Sustainability Committee Minutes

13 April 2009 Monday

Attending: Eric Wagner, Rebecca Ringle, Carr Everbach (agenda), Nick Buttino (notes), Mike Roswell, Maurice Eldridge, Nadine Kolowrat, Joy Charlton, H.G. Chissel

-Carr will meet with Sue Welsh about a holding endowment for Sustainability projects (Friday 4/17/09) Specifically, the possibility of holding capital assets on campus that yield a profitable return. For example, an off-campus analogue would be the College buying a (virtual) wind turbine and receiving its electricity output for the life of the turbine (approx. 20 years). Before such an investment is made, we would need to estimate initial costs (including present value of all maintenance over the lifetime of the asset) and output (return on investment) using conservative assumptions. Such a proposal would be a break with the College's current practice, and indeed with other college endowments. On the other hand, it would be distinctive, innovative, and fit with Swarthmore's leadership model.

-Currently the endowment is thought to be all "liquid" financial assets, investments in securities, stocks, bonds, Treasury bills. We have a managed portfolio that is designed to maximize return within some parameters for risk, so that some holdings earn high rates of return but with high risk and others the opposite. The returns (net of financial managers' costs) are both reinvested for endowment growth and used for College budget according to the endowment spending rule (approx 5%). After money enters the budget, it is no longer considered in the endowment. Purchases of power (in wind turbine example) are made from the budget, and therefore electricity from a turbine would not currently be considered a return on investment.

-There is some precedent for keeping hard assets (i.e. green roof) – we do hold faculty housing properties, and the rent from these properties is listed in our budget (not put back into the endowment).

-The endowment is thought of as described above and it will be difficult to consider it from another point of view (for example, with the rent, we probably could calculate revenue less maintenance/insurance costs, yet we don't really add a line item for expenditures on broker fees/ management on financial management of the endowment)

Carr's conversation with M. Kuperberg 12 years ago (prodded by Earthlust wanting wind power) established College's way of thinking about separating the endowment and budget (both capital budget and operating budget): the endowment is like a big mutual fund, the interest from which is put toward the annual budget.

-2 months ago SusCom discovered that Facilities cannot afford to make desired efficiency improvements, including ones that would pay back within < 10 years (even with conservative assumptions). The problem is exacerbated by recent facilities budget cuts (see correction below †). In general, though, short term needs are too severe, so things that aren't actively broken don't get fixed (i.e. replacing windows that lose a lot of heat). Historically, opportunities to expand budget with savings have been overlooked, due to the mindset that separates costs forgone and revenue received. There has been a movement away from deferred maintenance.

-There is a fundamental difference between what we are proposing (e.g., fixing leaky windows) and most capital improvements, which do not produce a fiduciary benefit. We are proposing profitable renovations, those that produce a return on investment.

-Can we provide direct calculations of how much we are saving? We can make exact statements only retrospectively – can make estimates in advance, but this is like estimating return on stock fund investment. The difference is that the savings are certain, while the stock fund can actually lose value.

-Report of Carr's conversation with Board of Managers member 2 weeks ago:

Board member agreed with the basic philosophy that investing now to *save* money later is the same as investing money now to *earn* money later: expenses forgone are equivalent to future revenue. However, need capital to set aside for such investment (if this money can't be part of the endowment, it must come from somewhere new)

Do we need to raise funds for this new kind of endowment holding? Board member suggested that our committee write a proposal to Board Finance committee. She suggested meeting with Sue Welsh as a first step.

-College's capital budget has decreased from 8 million to 3 million because of financial crisis (see note below distinguishing capital and maintenance budgets†).

-Estimated that costs forgone from some maintenance will return at about 5-6%, though need to prove this under conservative assumptions. Facilities usually goes for maintenance with 2-3 year payback as is, if funds are available. 13% return was expected of endowment in recent years (but now much less).

-We must conceptually separate capital maintenance into improvements (better things) v. efficiency improvement (return over time), yet these are not mutually exclusive categories)

-Advantage to investing in on-site capital: We will own stable, low-risk but low-return assets, much like U.S. Treasury Bonds that are currently held in endowment.

-College currently assumes that we are doing everything possible (but what is the evidence?) to save energy (Sue Welsh noted to the faculty in response to Carr's question that electricity rate increase in 2011 will be offset by energy consumption reduction). Carr, however, quoted Ralph as saying that there are no such grand plans for energy reduction are forseen by 2011.

-Perhaps better than saying that the endowment should hold a green roof or improved windows as an investment, we should establish a self-replenishing, revolving fund. Doesn't have to be considered part of the endowment, especially if people's conception of the endowment as being all liquid financial instruments is too firm.

†Nadine clarified that maintenance funds have *not* been slashed (only capital fund), however, maintenance funds have not increased. Additionally, Nadine clarifies that the Lorax fund is carefully used to be budget enhancing (not budget replacing) as worried by Nick. It specifically goes to projects outside the normal budgetary rubric.

-The college might be more willing to change endowment because we have seen failure of national financial structures. Stocks can go down but energy efficiency will pay back forever.

-Student Council/SBC capital replacement fund as additional source (from Earthlust) for revolving fund. Could this idea provide the model for what we propose?

-Nadine says that development/ fund raisers might be able to raise money for sustainability now because it is one of the few ideas that has traction with alumni donors

-Also, the committee will disband or reorganize in 1 month (at the end of the semester). We wish, at the very least, to prepare a document for new president Rebecca Chopp outlining our accomplishments and our recommendations for next year.

-Additional suggestion of hiring consultant to create a more detailed sustainability plan as a final action recommendation for this year. Development could then use the sustainability plan to solicit more funds. However, hiring a consultant would require spending funds whose source is unknown, and possibly cannot be found.

Next meeting 17 April 2009 -> 11:30am – 12:30 pm Lang Center