



REPORT OF THE INVESTMENTS AND CAPITAL PLANNING COMMITTEE
Meeting
October 24, 2024

The Investment and Capital Planning Committee met at 12:30 p.m. on October 24, 2024, at Keene State College

Committee members participating at the meeting location: Kevin Knarr, Mike Pilot, Wayne Semprini, George Hansel, Brain McCabe and Karen Benincasa; Committee member via video conference Joel Nkounkou; Other trustees participating at the meeting location for some or all of meeting: Peter Paul, Frank Edelblut, Ethan Dubois, MJ Condon, and Chancellor Provencher, PSU President Don Birx, UNH President Chilton and KSC President Melinda Treadwell.

Staff: present at meeting location, (PSU) Tracy Claybaugh, (KSC) Nathalie Houder; (UNH) Sam Fucile, (USNH); Tia Miller and Lorna Jacobsen (scribe).

Ryan O'Quinn and Tim Jarry from Prime Buchholz were in attendance for the investment portfolio review and additional trustees joined mid-meeting for review of capital items.

Other staff and guests attended by video conference.

Call to Order

Chairman Knarr called the meeting to order at 12:30 pm noting a quorum sufficient to conduct business. He said the Board needs to shift its focus to conserving and growing cash which will be the focus of much of the day's discussion. He discussed the need to have a higher sense of urgency to slow/reduce the cash burn projected as soon as possible. On average, he estimated the annual cash challenge USNH should target addressing, based on the directional model, is approximately \$50 million per year.

UPDATE FROM PRIME BUCHHOLZ

Mr. O'Quinn commented on the market environment for the period ending September 30, 2024. He noted that the stock market is at an all-time high. He reviewed the portfolio performance results for the period ending September 30, 2024. He said the market value of the portfolio was \$644 million (an all-time high), and the portfolio had a return for the fiscal year to date of 4.3%, Calendar year 11.7%, and over the trailing year 19.5%. He reviewed USNH's allocation relative to target and commented on actions taken since the last meeting including a \$7.5 million redemption in Adage to bring the position within policy limits. He said that the USNH portfolio has \$250 million in daily liquidity.

Mr. Jarry reviewed the short-term investment pool noting the total fund (excluding other cash accounts) was \$261 million and had a yield of 5.1% and compares favorably to benchmarks and no current change planned.

Prime Buchholz also reviewed the USNH endowment fund investment performance relative to peers for FY24 indicating that USNH has performed at or above 1st quartile with the more recent 3 year prior period, since transiting to the OCIO model, above the 1st quartile.

APPROVAL OF CONSENT AGENDA (Moved and duly seconded)

VOTED, that the consent agenda of the October 24, 2024, meeting be approved.

{The Committee voted unanimously by roll call vote to approve this motion}

Items on the Consent Agenda:

Approve minutes of the Committee's meeting of June 27, 2024

End of Consent Agenda

USNH Finance Update

Update of Institutional Facilities and Capital Planning

Vice Chancellor Benincasa gave an overview of the current facilities and capital planning landscape and discussed the need for a Systemwide Master Plan and future funding plan. She noted that USNH Director of Capital Planning, retired in September, and they are currently recruiting for the position. Working with the 3 institutions, the job description has been reviewed and revised to transition some of the focus from capital project management at PSU and KSC, which can be supported internally by the institutions, to a more expanded role and responsibility for Systemwide planning and management.

UNH Assoc VP for Facilities and Energy Management William Janelle reviewed the most recent available Gordian (formerly Sightlines) report (FY23) on the Return on Physical Assets (ROPA) and Capital Plan Update which was provided for trustees and contains information on density of buildings by campus, age of building, space vs. enrollment, and other metrics. The report also compares USNH institutions to peers. Mr. Janelle, KSC Vice President Houder, and PSU Vice President Claybaugh shared comments on their respective campus situations with regard to current space and physical plant condition. It was noted that the report is as of March 2023 and an update is forthcoming in December 2024. The report does not include leased space, whether USNH is the lessee or lessor.

Committee members and campus leadership discussed the report and there was agreement that it was important information to have, but did not tell the whole story as changes have been made subsequent to the FY23 report, leased space was not accounted for as either the lessee or lessor. A request was made for the 2024 report to include the leased space and to reflect the buildings removed over the last year to give trustees a better picture of the current situation.

