

## FINANCE & BENEFITS COMMITTEE MINUTES

October 2, 2012

Attending: Jim Manaro, Chair, Emily Chamlee-Wright, Joe Holt, Alan Chesney, Karl Kehm, Eugene Hamilton, Jeani Narcum, Annie Krotee and Peggy Fulton. Kevin Coveney attended as a guest presenter.

Jim began the meeting by reviewing an outline of the process to be used in developing a macro budget for the next two years. This budget will be based on estimates of total revenue and expenditures. To obtain this goal, certain assumptions will be used to prepare the estimates. It is very important that the assumptions used have a high probability of attainment as a one percent error equates to approximately \$350,000. Some of the variables that can impact the budget are financial aid allocation; enrollment; energy prices; grants; stock market and student retention. The schedule is for this Committee to complete the macro budget assumptions to include the College's two year goals; enrollment projections (overall and new student); student charges; financial aid; new initiatives; additional expenditures and capital projects. The Committee must be ready to present any recommended increase in tuition and/or room and board to the Financial Affairs Committee at the November 9, 2012 meeting. The macro budget is on schedule for completion in December and will be reviewed by Senior Staff. Health insurance increases will become firmed up between January and March. The final macro budget will be presented to Senior Staff for a final review and then the Financial Affairs Committee who will present it to the full board for approval in April.

Jim reminded the Committee that the Board is becoming more and more sensitive to student charge increases. Emily noted that being able to adjust tuition would also allow for adjustments in discount rates, but that room and board adjustments would not allow any flexibility.

Jim reviewed some of the non-discretionary expense lines to concentrate on that include energy; depreciation; health insurance; OIT maintenance; food service; and other contracts (waste management, elevator, engineering, etc.). Once the non-discretionary expenses are backed out of the marginal revenue, any remaining revenue will be allocated to new initiatives or other possible expenditures that are deemed to be a priority. The Committee should begin considering this information.

Kevin Coveney presented some examples of how the discount rate and tuition cost increases affect gross and net tuition. The model showed gross and net tuition increases based on a new student (freshman/transfers) total of 460, discount rates of 46.0%, 46.5% and 47.0%. The models were adjusted for tuition increases of 0% - 5% to show how sensitive revenue is to the discount rate and tuition costs. Last year the discount rate reached 51.9% to recruit a very strong freshman class which also posted a very high retention rate. Being able to lower the rate to 44.5% for this year helped the marginal revenue. Kevin's preliminary target for FY 13 is 460 new students (420 freshman/40 transfers). Jim reminded the Committee that the budget would be based on a lesser count so that if the enrollment is not met, there would not be a large deficit.

Eugene Hamilton asked if it was possible to reduce variation in retention, which will increase net tuition, by targeting the pool of students who are most likely to return. In a

perfect world, yes, but our current pool of admissions does not allow us to utilize such selectivity.

Kevin noted that the target discount rate for last year was 47% and to achieve 44.5% is like pitching a perfect game. Kevin stated that 46% is about as low as he feels comfortable estimating. There are three classes of cohorts – full pay, merit discounted, and need-based aid. The only real flexibility in financial aid is the merit based discount and the College only offers enough to remain competitive.

Charlie Kehm asked if the current 5% spending rate from the Endowment is sustainable long term. Currently, real returns on investment are approximately 3% so the impending campaign will be a great help in growing the endowment. The Investment Committee is working diligently to manage the Endowment and ensure increased returns.

Jim shared a comparison chart of tuition/fees and room/board of various peer colleges. Washington College remains in the middle with six peer institutions higher and six institutions lower in total tuition/fees and room/board. Last year, the College increased room and board charges by approximately 7% as we had been consistently lower than all other schools. Emily noted that it is better to have some increase to keep pace rather than a big increase at once to catch up.

The Committee reviewed a model Jim presented demonstrating total revenue based on different scenarios for the discount rate and student charge increases. There is great variance in the numbers depending upon which option is chosen. Based on last year's expenditures, the non-discretionary expense assumptions for FY 2014 total \$998,000. Discretionary expenses such as a 3% salary pool and a 1.5% general operating increase total \$985,906 for a total NEED of \$1,983,906! So it becomes very important to budget conservatively, present a strong rationale for any student charge increases, and attempt to control costs wherever possible.

Jim provided the Committee with the draft memo and Q&A regarding the pension plan changes that has been developed. The material will be sent to all faculty and staff in the next 48 hours and Jim requested the Committee to review and contact him with any questions or suggested edits as soon as possible.

The next meeting of the Committee will be Tuesday, October 9 at 2:30 p.m. The meeting then adjourned.