Call to Order. Senator Kelly called the meeting of the Finance Committee of the University System of Maryland Board of Regents to order in public session at 10:00 a.m. Those Regents participating in the session included: Senator Kelly, Mr. Attman, Ms. Ahmed, Mr. Gossett, Mr. Kinkopf, Ms. Motz, Mr. Rauch, and Mr. Slater. Also present were: Dr. Kirwan, Mr. Vivona, Ms. Moultrie, Ms. Doyle, Assistant Attorney Generals Bainbridge and Motsko, Dr. Dudley-Eshbach, Dr. Loh, Mr. Miyares, Dr. Perman, Mr. Gilbert, Mr. Colella, Ms. Byington, Ms. Crockett, Ms. Kropp, Mr. Lockett, Mr. Shoenerberger, Mr. Oster, Ms. Aughenbaugh, Mr. Berkheimer, Mr. Zerth, Mr. Beck, Ms. Denson, Ms. Goedert, Mr. Page, Mr. Salt, Mr. Lurie, Ms. West, Ms. McMann, and other members of the USM community and the public.

Senator Kelly welcomed those in attendance and noted that the budget item would be moved to the front of the agenda.

1. **University System of Maryland: FY 2016 Operating Budget** (information and presentation)

Chancellor Kirwan made a few opening remarks on the proposed operating budget for the coming year. He indicated that the $40.3 million reduction to the current year budget does not continue into FY 2016—there is a lack of alignment between the two budgets. While hopeful that adjustments can be made to FY 2016 budget, much of that will depend on state revenue estimates and the willingness for there to be supplemental budget. He recognized the continuing strong support the USM receives and added that the new administration has been very open and receptive. Chancellor Kirwan then turned to Mr. Vivona, who briefed the regents on the operating and capital budgets.

Mr. Vivona reviewed the mechanics of the FY 2016 budget. With a starting point of $1.3 billion, the System budget faced reductions of nearly $97 million in the form of a 2% statewide agency reduction, a clawback of the state employees’ 2% cola that went into effect January 1st, and the elimination of planned salary increases for FY 2016. These actions resulted in a recommended funding level of $1.22 billion. Current actions to reduce expenditures this year will feed into next year. He pointed out that due to the shortness of time in meeting some of the FY 2015 reduction, there have been discussions about the use of fund balance—perhaps $15 million—for those institutions who could not meet the cuts necessary in the short-term. However, he emphasized that these cuts impact the base budget and cannot simply be made up with one-time reductions or revenues moving forward. Taken together, the current services cost increases (e.g., health insurance, retirement costs, fuel and utilities), revenue increases, and the base reductions will result in an estimated $47 million shortfall. He pointed out that very difficult allocation issues await. Mr. Vivona indicated that there are currently comprehensive
position controls in place and that the E&E 2.0 initiative has been launched. He cautioned that the impact on the 55% degree completion level, research funding, retention rates, and other important strategic plan goals will need to be monitored.

Mr. Vivona characterized the CIP as having some good news—the budget is the largest dollar amount ever for a USM five-year CIP—as well as containing some setbacks. The CIP is roughly $80 million higher than last year, and many of the projects that the Board requested and institutions wanted have been included. While considered generous, the budget is $100 million less than what had been requested as Board priorities. There were some disappointments, particularly those projects that were deferred and included a donor component. UMCP’s computer science project is one such circumstance, where the major piece of state funding has been reversed. In another instance, the scope and programmatic changes to the Southern Maryland Higher Education Center have not yet been recognized by DBM. Notably, no new projects were supported in the CIP. Moving forward, the USM will need to make its case to the State of the value of investing in these facilities.

2. **University of Maryland University College: Authorization to Initiate a New Business Model (action)**

Mr. Miyares began by thanking the regents, chancellor, and members of the staff for the support and guidance he received over the last year. He stated that the proposed changes to the business model of the University were aimed at addressing the long-term challenges facing UMUC. Recently, UMUC went through a painful process of cutting $60 million from its budget that involved the lay-off of nearly 300 staff and faculty. Mr. Miyares stated that UMUC is a public institution that must be run like a business. He indicated that the majority of their adjunct faculty are practitioners—accountants, CIO’s CEO’s and lawyers for instance. He explained that reliance on these scholar-practitioners and full-time faculty on one-to-three-year contracts allows UMUC the flexibility to adapt to the changing workforce needs. In response to the typical question of, “why change?” he stressed that a thriving UMUC is critical for the State and the nation in meeting the goal of 55% college completion. UMUC has a sole focus, learning, and is geared to the adult learner. Working adults must balance family, children, school, and jobs. UMUC is facing long-term challenges. In order to offer quality at an affordable price, one must have volume and be very scalable. Mr. Miyares emphasized that UMUC is in a very competitive environment, with the newest concern being the large public and private brands. The consensus is that in a few years, the strong national brands will comprise most of the market. Mr. Miyares pointed out that 90% of UMUC’s enrollment is currently military-related or Maryland residents. With a shrinking military and a small home state, Mr. Miyares said, “our base is melting under our feet” and we must develop a national footprint beyond the military or UMUC will not succeed.

