



UNIVERSITY SYSTEM
of MARYLAND

BOARD OF REGENTS
COMMITTEE ON FINANCE

January 25, 2018

University of Maryland, College Park

Minutes of the Public Session

Regent Pevenstein called the meeting of the Finance Committee of the University System of Maryland Board of Regents to order in public session at 10:45 a.m. Regent Pevenstein read the *Convening in Closed Session statement* citing State Government Article Section 3-305 of the Open Meetings Act to discuss issues specifically exempted in the Act from the requirement for public consideration. Regent Pevenstein moved and Regent Attman seconded to convene in closed session. In response to the motion, the Committee members voted unanimously to convene in closed session at 10:45 a.m. for the reasons stated on the *Convening in Closed Session statement*. The session adjourned at 10:49 a.m.

The Committee reconvened in public session at 10:51 a.m. Regents participating in the session included: Mr. Pevenstein, Mr. Brady, Mr. Attman, Ms. Gooden (via phone), Mr. Gossett, Mr. Holzapfel (via phone), Ms. Johnson, Mr. Rauch, and Mr. Neall. Also present were: Chancellor Caret, Ms. Herbst, Mr. Neal, Mr. Sadowski, Assistant Attorneys General Bainbridge and Lord, Mr. Miyares, Mr. Colella, Ms. Rhodes, Ms. Martin, Ms. Schaefer, Ms. Amyot, Mr. Campbell, Mr. Lockett, Ms. Rehn, Maj. Gen. Miles, Mr. Shoenberger, Mr. Principe, Mr. Trujillo, Ms. Orris, Mr. Beck, Mr. Hickey, Mr. Page, Dr. Muntz, Mr. Lurie, Ms. McMann, and other members of the USM community and the public.

1. University System of Maryland Strategic Plan Update

Regent Pevenstein introduced the information item. He stated that over the last year, the staff have worked to update and refresh the current USM strategic plan. He referenced a two-page executive summary, highlighting the revised themes, goals, and strategies. He indicated that the plan was being presented for information only this meeting, with action anticipated at the Board's meeting in February. Regent Pevenstein then turned to Ms. Herbst, who provided a brief presentation to the group. She explained that key changes in the update to the Plan included the addition of the Equity, Diversity, Inclusion & Civic Engagement theme and a "Systemness" goal. Revisions were made to several degree target areas; however, the 55% degree goal was retained. Regent Johnson applauded the effort to take on the challenge of widening/expanding the diversity themes. Regents Attman and Gossett inquired about potential collaborations between Coppin and BCCC, and similar opportunities for UMES and Salisbury, wondering if perhaps there should be specific goals in writing. Regent Brady expressed that perhaps drilling down on "Systemness," could be a way to address these collaborations. Regent Gossett added that he thought there was a great deal of opportunity with regard to "Systemness" that would not impact campus autonomy.

The item was accepted for information purposes. The presentation slide deck is available online at <http://www.usmd.edu/regents/agendas/fc20180125>.

2. Discussion of FY 2017 USM Audited Financial Statements

Regent Pevenstein introduced the item. He stated that the annual audit of the System's financial statements had been completed by an independent audit firm, SB & Company. The firm issued a "clean opinion," which means that the financial statements have been presented fairly in all material respects for the years ended June 30, 2017 and 2016. Turning to Ms. Denson, she briefly discussed the highlights of the Audited Financial Statements. She drew attention to the pages in the financial statements that include the institutions of the System, as well as the Balance Sheet and Income Statements of the System's 19 affiliated foundations. Ms. Denson stated that when considering the financial strength of the System, the rating agencies take into account both the System institutions, as well as assets and debt of the affiliated foundations.

Ms. Denson noted that the total net position increased by \$355.6 million and that nearly all of the institutions met their individual fund balance goals for the fiscal year. She went on to say that the net pension liability for FY 2017 and FY 2016 is \$1,216 million and \$966 million, respectively. The increase is the result of the overall increase in the investment results in FY 2016. Turning to the "Financial Snapshot," Ms. Denson pointed out that the financial statements show an improvement in the key Balance Sheet Strength ratio used by the rating agencies—increasing from 163% to 168%. She recognized that taking into account Board-approved commitments and authorizations that had yet to be reflected, a truer financial standing would show an increase from 112% to 119%.

