MEETING OF THE BOARD OF TRUSTEES OF THE WILLIAM PATERSON UNIVERSITY OF NEW JERSEY

Saturday, October 30, 2004

The meeting was called to order at approximately 9:00 a.m. in the Executive Conference Room at State Farm Operations Center, Parsippany, New Jersey.

BOARD MEMBERS PRESENT: Mr. Burroughs, Mr. Gruel, Mr. Mattos, Mr. Mazzola, Mr. Pesce, Dr. Pruitt, Ms. Rosado, Mr. Taylor, Ms. Temple and President Speert.

Absent were: Dr. Fan, Ms. Jackson, Mr. Jackson, Ms. Taylor

OTHERS PRESENT:
Provost and Executive Vice President Sesay, Vice President Bolyai, Vice President Deller, Associate Provost Hahn, Associate VP Bennett, Associate VP Martone, Mr. Arthur, Mr. Seeve, Mr. Van Duyne, Mr. Gorab, DAG Clarke, Mr. Merrill, Mr. Hensley, Mr. Anderson, Dr. Schaeffer, Ms. Nigrelli, Mr. Fanning, Ms. Terraneo, Mrs. Santaniello

ANNOUNCEMENT CONCERNING ADEQUATE NOTICE OF MEETING:
In accordance with the "Open Public Meetings Act," the Chairperson publicly announced and had entered into the minutes that "adequate notice" of this meeting was provided. In compliance with this Statute, this notice was posted on the University′s bulletin board, reserved for these announcements, and also distributed to The North Jersey Herald and News, The Record, and The Star Ledger more than 48 hours prior to this meeting.

CHAIR'S REPORT :
Mr. Taylor thanked Ms. Temple for hosting the meeting at the State Farm Operations Center. He outlined the order of the day starting with discussion and presentation on capital planning and financing, lunch break, and afternoon presentation and discussion on University Board and Foundation Board roles in Institutional Advancement. He commented that the meeting would provide a forum for interaction and dialogue between the University Board, Administration and the Foundation Board. Further it will provide the forum for in depth exploration and discussion of very important issues facing the University, allowing the Board the opportunity for extended discussion and work toward consensus on these issues.

Capital planning is a timely topic because the University is in the beginning phase of what might be the University's largest expansion in our history. All plans are in line with the approved Facilities Master Plan. The Finance and Audit Committee identified the need to bring the Board together as a group to discuss the near-term capital priorities, a perspective of the overall plan, and how the individual capital projects interrelate and impact the overall plan. The Board must carefully review the affordability to the institution, the affordability to the students, and the decreasing and limited funding from the State. Other sources of funding must be explored. Roger Anderson, Executive Director of New Jersey Educational Facilities Authority and Paul Merrill, our external auditor from KPMG, will provide their expertise regarding financing mechanisms and the institution's fiscal standing as it relates to future borrowing.

Mr. Taylor said the afternoon session would be devoted to clarifying the relationship between the University Board of Trustees and the Foundation Board. As we grow more successful as an institution in raising funds and advancing institutional development, the relationship will become more relevant. As a result of discussions among several Trustees, a list of questions was prepared to facilitate the discussion about the interaction between the University Board and the Foundation Board. That list was shared with the President, Ms. Deller, and Mr. Hensley (AGB Consultant) in preparation for this meeting.

PRESIDENT'S REPORT:
Dr. Speert began by sharing a copy of the University Mission Statement. Trustee Michael Jackson had suggested that the Mission Statement be available at every Board meeting as a reference tool for all deliberations. The President thought it appropriate that the Mission Statement be central to the exploration and discussion of the judicious use of resources in capital planning and implementing the Facilities Master Plan. The need for additional resources to accomplish our plans is very evident. In that regard, the connection between the morning and afternoon presentations is closely linked.

