The Executive Session of the Subcommittee on Investment was called to order at 5:34 p.m.

There were present:

Committee Members:
Hon. Joseph J. Lhota, Chair
Hon. Valerie L. Beal
Hon. Kathleen M. Pesile
Professor Terrence Martell, faculty member
Hon. Cory Provost, student member

Ex-officio:
Hon. Philip A. Berry

Observers:
Hon. Sandi E.Cooper
Hon. Peter Pantaleo
Mr. Kevin McKessey

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

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
University Deputy Executive Controller Miriam Katowitz

Cal. No. | **DISPOSITION**

The agenda items were considered in the following order:

II. INFORMATION ITEMS, continued:

B. Update on New York Prudent Management of Institutional Funds Act (NYPMIFA) – Daniel Kurtz, Skadden, Arps

C. Briefing on Recommended Changes to Investment Policy as a result of NYPMIFA – Thomas Smitt-Jeppesen, Cambridge Associates

Following discussion, the Executive Session of the Subcommittee on Investment was adjourned at 6:30 p.m.

BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

SUBCOMMITTEE ON INVESTMENT

MINUTES OF THE MEETING
APRIL 4, 2011

The Public Session of the Subcommittee on Investment was reconvened at 6:30 p.m.

There were present:

Committee Members:
Hon. Joseph J. Lhota, Chair
Hon. Valerie L. Beal
Hon. Kathleen M. Pesile
Professor Terrence Martell, faculty member
Hon. Cory Provost, student member

Ex-officio:
Hon. Philip A. Berry

Observers:
Hon. Sandi E.Cooper
Hon. Peter Pantaleo
Mr. Kevin McKessey

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

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
University Deputy Executive Controller Miriam Katowitz

Cal. No.	**DISPOSITION**

The agenda items were considered in the following order:

I. ACTION ITEMS, continued:

B. POLICY CALENDAR

1. The City University of New York – Amended Investment Policy and the Fiscal Year 2012 Spending Rate for the Investment Portfolio.

Spending Decision Deliberation

The Subcommittee first noted that, in order to preserve the long-term value of the Pool, it has been CUNY's practice to keep spending from the Pool each year at or below 5% of the Pool's average market value. CUNY's Chief Investment Officer, Janet Krone, and Investment Consultant, Cambridge Associates, have discussed that, for the fiscal year-ending June 30, 2012, an appropriation of 5% be applied to the funds in the Pool.

It then was noted that while the Pool is comprised of numerous endowed and non-endowed funds, such funds can be categorized by purpose into the following four groups of similarly situated funds: (i) scholarships and fellowships; (ii) academic support; (iii) institutional support; and (iv) instruction. The Subcommittee agreed that it would be prudent to classify the funds in the Pool into these four groups of similarly situated funds for the purpose of determining an annual appropriation from the funds.

The Subcommittee then discussed whether the proposed 5% spending rate would be prudent for each of the four groups of similarly situated funds in the Pool, taking into consideration the following eight factors.

A. Scholarships and Fellowships

1. Duration and Preservation of the endowment fund

The scholarship and fellowship funds are long-term funds, in theory perpetual in nature. In order to ensure preservation of the funds, the spending rate must not exceed the real (net of inflation) return of the funds. However, as the spending rate decision precedes the realization of the returns, the spending rate must be based on the expected return of the portfolio.

The suggested 5% spending rate is slightly below the expected long-term real returns of the funds given the investment profile. As such, the Subcommittee expects that the spending rate should allow for the continued preservation of these funds.

2. Purposes of the Institution and the Endowment Funds

As most premier educational institutions, CUNY relies on scholarships and fellowships to attract and retain the best students and staff. At the same time, scholarships provide access to education to students who otherwise might not be able to afford it and thus ensures CUNY's fulfillment of its community support goals. Ongoing support for scholarships and fellowships therefore is crucial for the success of CUNY. Historically state appropriations have provided the majority of the funds for scholarships and fellowships, with the Pool not the primary source of funds. Nevertheless, the annual spending amount from the Pool must balance the ever increasing need of the current recipients with the needs of future recipients, as well as the fact that donors have designated these funds be used for these purposes. It is the belief of the Subcommittee that the proposed 5% spending rate for the fiscal year 2012 meets this requirement. Indeed, actual historical spending for the last five fiscal years [FY 2006 –FY 2010] has not exceeded 4.6% in total. Total spending for fiscal year 2010 was 2.5%, with scholarships and fellowships representing roughly 78% of that spending.

