



**TOPIC:** UMUC Request for Authorization to Invest in UMUC holding company

**COMMITTEE:** Committee of the Whole

**DATE OF COMMITTEE MEETING:** June 24, 2016

**SUMMARY:** UMUC serves a diverse population of non-traditional students globally, around the clock, as one of the largest distance learning institutions in the world. Unlike traditional campuses, UMUC's focus is on enabling student success through workforce relevant programs. As a result of UMUC's unique focus, many of the capabilities, processes, technology, talents, and skills required to achieve its mission – improving the lives of adult learners – also present potential business and revenue generation opportunities made possible through commercial offerings made available to the larger higher education marketplace and others.

UMUC intends to pursue commercialization opportunities through a tax-exempt corporation created to acquire, operate and grow, and eventually sell ownership or equity interests in product and services offerings.

This request for Board of Regents approval enables UMUC to:

1. Invest monies, an ownership interest in a previously authorized venture, and transfer the rights to a business process to a recently organized corporation, and
2. Approve the involvement of a current UMUC vice president as an employee and director with the UMUC holding company.

The Chancellor's recommendation also sets forth expectations for the Chancellor's review and approval of debt issued or entered into by the UMUC holding company, or transfers of future personnel and processes, sets a requirement for advance notification of changes in governing board composition or organizational documents, and formalizes an intent and expectation that funds generated by the UMUC holding company go to establishment of an endowment to benefit UMUC.

On September 18, 2015, the Board of Regents approved the creation of, and investment in, a new UMUC company, HelioCampus, that offers Analytics-as-a-Service solutions to higher education institutions. HelioCampus was certified by the Chancellor as a High Impact Economic Development Activities (HIEDA) entity. Creation of HelioCampus aligned with UMUC's strategic priority to diversify its revenue portfolio and increase stability in a world of changing student populations and a shrinking military component. Revenue realized from HelioCampus will enable creation of an endowment to increase access to higher education for Maryland residents.

On May 25, 2016, UMUC requested that the Chancellor certify a second HIEDA for UMUC, which UMUC will effect through the creation of a newly formed, tax-exempt supporting organization, UMUC Ventures, Inc. (UMUC Ventures). The decision on certification will be made within the 45 day timeframe allowed under the Board of Regents Policy on High Impact Economic Development Activities, and all action authorized under this agenda item will be possible as soon as that certification approval is made.

UMUC wishes to invest in UMUC Ventures through (a) the transfer of the ownership of HelioCampus, (b) investment of \$15,000,000; in equal \$5,000,000 amounts timed to be no earlier than (1) certification of UMUC Ventures by the Chancellor, (2) receipt of the audited financial statements for UMUC Ventures for the year ended June 30, 2017, and (3) receipt of the audited financial statements for UMUC Ventures for the year ended June 30, 2018, and (c) transfer of certain UMUC analytics intellectual property of undetermined value.

UMUC Ventures will also generate new revenue streams and businesses, through the development of service offerings to other educational enterprises, as well as business to business service offerings. UMUC Ventures will directly hire employees not previously affiliated or employed by UMUC, but UMUC also intends to identify other UMUC resources and assets, including positions, which would enhance UMUC Ventures operational and commercialization potential, and would request the Chancellor's approval for additional transfers of positions at the time those opportunities arise

UMUC Ventures will be managed by a compensated Board of Directors drawn from prominent local and national corporations. The Board of UMUC Ventures will provide expertise in developing new ventures, as well as strategic advice to UMUC's President and Executive Committee in areas such as business to business partnerships that would create educational programs designed to meet emerging workforce needs through UMUC Ventures.

The new company will require in the near future the services of one current University senior vice president. The senior vice president will be an employee of the new company. This individual's participation in the new company requires Board of Regents approval. In the event that any other UMUC employee positions or resources or business processes be proposed for transfer to UMUC Ventures, the Chancellor will determine if separate Board approval is required.

The Board of Regents Policy on High Impact Economic Development Activities enables the institution to manage conflicts of interest and contracting practices in such a fashion as to allow creation and operation of new activities and entities such as the one proposed by UMUC. Any professional services and/or products offered by UMUC Ventures to UMUC and other USM institutions would be exempt from USM procurement policies and procedures.

**ALTERNATIVE(S)**: The Board of Regents could refuse to authorize the investment through the asset transfer and necessary investment of funds in the new company.

**FISCAL IMPACT**: UMUC would transfer its interest in HelioCampus (\$10,000,000 invested already based on September 2015 Board of Regents action) including any intellectual property and invest funds in the company, certain UMUC analytics intellectual property, and invest an additional total of \$15,000,000 over a multiyear period.

**CHANCELLOR'S RECOMMENDATION**: That the Board of Regents approve (a) the transfer of ownership rights in HelioCampus; and (b) the transfer of certain UMUC analytics intellectual property of undetermined value, and (c) the investment of Fifteen Million dollars (\$15,000,000 in total, to be transferred to UMUC Ventures in equal \$5,000,000 amounts timed to be no earlier than (1) after certification of UMUC Ventures as a HIEDA activity, (2) after receipt by the Chancellor's office of the audited financial statements for the year ended June 30, 2017, and (3) after receipt by the Chancellor's office of the audited financial statements for the year ended June 30, 2018) into the new company. Further, that the Board of Regents find that the participation by one of UMUC's senior vice presidents is necessary to the success of the company and that any resulting conflicts of interest can be managed consistent with the requirements of the State Ethics law.

The UMUC President is to provide at least 30 days advance notice of any change to organizational documents, or otherwise in the governance arrangements. Additionally, the UMUC President is to provide a formal and written request to borrow external, non-USM funding, enter into a financing agreement, or provide financial guarantees in excess of \$5 million by UMUC Ventures to the Chancellor at least 30 days in advance of the transaction. The UMUC President is to provide notice to the Chancellor of borrowings less than \$5 million individually, once the aggregate of such borrowings exceed \$5 million, and then thereafter again each successive point where a new \$5 million threshold of under \$5 million individual borrowings is exceeded. Changes in Directors compensation are to be specifically described in the annual report. In the event that any other UMUC employee(s) or resources or business processes are subsequently proposed for transfer to UMUC Ventures, the Chancellor will determine if separate Board approval is required. Proceeds of the sale of significant (in excess of \$10 million in sales price) UMUC Ventures assets are to be used to fund an endowment with a stated objective of providing support for UMUC. The foregoing approvals will not become effective and the approved transactions will not take place until the Chancellor certifies the transactions as HIEDA activity, which certification shall not be made until after completion of the review and comment and response processed required by law and Board policy.

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COMMITTEE RECOMMENDATION:

DATE:

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BOARD ACTION:

DATE:

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SUBMITTED BY: Joseph F. Vivona (301) 445-1923

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