The report was accepted for information purposes.

3. University of Maryland, College Park: 2017 - 2030 Facilities Master Plan Update

Regent Pevenstein reminded everyone that Mr. Colella, the University's vice president, presented a new update to the campus Master Plan at the November meeting. As requested, Mr. Colella had provided the committee members with a response to the variety of questions that were posed by Regent Neall following the presentation. Regent Gossett asked about the need for additional parking structures in the future. Mr. Colella replied that new structures are anticipated, due to the fact that the construction of new facilities and the upcoming Purple Line will have an impact on the surface parking lots on the campus.

The Finance Committee recommended that the Board of Regents approve the University of Maryland, College Park 2017 - 2030 Facilities Master Plan Update, as presented at November's Committee meeting, in accordance with the Board's two-step approval process. Approval of the Plan does not imply approval of capital projects or funding. These items will be reviewed through the normal procedures of the capital and operating budget processes.

(Regent Pevenstein moved recommendation, seconded by Regent Brady; unanimously approved)

4. University of Maryland, College Park: University of Maryland College Park Foundation Right of Entry for Construction of the Innovate, Design and Engineer for America Factory Building

Regent Pevenstein explained that the University is requesting a "Right of Entry" for the Foundation, for the purpose of constructing the IDEA building on the campus. The new building will be adjacent and connected to the Kim Engineering Building. This project is budgeted at \$50 million and will be funded privately through the Foundation, with \$25 million from the recently announced \$219 million Clark

Foundation Gift. Regent Pevenstein pointed out that all of the design, construction and equipment contracts will be secured by and be the responsibility of the Foundation. Regent Pevenstein added that the Foundation was committed to working closely with project managers in the University's Department of Capital Projects during the design, construction and equipping period—a commitment that he strongly supports.

Upon completion, the Foundation will convey the building to the University. Regent Pevenstein then invited Mr. Colella to speak to the project a little more. Mr. Colella reiterated that the campus staff would work closed with the Foundation, and noted that the campus' University House was constructed under a similar arrangement and in that case, the project was delivered in record time. In response to questions by Regent Rauch, Mr. Colella stated that the project is bonded and will meet the campus sustainability goals, etc.

The Finance Committee recommended that the Board of Regents approve that the University of Maryland, College Park to grant access to its property to the Foundation for the purpose of constructing the IDEA Factory Building as described, to be funded with Foundation assets.

(Regent Pevenstein moved recommendation, seconded by Regent Attman; unanimously approved)

5. University of Maryland, College Park: School of Public Health Building Increase in Project Authorization for Phase II—Conversion of Locker Rooms into STEM Facilities

Regent Pevenstein stated that the University is requesting an increase in budget authorization for the second phase of a project to covert space on the ground level of the School of Public Health into more useable space for the implementation of a new undergraduate STEM major, Public Health Science. At the time of its approval, the School of Public Health estimated that the new major had the potential of attracting about 500 students. Currently, the major, which started in 2015, has grown to 800 students and is projected to increase to 900 in spring 2018. Phase I, which included office space, was completed in December, 2016 at a cost of \$3.35 million. Phase II of the project was initially budgeted at \$4.9 million and approved under the authority of the Vice Chancellor for Administration and Finance in May 2016. Subsequently, the scope and budget increased to \$7.827 million. Since the project budget now exceeds \$5 million, Board of Regents approval is required.

Mr. Colella reaffirmed that there had been tremendous growth in the program and as such, more robust research labs were a necessity. He added that there had been cost escalation due to the one year extension. In response to a question from Regent Attman, Mr. Colella indicated that the facility previously housed the campus' main recreation facility, the north gym, and the locker space from that time still exists in the building. Since that time the facility had been repurposed.

The Finance Committee recommended that the Board of Regents approve for the University of Maryland, College Park, an increase in project authorization for phase II of the School of Public Health Building not to exceed \$7.827 million, as described.