MASTER PLAN UPDATE:
AVP Bennett presented an overview of the projects that represent the short-term goals of the Master Plan. He briefly reviewed Phase I, II, III of residence hall expansion, the Student Service Center, parking structures, the Towers renovation in four phases, the Rec Center/Dining Hall and deferred maintenance. The two main projects discussed more in depth were the residential housing and science hall renovation. Mr. Bennett covered briefly the improvements and additions in student housing. The University is in the process of building a residential community of 3,000 – 4,000 students. The residential community provides benefits such as stabilizing enrollment, reducing the attrition rate, more efficient class scheduling and better space utilization. Residents also provide a presence to support student life on campus. The link between housing, dining and parking was explored. Some problems impacting provision of parking are restrictions being imposed by state regulating authorities, lack of flat land, and designation of certain sites for future academic building development. Options for providing additional parking were discussed.

VP Bolyai presented a chart of "Potential Medium Range Capital Plan" totaling just over $225 million. He explained that the chart represents the projects identified in the Master Plan and viewed as priorities. Deferred maintenance, one of the components of the chart, is a necessary on-going cost to keep the buildings we have in good repair. Mr. Bolyai presented information reflecting debt service cost associated with varying amounts borrowed, as well as model revenue projections reflecting potential increases to student charges to fund the capital program. In response to how William Paterson's debt compares to the other New Jersey state colleges and universities, Mr. Bolyai shared a chart showing total indebtedness of the state colleges and William Paterson University ranked in the middle of the group.

Mr. Mazzola asked about the aggregate student body growth anticipated from fall '04 to fall '09, the time period covered in the charts, and whether the demographics supported those estimates, and what the assumptions about state funding are for that same time period. Dr. Speert said that discussions over the last five to seven years have resulted in a decision to expand the student population to 12,000. We are currently at 11,500. The plans outlined by VP Bolyai and AVP Bennett are based on 8,433 FTE (an approximate average of the current fall and spring enrollment) State funding outlook is poor both nationally and locally.

Discussion regarding the capital projects followed. Mr. Pesce observed that about $85 million is earmarked for resident housing. That makes a strategic statement about the University's choices and direction. It raises the question about what projects are not approved because of the choice to use funds to enhance a resident community. President Speert pointed out that the funds for resident housing are raised through room and board from the resident population, not the entire student body. But the choice to enhance a resident community does enhance the environment for the commuter students as well, by increasing food areas, parking, gathering areas and other services. Dr. Pruitt raised the question about how the cost of implementing the plans may result in putting us in the upper range of student costs among the other state universities. Dr. Speert remarked that tuition and fees is the key area of comparison of costs borne by all students, and in that regard we are in the middle of the group of other state institutions.

Mr. Gruel also commented about the responsibility to provide students with an educational environment and equipment that will simulate closely what they will find in the work world they face upon graduation. Educating students on outdated equipment is a disservice. Dr. Schaeffer added that in reference to the science building renovation, it is imperative that it be upgraded not only to attract students and provide modern laboratory facilities, but also to attract and retain high quality faculty. Faculty and student research is dependent on quality equipment and space.

Dr. Pruitt stressed that caution be exercised in committing to debt to accomplish the mission of the University.

Mr. Bolyai shared another chart showing “Moody’s medians” for the NJ State colleges and universities. The chart included key financial statistics, market data and ratios, capital ratios, balance sheet ratios, operating ratios and contribution ratios. A final chart shared was the Annual Required Debt Service Payment schedule from 2004 to 2010. This chart outlined the individual project groupings, showing the increases in debt service from 2004 to 2010 anticipating a 5% debt service interest rate per year. The Board discussed the total projected debt of $228,700,000, the projects it encompasses and its impact on our students, our financial position and debt relative to other state schools and the financing model prepared by Mr.Bolyai.