Mr. Miyares reviewed the process for community feedback which began early in 2014. Those actions are detailed in ATTACHMENT A. Mr. Miyares reiterated that UMUC is not leaving the University System and identified that as the number one feedback matter during the process. He affirmed that the Board of Regents will continue to be the governing board for UMUC. He clarified that this is a framework and that UMUC will return to the Board for approval of specific policies, etc. UMUC needs to be able to seize opportunities and that it is better to change when one is winning rather than when one is losing. He underscored that maintaining the status quo risks the long-term stability of UMUC.

Senator Kelly recognized two guest speakers. Maggie Cohen, Ph.D., J.D., UMUC Collegiate Professor addressed the committee first. She raised significant objections to the proposed plan and asked the regents to take a closer look at what UMUC is currently doing and what will happen to the faculty and staff under the proposal. Dr. Cohen’s full remarks are included as ATTACHMENT B. Next, Betty Jo
Mayeske, Ph.D., Adjunct Professor II addressed the committee. She urged the members of the committee not to accept the request at hand, remarking there was no need to exempt UMUC from prevailing state policies. Dr. Mayeske’s full remarks are included as ATTACHMENT C.

Chancellor Kirwan commended Mr. Miyares and his staff for the how they developed and managed the process, highlighting that they had been exceedingly transparent. In expressing his support for the proposal, he called attention the vital role that UMUC plays for the State and the USM. He reiterated that UMUC needs a flexible, nimble operating model which will permit them to continue to operate as a leader in this unique environment. The paper provides a framework from which the president and chancellor will work together and come back to the Board with implementing policies for approval. He addressed the overseas enrollment decline and subsequent need to right size the faculty and staff accordingly. Senator Kelly also commended Mr. Miyares on the extent of the outreach effort that occurred during the process. Regent Ahmed indicated that students shared with her that they felt very involved in the process. She strongly encouraged Mr. Miyares to consider a student member on the management board.

The Finance Committee recommended that the Board of Regents approve the for University of Maryland University College to initiate a new business model and authorize i) adoption of the framework for a new UMUC business model outlined in the White Paper; ii) formally delegate to UMUC’s President the authority to develop and manage its own personnel and faculty policies, subject to the approval of the Board of Regents; iii) support the UMUC President’s appointment of a Managing Board having the responsibilities outlined in the White Paper; iv) direct UMUC’s President to develop legislative changes in the State Education Statute for review by the Board of Regents and ultimately adoption by the Governor and General Assembly that would achieve the operational goals of Model III described in the White Paper, including providing the same exemptions for all of UMUC’s operations that currently exist for its overseas divisions and exemptions for public disclosure requirements with respect to proprietary and competitive information; and, v) instruct the President, together with the Chancellor, to further develop the framework contained in the White Paper for the Board’s consideration and action at a future meeting. The University shall return periodically to the Committee to report and update the members on the status of the development and implementation of the Business Model.

(Senator Kelly moved recommendation, Regent Gossett seconded, unanimously approved)

3. Salisbury University: Facilities Master Plan Update (presentation and information)

Dr. Dudley-Eshbach gave a brief overview presentation on the update to the facilities master plan. The Plan is based upon and integrated with the 2014-2018 Strategic Plan. It included input from many campus and community groups. The Plan is focused on maintaining a compact academic core, connecting the east campus across Route 13 to the main campus, and enabling future projects either with or without significant land acquisitions—essentially the creation of a University District with defined campus gateways. The resulting recommendations include renovating and expanding student meeting and recreation space, replacement housing, new fine and performing arts facilities, and additional faculty office space. Dr. Dudley-Eshbach noted deficits in laboratory and office space, and indicated that several facilities are in need of maintenance. As with the prior update, sustainability is central to the plan. Campus planning and design focuses on conservation at all levels.
The President made note of two projects currently under construction. The new Academic Commons is a 221,00 square foot building that will be transformational on the campus. The Academic Commons will be a major learning center and gathering place. Construction of the new Sea Gull Stadium is also underway. Salisbury, winner of 18 national championships, had fallen well behind its Division III peers. Once constructed, the new facility will be on par with other competitors. Regent Gossett asked if the campus was considering other ways to get students to the other side of Route 13. Mr. Berkheimer, Associate Vice President of Facilities & Capital Management, responded that the campus is working together with SHA in an effort to come up with solutions to implement crosswalks, narrow traffic, and create beautification projects in that corridor. Unfortunately, practical considerations rule out a pedestrian overpass.