3. General Economic Conditions

The credit crisis in 2007/2008 had a significant impact on the endowment but the subsequent rally has returned the endowment close to its prior value and thus better able to support CUNY through spending. The outlook going forward is for healthy growth in the U.S. economy and in a significant portion of the rest of the world. There are some issues like the Japanese tsunami, the Middle-East unrest or the Eurozone debt crisis, which could derail the otherwise positive outlook, but the risk of a double-dip recession has generally receded. In this light, the 5% proposed spending rate seems prudent, especially as it is applied to a base that is lower than the current market value due to the smoothing mechanism.

4. Possible effects of inflation or deflation

The credit crisis led to a period of lower-than-average inflation. That combined with the current high unemployment, the economically strained consumer base and overcapacity in most industries should temper inflation in the short-to-medium term, although recent commodity price increases has put some upward pressure on headline inflation numbers. If the economic recovery continues according to forecasts, deflation should not be an issue either. Importantly, the portfolio has built-in hedges against both high inflation and deflation reducing the overall sensitivity should either occur. Based on these observations, it is the Subcommittee's belief that the 5% proposed spending rate is prudent.

5. The expected total return from income and the appreciation of investments

The investment policy statement requires the Subcommittee to use a total return methodology when making investment decisions. As mentioned under #1 above, the proposed spending rate is slightly below the long-term expected return of the Pool. Further, returns in the short-term, while less important, have exceeded the proposed spending rate. For these reasons the Subcommittee finds the proposed 5% spending rate prudent.

6. Other resources of the institution

While CUNY has other funds, these are tax-levy funds earmarked for other operational expenses. Therefore, a diversion of such funds towards scholarships and fellowships would not be appropriate or possible.

It is the Subcommittee's opinion that the appropriation of 5% is prudent and appropriate. The appropriation is of a size that will allow the CUNY Pool to adequately fund current scholarships and fellowships, while maintaining the integrity of the funds for future generations of students.

7. Alternatives to expenditure of the endowment fund

There are no suitable alternatives to expenditure of the scholarship and fellowship funds for the coming year's spending. Donors made these scholarship and fellowship gifts to CUNY to ensure that both current and future generations have access to the first class education offered at CUNY. Given current economic conditions and the expectation that public appropriations will be less in the future, we anticipate a steady need for these funds from non-tax levy funds, such as the Pool. The Pool is capable of bearing the 5% proposed spending rate and, accordingly, should be used for the purposes intended by the donors. In addition, not spending or spending less on scholarship and fellowship would harm CUNY's efforts to retain the best staff and students and frustrate CUNY's goal of providing access to education to students who otherwise might not be able to afford it.

8. The Investment Policy of CUNY

The 5% proposed spending rate for the upcoming fiscal year is in line with, and indeed foreseen by, the investment policy statement. It would not harm the overall Pool investments as the Pool is invested with sufficient liquidity to allow for such a withdrawal and the smoothing mechanism in the base calculation ensures sustainability.

B. Academic Support

After discussing Scholarships and Fellowships, Academic Support was addressed. The Subcommittee first noted that, as is the case with the scholarship and fellowship funds, the academic support funds are long-term funds. They are generally comprised of funds designated by donors to support professional and technical educational programs such as library resources, educational equipment, laboratory supplies and materials. In considering whether to apply a 5% spending rate to the academic support funds, the Subcommittee concluded that the Subcommittee's analysis of factors 1 (duration and preservation of the endowment fund), 3 (general economic conditions), 4 (possible effects of inflation or deflation), 5 (expected total return from income and the appreciation of investments) and 8 (CUNY's investment policy) as applied to the scholarship and fellowship funds was equally applicable to the academic support funds and supported the application of a 5% spending rate to the academic support funds. The Subcommittee then considered the remaining factors.

2. Purposes of the Institution and the Endowment Funds

Assistance with the cost of academic support remains a key part of the support the endowment offers to the overall CUNY system.

