Report of the Finance and Investment Committee to CIES Board, March 2011

A. Area of Responsibility (brief summary of responsibilities of the Committee)

The Finance Committee, whose membership includes the Treasurer of CIES in an ex officio capacity and three or more other members nominated by the President and confirmed by the Board, works closely with the Treasurer to track the growth of the investment portfolio and to make recommendations for changes and new investments that the Committee believes will enhance the Society’s overall financial situation while, at the same time, ensuring that current budget commitments can always be met. The current members of the Committee are listed in Part F below.

B. Summary of Activities, Initiatives, Meetings and/or Events

Members of the Finance Committee waited to consult with one another this year until after we knew that the transfer of the Treasurer and other Secretariat positions to SUNY Albany from Florida International University had been completed. Deliberations began, therefore, only in January of 2011.

C. Specific Goals for the Year

1. To review the recommendations submitted by the Committee at the meetings in Chicago last year and endorsed there by the Board,

2. To see to what extent these recommendations have been acted upon, and

3. To decide whether these recommendations still make sense and to recommend any new ones in the light of changing circumstances since last year.

D. Progress report on the Goals

1. Last year’s recommendations and suggestions. In its report to the Board at the annual conference in Chicago in February/March 2010, the Finance Committee (comprising Peter Moock, Hilary Landorf, Martin Carnoy, Ruth Hayhoe and Steven Klees) made several specific recommendations and suggestions:

   a. The Committee recommended the Board’s approval of a proposal by Gita Steiner-Khamisi, the President at the time, to use CIES’s own funds to match contributions to the Society’s four endowments, as a way of attracting additional outside funding.

   b. The Committee recommended a diversification of CIES assets and, in particular, a shift in its holdings from cash (checking, money market and certificate of deposit accounts) into stocks and bonds.

   c. While Committee members do not feel comfortable or qualified to recommend specific investments (mutual funds and corporate bonds), they recommended the adoption of a dollar-cost averaging approach to achieve a gradual shift of Society funds from cash to longer-term (and one hopes higher-yielding) investments.
d. The Committee suggested the hiring of an external financial advisor to help in the refinement of an investment strategy and the selection and tracking of specific holdings.

e. Finally, the Committee noted the considerable contributions of time and personal finances on the part of many Board and Secretariat members and those who serve on the various standing and ad hoc committees, and it noted the differences in costs (depending, for example, on the home base of individuals and the location of annual conferences, which moves from one year to the next) and differences in institutional support offsetting the personal costs of individuals. In light of these facts, the Committee recommended the Board’s approval of subsidies to cover some of the financial costs of individuals. These would need to be allocated in an equitable and impartial fashion so as to reflect both merit (contributions to CIES) and need.

2. Actions taken, progress to date, and current recommendations of the Committee. The Finance Committee believes that the recommendations presented in Chicago make sense today and will repeat them here and elaborate on any that have not been implemented. Owing to the delays in the Secretariat’s transfer to SUNY Albany, the Committee does not yet have detailed information on the Society’s current financial situation and on all of the actions taken since last year. Committee members hope to have a face-to-face meeting while attending the conference in Montreal in order to bring themselves up-to-date, but here is what the Committee can report at the present time:

a. The Society certainly has ample cash to match any outside contributions made since Chicago and likely in the foreseeable future to build up the endowment funds. We expect that the Treasurer’s and President’s reports, and the report of a newly established ad hoc committee on fund raising, will include information on funds that have been raised in 2010/11.

b. The Society’s financial holdings are substantial, but there has been little of no progress made, and probably some regression, in the balance between cash accounts and longer-term investments. According to last year’s Treasurer’s Report (Hilary Landorf’s final report as Treasurer), “total value (asset and liabilities) of CIES” was $414,721 on January 1, 2009, and it had risen to $517,443 by December 31, 2009, a net gain of $102,722 (an increase of $85,722 in the operating surplus plus $17,000 in endowment fund gains). In a recent email from Alan Wagner, who has replaced Hilary as CIES Treasurer, Alan estimated the Society’s total current value to be above $688,000, a further increase of more than $170,000 since the beginning of 2010. These funds are allocated approximately as follows: 53% in checking accounts, 35% in money market accounts, and 11% in one or more investments (a description of which is needed by Board and Committee members) at Wells Fargo & Company. (There was a Bank of America CD that matured in January with a balance of $67,600, and Alan was looking to reinvest this amount in a comparable CD, but it is not clear to the Committee whether this figure is included in the total of $688,000 or is over and above that amount.)