<u>CAPITAL PLANNING AND FINANCING:</u>

Mr. Bolyai introduced Roger Anderson, Executive Director of New Jersey Educational Facilities Authority. The Authority works with the public and private universities in the State and helps establish the protocols for going out to the market for funding. Mr. Anderson provided copies of Moody’s last evaluation of William Paterson University and a general statement about public colleges across the country. Moody’s cited William Paterson’s strong demographics, favorable student demand, favorable operating performance, leading to an A2 rating even in light of projected additional borrowing over the next two years to expand housing. Mr. Anderson provided a chart of key financial statistics from the eight public colleges in New Jersey. William Paterson ranks fifth in total debt. He discussed other charts revealing a stable position for the University, and data that seem to support the need for the capital projects outlined.

Mr. Paul Merrill, partner from KPMG, spoke about his audit history with the University and the perennial search for the magic formula for balancing growth and borrowing. He sees three sources of revenue for the University – tuition and fees, government support, and fundraising. There will be a greater need for fundraising as government support decreases. Borrowing will become the fourth avenue of support for capital needs. This is the trend across the country over the last few years. One of the most important considerations for borrowing is whether the strategies of the University and its mission statement are in alignment. Managing debt needs to be part of the University's competitive strategies and investments. Mr. Merrill suggested that as part of the process, the Board might want to consider developing a debt strategy, utilizing some of the key financial ratios and competitive factors discussed. His recommendation ultimately is to link mission to strategy to debt choices and monitor these judgments periodically.

TRUSTEE AND FOUNDATION BOARD ROLES IN INSTITUTIONAL ADVANCEMENT:
President Speert described the evolution of the establishment of the division of Institutional Advancement and the Foundation Board's role in meeting the University's need for friend making and fundraising. The Auxiliary Services Corporation Board oversees SGA funds, the Pub and Auxiliary operations. Ms. Rosado serves on the Board of the Auxiliary Services Corporation and Dean John Martone represents the President on the Board.

DAG Cheryl Clarke presented the legal aspects of the functioning of the University Board of Trustees and its Foundation Board. The Boards were created under completely different laws. The University was created under the higher education laws Title 18A and the Foundation Board was created under the State's Corporate Act. Ms. Clarke provided background on state college corporations. The Public College Auxiliary Organization Act provided the framework for public colleges in New Jersey to create auxiliary organizations to carry out some of the college functions like running a book store, running the student center, and managing student housing, Under the law, the auxiliary corporations are bound by financial controls and requirements similar to other corporations. However, foundations created for fundraising purposes are not bound by that law. There is no control by statute over university foundations, but since they are corporate entities, they are required on their certificate of incorporation and in their bylaws to state their purposes. The William Paterson University Foundation bylaws state it is operating for the exclusive benefit of the University. The University provides input to the Foundation by virtue of the membership of the President of the University and other University Trustees who serve on the Foundation Board. For the first time, in accordance with new accounting standards for the public sector, the financial information of the Foundation with appear as a part of the University's financial statements, not as part of a consolidation, but as a supplementary sheet. President Speert noted that the William Paterson University Foundation was created with some safeguards in place so that it would operate in consonance with the University. For instance, the Foundation has no employees, it is staffed by University employees. The President of the Foundation is the Vice President for Institutional Advancement of the University, paid from state funds. In this manner, the University Board, through President Speert, oversees the executive staff of the Foundation. Secondly, there is no salary expense to the Foundation and all monies raised are available directly for the fundraising projects.

VP Deller introduced Mr. Fred Hensley from the AGB Speakers' Bureau. He brings over 30 years' experience in higher education. He is currently in charge of the Health Career Fund in St. Louis, Missouri.

The focus of the discussion was on the roles and responsibilities of the Foundation Board and University Board and ways to partner with one another in advancing philanthropy to meet the needs of the University. Mr. Hensley began by discussing the purposes of a foundation which include managing assets, closing the gap in inadequate state funding, creating the legal separation of both boards, protecting against the commingling of funds, facilitating real estate purchases, providing for donor confidentiality, and providing good stewardship of gifts. Mr. Hensley suggested that the Foundation must safeguard itself from isolation from the University.

