



UNIVERSITY SYSTEM
of MARYLAND

**BOARD OF REGENTS
COMMITTEE ON FINANCE**

February 4, 2021

Meeting via Video and Conference Call

Minutes of the Public Session

Regent Attman welcomed those on the video and teleconference and called the meeting of the Finance Committee of the University System of Maryland Board of Regents to order in public session at 10:33 a.m.

Regents participating in the session included: Mr. Attman, Ms. Fish, Ms. Gooden, Mr. Gonella, Mr. Gossett, Mr. Holzapfel, Mr. Neall, Mr. Pope, Mr. Rauch, and Mr. Wood. Also participating were: Chancellor Perman, Ms. Herbst, Ms. Wilkerson, Assistant Attorney General Bainbridge, Ms. Amyot, Mr. Colella, Mr. Danik, Mr. Lockett, Mr. Lowenthal, Ms. Rhodes, Mr. Savia, Ms. Schaefer, Ms. Wormack, Mr. Wyden, Ms. Washington, Mr. Beck, Ms. Denson, Mr. Eismeier, Mr. Hickey, Ms. Decker Mann, Mr. Page, Ms. Petronka, Ms. West, Mr. Lurie, Mr. Acton, Ms. Norris, Ms. McMann, and other members of the USM community and the public.

1. University System of Maryland: FY 2022 Operating Budget Update

Regent Attman introduced the informational update on the FY 2022 operating budget and then turned to Vice Chancellor Herbst. She opened her remarks with good news, informing the Finance Committee that the Governor's Budget Bill included a fiscal year 2021 deficiency appropriation of \$21.2 million in restricted bond funding. Vice Chancellor Herbst reported that the USM Office had provided the Department of Budget and Management (DBM) with a list of institutional "shovel ready" projects that would be organized to go shortly after the funds would be made available in April. Vice Chancellor Herbst reviewed the Governor's Allowance for the USM, noting increases for operating expenses at new facilities, and pointed out that there is an additional \$38 million for a 2% Cost of Living salary Adjustment (COLA) included in the DBM Personnel Budget. These funds would remain in the DBM budget until the time when a COLA is approved by the legislature and the state's budget is finalized. Vice Chancellor Herbst stated that the operating budget hearings were underway. She shared that the Department of Legislative Services had not recommended any USM-specific reductions to the Governor's Budget Allowance; however, over the course of the legislative session adjustments could be recommended to the Governor's budget in order to fund other legislative priorities. While cautioning that nothing is guaranteed, the Chancellor remarked that the USM would make its best case. Regent Gooden offered that—all things considered—this is a strong budget for the System. Regent Attman agreed, adding that the budget is a reflection of the esteem in which the leadership of the System is held.

The Finance Committee received the item for information purposes.

2. Discussion of FY 2020 USM Audited Financial Statements

Regent Attman stated that this information item concerns the System's annual audit of its financial statements for the year that ended June 30, 2020. He explained that Ms. Denson would review the key takeaways from the audited financial statements, and Vice Chancellor Herbst together with Mr. Page would take the committee members through a discussion about financial planning in the System and the current state of the USM's financial strength.

Vice Chancellor Herbst reported that in advance of the bond sale, she and the Chancellor together with members of the financial team met with the three major credit rating agencies in January. She informed the members of the committee that each of the rating agencies—Moody's, S&P, and Fitch—affirmed the USM's existing strong ratings with a "stable" outlook. As Regent Attman pointed out, this occurred at a time when the 2021 outlook for the U.S. higher education sector remains negative. Chancellor Perman added that the "power of System" carried a lot of sway. Vice Chancellor Herbst noted that all three groups asked about the System's strategic planning process. She also reported that in the upcoming week the System would auction over \$300 million of revenue bonds, including the refinancing of more than \$150 million of previously issued bonds.

Turning to the System's Audited Financial Statements, Vice Chancellor Herbst explained that the statements are important to investors and the financial community, potential partners, as well as the Board and USM leadership in assuring effective and responsible financial management. The System's financial statements are also included in the state's audited financial statements. Addressing the decline in unrestricted reserves of \$78 million, she indicated that the reduction reflects a number of events that are believed to be one-time or short-term in nature. Vice Chancellor Herbst explained that over the years the System had built up financial strength that gave it the ability to withstand and manage through the pandemic, without jeopardizing the institutions' ability to resume their operations in a regular capacity as they emerge out the other side.

She then turned to Ms. Denson, USM Comptroller, who reviewed key takeaways from the audited financial statements. Ms. Denson began by saying that the USM received a clean/unqualified opinion once again. She walked the group through the financial charts provided with the meeting materials. Ms. Denson noted that this year the USM is taking materiality into consideration and is no longer capturing some of the smaller entities in the financial statements. The affiliated foundations that are being removed from the System's financial statement reporting will continue to be subject to the Board's Policy on Affiliated Foundations. Their statements along with other compliance documents will continue to be reviewed annually. She also pointed out that the USM's key balance sheet strength ratio had improved in FY 2020, largely because the System had not issued any new revenue bonds in the fiscal year.