Historically state appropriations have provided the majority of the funds for academic support, with the Pool not the primary source of funds. Nevertheless, the annual spending amount from the Pool must balance the ever increasing need of the current recipients with the needs of future recipients, as well as the fact that donors have designated these funds be used for these purposes. It is the belief of the Subcommittee that the proposed 5% spending rate for the fiscal year 2012 meets this requirement. Indeed, actual historical spending for the last five fiscal years [FY 2006 –FY 2010] has not exceeded 4.6% in total.

6. Other Resources of the institution

While CUNY has other funds, these are tax-levy funds earmarked for other operational expenses. Therefore, a diversion of such funds towards academic support would not be appropriate or possible.

It is the Subcommittee’s opinion that the appropriation of 5% is prudent and appropriate. The appropriation is of a size that will allow the CUNY Pool to adequately fund current academic support, while maintaining the integrity of the funds for future generations of students.

7. Alternatives to expenditure of the endowment fund

There are no suitable alternatives to expenditure of the academic support funds for the coming year's spending. Donors made these academic support gifts to assist CUNY in providing a first class education to both current and future generations of students. Given current economic conditions and the expectation that public appropriations will be less in the future, we anticipate a steady need for these funds from non-tax levy funds, such as the Pool. The Pool is capable of bearing the 5% proposed spending rate and, accordingly, should be used for the purposes intended by the donors. In addition, not spending or spending less on academic support would harm CUNY's efforts to retain the best staff and students and frustrate CUNY's goal of providing an excellent education to its students.

C. Institutional Support

After discussing Academic Support, Institutional Support was addressed. It was noted that, as is the case with the scholarship and fellowship funds, the institutional support funds are long-term funds. They are comprised of funds designated by donors to fund work study programs that support students who, for various reasons, do not qualify for Federal work-study programs. In considering whether to apply a 5% spending rate to the institutional support funds, the Subcommittee concluded that the Subcommittee's analysis of factors 1 (duration and preservation of the endowment fund), 3 (general economic conditions), 4 (possible effects of inflation or deflation), 5 (expected total return from income and the appreciation of investments) and 8 (CUNY's investment policy) as applied to the scholarship and fellowship funds was equally applicable to the institutional support funds and supported the application of a 5% spending rate to the institutional support funds.

The Subcommittee then considered the remaining factors.

2. Purposes of the Institution and the Endowment Funds

The Subcommittee noted that the work study programs funded by the institutional support funds play an important role in achieving CUNY's goal of providing access to education to students who otherwise might not be able to afford it.

Historically state appropriations have provided the majority of the funds for institutional support, with the Pool not the primary source of funds. Nevertheless, the annual spending amount from the Pool must balance the ever increasing need of the current recipients with the needs of future recipients, as well as the fact that donors have designated these funds be used for these purposes. It is the belief of the Subcommittee that the proposed 5% spending rate for the fiscal year 2012 meets this requirement. Indeed, actual historical spending for the last five fiscal years [FY 2006 –FY 2010] has not exceeded 4.6% in total.

6. Other resources of the institution

While CUNY has other funds, these are tax-levy funds earmarked for other operational expenses. Therefore, a diversion of such funds towards institutional support would not be appropriate or possible.

It is the Subcommittee's opinion that the appropriation of 5% is prudent and appropriate. The appropriation is of a size that will allow the CUNY Pool to adequately fund current institutional support, while maintaining the integrity of the funds for future generations of students.

7. Alternatives to expenditure of the endowment fund

There are no suitable alternatives to expenditure of the institutional support funds for the coming year's spending. Donors made these institutional support gifts to CUNY to ensure that both current and future generations have access to the first class education offered at CUNY. Given current economic conditions and the expectation that public appropriations will be less in the future, we anticipate a steady need for these funds from non-tax levy funds, such as the Pool. The Pool is capable of bearing the 5% proposed spending rate and, accordingly, should be used for the purposes intended by the donors. In addition, not spending or spending less on institutional support would harm CUNY's efforts to recruit and retain the best students and frustrate CUNY's goal of providing access to education to students who otherwise might not be able to afford it.