c. The recommendation of regular (monthly) investments in mutual funds or other higher-yielding market instruments has not been implemented (and, in fact, there seems to have been little or
no movement from cash to other, longer-term investment instruments during 2010 and early 2011).

d. The services of a financial advisor have not been engaged. In 2009, the Committee put Hilary in touch with an advisor with an excellent reputation for market know-how and strong ethics. The fee quoted for an initial review was $1,000 at the time, which Hilary thought was too high for her to authorize without specific Board approval. The Board discussed this move in Chicago, but no vote was taken and, therefore, no approval given. The Board should give a clear, up-or-down vote on this matter in Montreal. If approved, the Secretariat could contact the same individual (who happens to be located in Saratoga Springs, NY, quite close to Albany), or it could now conduct its own thorough search to identify the best candidate for the job. Certainly, a one-time review would be useful, even if the Board decides against paying for ongoing investment advice in the future. There needs to be agreement on the rough allocation across major asset categories (cash; short-, mid- and long-term bonds; small-, mid- and large-cap domestic stocks; and foreign stocks) that makes sense for CIES, and then for someone, in consultation with the Finance Committee, to review the performance of individual investments within these categories periodically to weed out sub-par performers. Members of the Committee are willing to make recommendations in regard to general, strategic directions but are not comfortable in selecting individual bonds, stocks and mutual funds. This is best left to an independent financial advisor with a proven track record. The Committee thinks that CIES should be willing to pay a fee (one reasonable in light of the Society’s total portfolio value) for this service.

e. Two members of the Finance Committee participated (by audio link) in a meeting of selected Board members and officers that President Maria Teresa Tato convened in East Lansing in late February 2011. The session where the Finance Committee’s participation was invited covered a number of topics, but a major focus of the discussion was on the question of subsidies for Board, Secretariat and committee members to help offset the costs of travel and accommodations, especially those incurred at the time of the annual conference. There are strong views both in favor of and opposed to this idea and, if accepted in principal, on how decisions should be made on the allocation of the subsidies. The Society’s Historian, Erwin Epstein, reminded those at the meeting that there is a precedent for travel subsidies, but that this practice was discontinued a few years back in light of limited available funds at the time and given questions on who should be subsidized and at what levels. The Historian also expressed the view (if the chair of the Finance Committee understood him correctly) that any decision to subsidize travel costs must be done on a consistent basis (e.g., all Board members would receive the same dollar amount, or the same percentage of documented travel costs) and that this decision would amount to a policy change that needs to be reflected in the Society’s by-laws. Committee members believe that a more informal and open-ended (case-by-case) decision process is (legally?) possible and, in fact, makes good sense. As noted above, the needs of Board members, officers and others differ depending on their location and on the policies of their home institutions with respect to subsidizing travel costs to professional meetings. Many university-based members of the Society receive some such support from their institutions (although the amounts seem to be less than in the past), and it would be silly for the Society to use its own funds to replace the generosity of other organizations. The Committee
recommends that a “pot of money” for subsidies be included in the Society’s annual budget and that a committee (comprising the sitting President and 2-3 other Board members so as to ensure impartiality and to minimize the risk of favoritism) allocate these funds to deserving recipients on a case-by-case basis in response to “applications” received.

E. Budget/Financial Issues (summary and explanation of any expenses incurred and income accrued)

The Finance Committee did not incur expenses in 2010/2011, other than the travel costs of members to the meetings in Montreal.

F. List of current committee members and institutional affiliations

- Peter Moock, Education Economist and Development Consultant, New York, petermoock@yahoo.com (in second year as Committee member and Chair))
- Alan Wagner, Department of Educational Administration & Policy Studies SUNY Albany, AWagner@uamail.albany.edu (Treasurer of CIES and new Committee member)
- Martin Carnoy, Education and Labor Economist and Vida Jacks Professor of Education, Stanford University, carnoy@stanford.edu (long-time Committee member and former Chair)
- Reitumetse Obakeng Mabokela, Professor: Higher, Adult, and Lifelong Education, Michigan State University, mabokela@msu.edu (new Committee member)
- Gilbert Valvedere, Department of Educational Administration & Policy Studies SUNY Albany, Valverde@uamail.albany.edu (not formally a member, but he chairs the “Ad Hoc Committee on Allocation of Funds and Fund Raising” set up this year by President Tatto and with responsibilities that overlap those of the Finance Committee, and he has participated, therefore, in the Finance Committee’s deliberations)