Mr. Page presented a series of slides on the USM's financial planning and its relationship to the financial statements. He reviewed the calculation of institutional fund balance goals and addressed the difference between the state's Rainy Day Fund and the USM fund balance. While the former is money that has been set aside specifically for an economic downturn or crisis, the fund balance is the result of a large number of managers at the institutions who have saved money for a future specific need, such as a renovation to a dining hall. These reserve accounts are held at an individual department level. Mr. Page reported that in determining the USM's bond rating, the credit agencies pointed to the strong leadership of the Board, Chancellor, and institution presidents; consistent financial support of the operating and capital budgets; and, the build up in financial strength. Along with the financial statements, Mr. Page cited several examples of input to the financial management cycle including fall

enrollment, campus master plans, capital and operating budgets, debt issuance, and spring enrollment projections. A graph displayed a recent history of the System's available funds to debt outstanding, currently standing at 127%. This figure is expected to decline during FY 2021 since debt will be issued, yet it will remain above the stated policy requirement of 90%. The Board's policy on debt is designed to support the financial health of the System. Mr. Page noted that the System would have under \$1.3 billion in debt outstanding following the bond sale, an amount still within the statutory cap of \$1.4 billion. Mr. Page's presentation is available online at <https://www.usmd.edu/regents/agendas/20210204-FC-Financial-Statements-Presentation.pdf>

The Finance Committee received the item for information purposes.

3. FY 2020 Effectiveness and Efficiency Results

Regent Attman reviewed the annual report of activities, prepared by Vice Chancellor Herbst and her team in conjunction with the individual efforts reported by each institution. He reminded the group that the Board's E&E initiative leads with effectiveness. As displayed in the first summary chart, the institutions' efforts during FY 2020 resulted in a combined new savings of over \$65 million. The savings are characterized in five financial classification categories. As shown on the second summary chart, there were significant savings via consortial buying through the use of the Maryland Educational Enterprise Consortium (MEEC) contracts and other leveraged contracts executed out of the System Office. Regent Attman shared a tangible example with the group. When the institutions needed to pivot faculty, students, and staff last spring to online education and telework due to the COVID-19 pandemic—and purchase the necessary equipment—the contracts in place by MEEC yielded tremendous savings. In particular, the heavily leveraged master contract for hardware resulted in savings of over \$7 million, nearly \$2.5 million more than in the prior fiscal year. Vice Chancellor Herbst added that during a period of laptop shortages last spring, the USM was in a very favorable place in line due to its long-term arrangements.

Regent Attman then recognized Ms. Petronka, Executive Director for MEEC—a consortium of all USM institutions, other Maryland public and private 4-year institutions, community colleges and K-12's—and Mr. Eismeier, Interim USM CIO who spearheads the leveraged contracts out of the System Office and oversees the E&E program. Ms. Petronka took the opportunity to acknowledge and offer praise of all of the procurement officers who had stepped up to the plate to help with the Consortium's initiatives. She informed the Committee that UB's online exam proctoring services agreements had been expanded to the MEEC membership. Ms. Petronka explained that all MEEC discounts were available to all members, and once a vendor is selected the member can further negotiate an agreement. Mr. Eismeier provided an update on several E&E reporting enhancements under discussion, including the development of a web-interface for collecting and displaying initiative data throughout the year. This would enhance the value back to the institutions by providing real-time dynamic data to see what others are doing regarding efficiency programs and provide opportunities to leverage each other's ideas and capitalize on collaboration. Regent Attman thanked everyone for their hard work in keeping the USM's E&E program thriving and looking for ways to create collaborative value.

The Finance Committee received the report for information.

5. University System of Maryland: Review of Capital Improvement Projects

Regent Attman summarized the item. The Capital Planning Office prepares a periodic status report on the major projects underway System-wide. The report reflects activity for the twelve-month period that began December 1, 2019 and ended November 30, 2020. He explained that the report includes contract awards, completions, and detailed project schedules. Regent Attman pointed out there were thirteen new projects added to this list, including the UMCES Chesapeake Collaborative Building in Solomons Island, the renovation of Building I at Shady Grove to support the expansion of UMB's nursing program, and the basketball practice facility at College Park. He made reference to one of the completed projects that had been removed from the list, the Community Engagement Center in the Poppleton neighborhood of Baltimore. He reminded the committee members that the project had come before the committee a couple of times. The Center is housed in a rehabilitated historic building in West Baltimore near the University of Maryland, Baltimore campus. The facility supports multi-disciplinary community outreach efforts by UMB students and faculty. Regent Attman recognized Mr. Beck and asked if there were any questions from the regents. In response to a question from Regent Gossett regarding the status of the practice facility, Mr. Beck indicated that the preliminary planning was underway and that once the funds have been raised, the intent is to move forward. Briefly returning to the Community Engagement Center, Regent Wood commended UMB for its work on the enormous project and its success.

The Finance Committee received the report for information.

6. University System of Maryland: Report on FY 2020 Procurement Contracts

Regent Attman reported that this information item is required annually by the Policy on the Approval of Procurement Contracts. The report lists all contracts that are within a \$1 million to \$5 million value that were awarded during Fiscal Year 2020. In response to a question regarding the use of Maryland firms, Mr. Hickey indicated that there is not an in-state preference and if the USM were to adopt such a preference, other states would likely retaliate with a similar action, which could impact Maryland firms competing in other states.

The Finance Committee received the report for information.

Regent Attman thanked everyone for joining the meeting. The public meeting was adjourned at 12:01 p.m.

Respectfully submitted,

Gary L. Attman
Chair, Committee on Finance