D. Instruction

After discussing Institutional Support, Instruction was addressed. The Subcommittee noted that, as is the case with the scholarship and fellowship funds, the instruction funds are long-term funds, and are comprised of funds designated by donors to provide fellowships for faculty. In considering whether to apply a 5% spending rate to the instruction funds, the Subcommittee concluded that the Subcommittee's analysis of factors 1 (duration and preservation of the endowment fund), 3 (general economic conditions), 4 (possible effects of inflation or deflation), 5 (expected total return from income and the appreciation of investments) and 8 (CUNY's investment policy) as applied to the scholarship and fellowship funds was equally applicable to the instruction funds and supported the application of a 5% spending rate to the instruction funds.

The Subcommittee then considered the remaining factors.

2. Purposes of the Institution and the Endowment Funds

The Subcommittee noted that it is important for CUNY to stay competitive in attracting qualified faculty and the instruction funds assist CUNY in doing so.

Historically state appropriations have provided the majority of the funds for instruction, with the Pool not the primary source of funds. Nevertheless, the annual spending amount from the Pool must balance the ever increasing need of the current recipients with the needs of future recipients, as well as the fact that donors have designated these funds be used for these purposes. It is the belief of the Subcommittee that the proposed 5% spending rate for the fiscal year 2012 meets this requirement. Indeed, actual historical spending for the last five fiscal years [FY 2006 –FY 2010] has not exceeded 4.6% in total.

6. Other resources of the institution

While CUNY has other funds, these are tax-levy funds earmarked for other operational expenses. Therefore, a diversion of such funds towards instruction would not be appropriate or possible.

It is the Subcommittee's opinion that the appropriation of 5% is prudent and appropriate. The appropriation is of a size that will allow the CUNY Pool to adequately fund current instruction, while maintaining the integrity of the funds for the benefit of future generations of faculty and students.

7. Alternatives to expenditure of the endowment fund

There are no suitable alternatives to expenditure of the instruction funds for the coming year's spending. Donors made these gifts to CUNY to ensure that CUNY may continue to recruit highly qualified faculty and maintain its academic excellence. Given current economic conditions and the expectation that public appropriations will be less in the future, we anticipate a steady need for these funds from non-tax levy funds, such as the Pool. The Pool is capable of bearing the 5% proposed spending rate and, accordingly, should be used for the purposes intended by the donors. In addition, not spending or spending less on instruction would harm CUNY's efforts to recruit and retain the best faculty and frustrate CUNY's goal of providing an excellent education to current and future generations of students.

Daniel Kurz of Skadden Arps noted that the process by which the University considers these factors for the similarly situated funds will likely evolve over time as some of the factors will rarely apply. For example, looking at endowment funds for scholarships and fellowships, there is a duty to spend. That is what they are there for, and a board could not decide not to spend the endowment. As a result, factors 6 and 7 will probably almost never apply. Those are likely there for the exigent situations where there is a financial crisis, where funds are under water and there is a real cost for continuing to dip in, so a prudent board might have to say is there another place we can look for this money. But in the routine year in year out spending decisions, factors 6 and 7 would almost never be relevant.

In response to a question Daniel Kurz of Skadden Arps confirmed that under the prudent 5 percent rule the University is able to spend 5 percent of those funds covered under NYPMIFA whether the 5 percent is there or not.

Following discussion, the item was unanimously approved for submission to the Committee on Fiscal Affairs and to the Board, in relevant part.

Following discussion, the meeting of the Subcommittee on Investment was adjourned at 6:40 p.m.

BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

COMMITTEE ON FISCAL AFFAIRS

MINUTES OF THE MEETING
APRIL 4, 2011

The meeting of the Committee on Fiscal Affairs was reconvened at 6:41 p.m.

There were present:

Committee Members:
Hon. Joseph J. Lhota, Chair
Hon. Peter S. Pantaleo, Vice Chair
Hon. Valerie L. Beal
Hon. Kathleen M. Pesile
Prof. Terrence Martell, faculty member
Mr. Kevin McKessey, student member

Ex-officio:
Hon. Philip A. Berry

Trustee Observer:
Hon. Sandi E. Cooper
Hon. Cory Provost

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

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
University Deputy Executive Controller Miriam Katowitz

Cal. No.	**DISPOSITION**

The agenda items were considered in the following order:

I. ACTION ITEMS, continued:

B. POLICY CALENDAR, continued

4. The City University of New York – New Investment Policy and Guidelines. Following discussion, the item was unanimously approved for submission to the Board.

The meeting was adjourned at 6:45 p.m.