It must stay tied to the programs, needs and day to day activities of the University to more fully support its priorities and initiatives.

The group next discussed the basic responsibilities of the University Board – they include establishing institutional policies, hiring the President, protecting the basic principles of the University for future generations, exercising fiduciary responsibility for all the resources of the University, accountability to taxpayers in safeguarding the University, and developing strategic planning and direction for the University. The fundraising priorities of the Foundation should always be determined as a direct response to the strategic plans of the University. The Foundation Board must test the priorities with the donor base to determine if there is adequate support and then share that information with the University Board and collaborate on any adjustments indicated.

The group next discussed the responsibilities of the Foundation Board. The list included raising money, making friends for the University, exercising stewardship of the monies raised – which includes both a thank-you and periodic accounting back to the donor, investing and maximizing monies donated, advocacy with other organizations, boards, corporations, and groups bringing visibility and marketing opportunities.

Mr. Hensley pointed out a few of the differences in the two boards identified during the discussion. The University Board is appointed by the Governor through the state legislature and has fiduciary responsibility for taxpayer dollars and tuition and fees – i.e. public monies; the Foundation Board is elected by their own membership and has fiduciary responsibility for private monies.

The last part of the discussion centered on methods of promoting a more collaborative relationship between the University and Foundation Boards. Some suggestions included regularly scheduled joint meetings (such as this retreat) perhaps once or twice a year to share priorities; share communication and information; continue to have the President attend Foundation Board meetings to provide regular updates from the University Board and the needs facing the University; continue to have a University Trustee serve on the Foundation Board and report regularly to the University Board on Foundation activities; invite the Chair of the Foundation Board to attend the University Board meetings; plan some shared social interactions; share the minutes of each Board's meetings with the other, as well as other reports, audits and feasibility studies; and provide a newsletter periodically on new initiatives at the University and any other information selected, co-authored by the University Board and Foundation Board.

Mr. Hensley suggested that a written agreement between the University Board and the Foundation Board, recognizing their respective responsibilities and recognizing the Foundation Board as its philanthropic organization, to be renewed annually, biannually or at some regular period of time is a helpful tool to keep the efforts of each board aligned. Reviewing it annually or at least biannually would educate any new Board members who may have joined the Foundation Board, and provide reinforcement for current Board members. Such an agreement would also serve to recognize the Foundation Board as the official repository of all gifts to the University, and identify it as the official umbrella under which all fundraising activities are coordinated. Mr. Hensley also suggested considering a joint orientation program allowing new Board members to become educated on the roles and responsibilities of both Boards.

Some other discussion points included whether or not most foundation boards require a contribution as part of membership. Mr. Hensley reported that usually there is a statement of expectations for membership, usually more so for foundation boards rather than governing boards, but he also said that more and more governing boards are also developing statements of expectations for board membership. The expectations may or may not include a specific financial contribution and a specific number may not be the best choice. Many board members are able to bring financial support by virtue of their relationships with other boards, corporations or individuals if they are not personally able. Some documented level of personal giving is becoming more of a requirement when submitting proposals for grants to other foundations. They will ask how many of the Board members support the University. When the Foundation Board can demonstrate a high percentage of participation the proposal will be viewed more favorably. Ms. Deller concurred that the first question supporting organizations ask is how well the Board supports the initiative. Mr. Arthur indicated that the Foundation Board did recently establish a statement of expectations with a recommended dollar amount of giving. However, participation and support of each Board member through non-monetary means is the real priority of membership.

Mr. Hensley stressed that the key element of a constructive relationship between trustee and foundation boards is open, honest and consistent communication between them.

The group thanked Mr. Hensley for his insight and constructive suggestions for enhancing Trustee and Foundation Board collaboration.

OTHER BUSINESS:
At approximately 2:40 p.m., there being no further business, a motion was made and seconded for the meeting to be adjourned. The motion carried unanimously.

Respectfully submitted,

Donna Santaniello

Donna Santaniello
Assistant to the President
and Board of Trustees

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