Senator Kelly thanked Dr. Dudley-Eshbach and her staff for their thoughtful presentation. (A copy of the slide presentation is on file with the official copy of the meeting minutes in the Office of the Chancellor.)

The Facilities Master Plan Update for Salisbury University will be on the March 12 agenda for consideration of approval by the Finance Committee.

Dr. Perman introduced the next items on the agenda for the University of Maryland, Baltimore. He indicated that the two requests involve ground leases and are somewhat related. Providing some background, he articulated that the facilities master plan and campus’ responsibility to Baltimore City commit the University to improving its connections to Baltimore, and West Baltimore in particular. Projects such as these while improving the community also stimulate economic development in the City. Along those lines, Dr. Perman mentioned that he and Mayor Rawlings-Blake are co-chairing a taskforce, UniverCity Partnership.

4. University of Maryland, Baltimore: Amendments to Ground Lease and Refinancing of Fayette Square Apartments (action)

Ms. Byington summarized the item. There are some restrictions in the ground lease that need to be removed because they impact other potential projects. There are also significant financial benefits to be gained via a refinancing of the project. She indicated that the project cannot meet the operating budget in most years. To make the refinancing economically feasible, the University is providing some credit enhancements, for instance by leasing a number of beds to the extent needed to generate debt service coverage. Ms. Byington specified that the lease cost would not be greater than what the University is already providing. As a result of the refinancing, debt service would decrease by $500,000 annually.

The Finance Committee recommended that the Board of Regents approve the revised financial terms between the University and MEDCO as described in the item, and delegate to the Chancellor the authority to (a) complete negotiations with MEDCO relating to revisions to the ground lease and related documentation, and (b) to execute after appropriate legal review, all revisions to the ground lease and required documentation consistent with the applicable University System of Maryland “Policy on Acquisition, Disposition and leasing of Real Property.” The University shall continue to work with the University System of Maryland Office of the Vice Chancellor for Administration and Finance and the Office of the Attorney General throughout the document development processes.

(Regent Gossett moved recommendation, Regent Attman seconded, unanimously approved; Regent Kinkopf recused himself from the discussion/vote)
5. University of Maryland, Baltimore: Creation of Ground Lease on 100 N. Eutaw Street, 410 - 412 W. Fayette Street, 414- 418 W. Fayette Street and 405 Marion Street, Baltimore, Maryland (action)

The University is seeking approval to enter into a 75-year ground lease for the purpose of developing four University-owned properties. A proposed project was approved by the Board of Regents many years ago, but that development did not materialize.

The Finance Committee recommended that the Board of Regents approve the terms of the negotiated term sheet, including the option for the developer to purchase the underlying interest in the property after substantial completion of the construction for the University properties located at 100 N. Eutaw Street, 410 - 412 W. Fayette Street, 414- 418 W. Fayette Street and 405 Marion Street in Baltimore City; and, delegate to the Chancellor the authority to execute, after appropriate legal review, all documentation required to establish a 75-year ground lease as described above, consistent with the University System of Maryland Policy and Procedures on the Acquisition and Disposition of Real Property. The University shall continue to work with the University System of Maryland Office of the Vice Chancellor for Administration and Finance and the Office of the Attorney General throughout the ground lease development processes. If there are any substantial changes to the negotiated ground lease terms as the document is being developed, UMB shall return to the Board of Regents to approve those changes.

(Regent Gossett moved recommendation, Regent Attman seconded, unanimously approved)

6. University of Maryland, College Park: Sale of Land to Prince George’s County to Provide a Right-of-Way for a Crossing over CSX Tracks between Cafritz Development Site and River Road (action)

Mr. Vivona summarized the item, reminding the members of the committee that the matter had come before them previously. The item involves an easement near the western edge of the University’s Golub property. The University will grant a right-of-way through University property to provide access for a crossing of the CSX to River Road and Kenilworth Avenue. The planned crossing will also provide access to the University’s research park community. A developer intends to create a mixed-use development on 37.5 acres that is referred to as the Cafritz Property. The sale of land will provide the County with some flexibility. The closing will take place following actions by the Board of Regents and Board of Public Works, and then only once certain conditions of sale are met.