Vice Chancellor Benincasa said that USNH can't afford the current size of its footprint, especially considering a future continued decline in enrollment, a future systemwide vision is needed to ensure the best (prioritized) capital investments are made with the limited financial resources available, and USNH needs to become more proactive rather than reactive in this area.

Approve FY26 Budget Assumptions for USNH Endowment Fund and Short-Term Investments

VOTED, that the following recommendations for investment-related planning assumptions be submitted to the Financial Affairs Committee for their consideration in adopting the assumptions and parameters used in developing the FY26 budget.

Operating Investment Income: 3% annual return on Short Term Investments (as recommended by OCIO, Prime Buchholz)
Long-term endowment Return: 7% long-term return assumption on Endowment Investments (as recommended by OCIO, Prime Buchholz)

Endowment Payout: Calculation methodology as previously approved By the Investment Committee (methodology unchanged from FY25 using 12 quarter average market value)

{The Committee voted unanimously by roll call vote to approve this motion}

Vice Chancellor Benincasa reviewed the recommendations for investment-related planning assumptions that had been developed with input from Prime Buchholz. She is looking for approval by the Investment and Capital Planning Committee for recommendation to the Financial Affairs Committee to be included with the other planning assumptions and parameters for FY26.

JOINT ICPC and FAC Session

Update of Cash – Retreat Follow-up

Financial Affairs Committee Chairman Greg Tewksbury shared comments on the intersection of capital investments and financial investments indicating that funding future needs is something that needs to be addressed. It was pointed out that a portion of the long-term funds invested in the endowment are restricted and can't be spent on operational needs or capital projects.

Vice Chancellor Benincasa reviewed ten-years (actuals from FY20-FY24, FY25 budget and the directional model through FY30) of information and materials on available cash and investments providing additional details of what had been presented at September retreat for the directional model. She focused on the components of cash flow and the annual recurring activity which excludes the purposeful spending down of cash for strategic investments, COVID-related and other one-time related activity. She explained "cash burn" and shared conclusions that achieving a 1% Operating Margin (Target) annually will not be enough to offset the annual cash burn; and consideration will need to be given need to increasing the margin target and/or reductions to

capital reinvestments and the implications of that reduction. She said the model does not assume additional debt.

Trustees asked leadership to consider any ability to further reduce the FY25 Budget for capital spending. Campus presidents shared concern about cutting funding for deferred maintenance and the risk of letting facilities deteriorate and not addressing life safety issues. They said capital spending has already been significantly scaled back. Committee members shared thoughts on deferred maintenance, historical approaches to capital spending, the need for ROI analysis on new capital projects, allowing for the ability to take advantage of opportunities and the need for a long-term plan. Understanding the concerns, the Committee directed leadership to review the capital plan for FY25 to see if any adjustments could be made.

CAPITAL ITEMS

First Look – UNH Utility Distribution

Due to time constraints, Vice Chancellor Benincasa directed Committee members to the materials in the meeting package.

UNH Combined Heat & Power Plant – Back Pressure Steam Turbine (first look and approval)

MOVED on recommendation of the UNH President, that the Investment and Capital Planning Committee, approve a \$5 million dollars for the installation of a Back Pressure Steam Turbine at the UNH Combined Heat and Power Plant; AND FURTHER that the funding sources are \$ 1.15 million in grant funding and \$3.85 million in University Reserves, the reserves to be replenished by a Utility Incentive Grant of \$1.7 million and a Tax Credit of \$1.9 million upon project completion.

{Motion tabled}

Mr. Kohler presented the project to install a Back Pressure Steam Turbine at the UNH Combined Heat and Power Plant providing background on the project, explaining the need, and reviewing the scope and budget. He said there has never been a better time to purchase a BPST due to the IRA Investment Tax Credit which will provide a \$1.9M incentive and is set to expire at the end of 2024. Eversource is also offering an incentive of about \$1.7 million and there is a congressional grant for \$1.15 million assigned for energy efficiency. The project is expected to save \$700K a year once operational.

Questions were raised about the tax incentive and a decision was made to table the motion until November 14 Executive Committee at which point more information on the tax incentive portion of the funding will be provided.

INFORMATIONAL ITEMS

ERM Update on Facilities and Infrastructure

OTHER BUSINESS

Next meeting date is March 20, 2025

The Committee adjourned at 3:20 p.m.