The Finance Committee recommended that the Board of Regents approve for the University of Maryland, College Park the disposition by sale of approximately 3.6 acres of University land located within that tract known as the Golub parcel to Prince George’s County in the amount of $425,000 per acre for the purpose of providing access to the proposed mixed-use Cafritz development via the CSX Crossing under the terms and conditions described in the item and others that might be appropriate; and, delegate to the Chancellor the authority to execute, after appropriate legal review, all documentation required for the disposition, consistent with applicable University System of Maryland Policy “Acquisition and Disposition of Real Property.” The University shall continue to work with the USM Office of the Chief Operating Officer/Vice Chancellor for Administration and Finance throughout the disposition process.
7. Towson University: Increase Funding Authorization for West Village Housing Phases 3 & 4 (action)

Mr. Vivona pointed out that the project is part of a much larger housing complex where the members of the committee had attended a recent Board meeting. Towson is a high growth institution, provides many degrees, and has an increasing demand for housing. The bids, unfortunately in a hot construction market, came in significantly over the original construction estimates. The University, which has been making strong fund balance contributions, will borrow money from its fund balance and repay the amount. This option should have a limited impact on the student rental rates.

The Finance Committee recommended that the Board of Regents approve an increase to the total project cost authorization for Towson University for West Village Housing Phase 3 & 4 from $85,150,000 to $100,150,000 as described in the item.

(Regent Gossett moved recommendation, Regent Attman seconded, unanimously approved)

8. University System of Maryland: Intercollegiate Athletics Division I Programs—Financial Results & Status Information and Presidential Assertions on Compliance with Policy Requirements (information)

In consideration of time, Mr. Vivona indicated that the information presented could be discussed in greater detail at a future meeting.

The public session was adjourned at 12:12 p.m.

Respectfully submitted,

Senator Frank X. Kelly
Chairman, Committee on Finance
UMUC Community Consultation and Feedback Process Related to the Changes in Business a Model

1. Early in 2014, Mr. Miyares shared with the worldwide UMUC community that he had appointed an Ideation Group, led by the Board of Visitors Chair, of independent business leaders and others. Purposely, it was totally independent of UMUC i.e., nobody was on the university’s payroll - to get an outside business view on the best business model to face challenges.

2. In July, Mr. Miyares held a worldwide town hall to share with the community the Ideation Group’s recommendation. This town hall was even covered by the Baltimore Sun, which included an article on the subject. A few weeks later, the Sun ran an editorial endorsing UMUC’s approach to look at the challenges for UMUC to remain the leaders in online education.

3. Mr. Miyares also announced the start of a community wide dialogue and a public web site was set up - UMUC.edu/UMUCFuture to gather questions, comments, and concerns. Feedback was submitted privately and each one was answered through this public site. More than 1,200 individuals participated including students, alumni, staff and faculty. It was a very public, transparent process.

4. UMUC ran 12 small focus groups with employees and faculty randomly selected from those who had participated. No senior leader attended to preserve anonymity and for individuals to feel free to express opinions. The focus groups were staffed by an outside writer who attended each focus group and then summarized concerns and suggestions without any filtering by the administration. UMUC also ran a couple of Webex groups to allow for overseas participation. The report from the independent writer was made public and posted to the UMUCFuture web site. UMUC also posted articles explaining competency based education and other academic initiatives, as well as a video of the town hall, the Ideation Group’s white board video, and the animated video on the future of learning at UMUC.

5. The Provost and Mr. Miyares met with each shared governance council (faculty, staff and students) on the Business model. Mr. Miyares also met with the entire Board of Visitors and the Alumni Board to gather their feedback. Two of the groups provided formal feedback.

6. This was a four-month process. The main feedback was a widely-held concern with leaving the System and not being a public institution.

7. In November, Mr. Miyares held another town hall to share the Chancellor’s and his recommendations. The video of the town hall and the power point presentation with the recommendations (what is in front of the committee now) were also posted to the UMUCFuture web site. Mr. Miyares made clear that he was seeking approval of the plan in early 2015 and emphasized that UMUC was remaining in the USM as a public institution, which was a major issue of concern. The recommendations in front of the Finance Committee today have been public for two months. UMUC did not receive any more feedback since the main issues of concern had been addressed.

8. Mr. Miyares also committed that UMUC would continue to have a shared governance system tailored to UMUC and would continue Meet &Confer.