(Regent Pevenstein moved recommendation, seconded by Regent Johnson; unanimously approved)

6. University of Maryland Eastern Shore: Amendments to the Hydroponic Greenhouse Covenant of Purpose, Use and Ownership

Regent Pevenstein addressed the next two inter-related items together. First, he stated, UMES is requesting approval to amend the Covenant of Purpose, Use and Ownership entered between the University and the Economic Development Administration of the U.S. Department of Commerce. The Covenant was established with respect to the Greenhouse constructed on campus in 1997. The greenhouse remained operational until November 2011, when it was severely damaged by fire. Under the original Covenant, the Greenhouse had a useful lifespan of twenty-five years. Demolition of the damaged Greenhouse required formal approval by the Economic Development Administration. While EDA was agreeable to releasing UMES from the Covenant after 20 years—this would have been February 1, 2017—EDA was not informed of the fire in 2011. To ensure that UMES remains in compliance, an amended Covenant would need to extend for five years and sixty three days to cover the period during which the Greenhouse was not utilized without notifying EDA. He pointed out that approval of the amended Covenant is necessary in order to facilitate the construction of a new Agricultural and Research Center, which is the second of the two items.

Since the fire, UMES has worked with the University of Maryland and the State in hopes of restoring the greenhouse. Unfortunately, that restoration comes with a price tag of over \$14 million. Instead, UMES is seeking to develop an Agricultural Research and Education Center, which will contain specialized research laboratories, including three research greenhouses. This new facility would be funded via a combination of insurance proceeds (\$2.6 million); a reimbursable deductible anticipated from the State Treasurer (\$2.5 million); and an additional \$4.4 million from a USDA 1890 Facilities Grant Program. Regent Pevenstein recognized Ms. Martin, interim vice president, and Dr. Kairo, Dean of the School of Agricultural and Natural Sciences. Dr. Kairo indicated that the labs would be linked very effectively to the strategic plan, and added that he had no idea why EDA had not previously been informed of the fire.

The Finance Committee recommended that the Board of Regents approve the amended Covenant of Purpose, Use and Ownership in order to facilitate construction of a new Agricultural and Research Center at the University of Maryland, Eastern Shore.

(Regent Pevenstein moved recommendation, seconded by Regent Johnson; unanimously approved)

7. University of Maryland Eastern Shore: Construction of an Agricultural Research and Education Center

The Finance Committee recommended that the Board of Regents approve for the University of Maryland Eastern Shore the construction of an Agricultural Research and Education Center in the amount shown for the purpose of agricultural research, teaching and extension including support for economic development activities on the Eastern Shore using USDA 1890 Land Grant Program.

(Regent Pevenstein moved recommendation, seconded by Regent Attman; unanimously approved)

8. University of Maryland University College: Facilities and Equipment Maintenance Contract Renewal Option

Regent Pevenstein stated that UMUC is requesting approval to exercise the first three-year renewal option with the current contractor, AAA Complete Building Services, Inc. The University reports that it is satisfied with the current contractor's performance and believes outsourcing for these services to be the most cost effective and efficient way to provide maintenance for its buildings. The total amount to be spent for the contract is estimated to be approximately \$23.1 million. In response to a question about rebidding from Regent Attman, Mr. Lockett responded that the contract is very competitive, its terms call for a small increase tied to CPI, and that there is no need to rebid at this time.

The Finance Committee recommended that the Board of Regents approve for the University of Maryland University College to exercise the first, 3-year renewal option for Facilities and Equipment Maintenance Services.

(Regent Pevenstein moved recommendation, seconded by Regent Attman; unanimously approved)

9. University of Maryland University College: Online Digital Advertising Placement and Media Buying Services Renewal Options

Regent Pevenstein stated that UMUC has been under contract with Kepler, LLC since January, 2017 to provide online digital advertising placement and media buying services. UMUC is returning to the Board because it expects to exceed \$31.03 million—the amount that it was approved to spend in the first two years—prior to the end of the second year of the contract. At this time, UMUC is seeking approval to exercise its three remaining renewal options for an overall five-year contract total of \$80 million. The Board's initial approval required UMUC to return with an assessment of the contract including its impact on enrollment. He noted that UMUC reports that its enrollment performance stateside improved significantly over the prior year, and recalled that information was also conveyed to the Committee when it heard the Enrollment Projections report in November. Turning to the vendor's performance, he cited several key points in the item: the volume of leads received increased by 54% while the cost per lead increased by only 8%; the percentage of the leads scored as "very high/high" increased from 21% to 44%; and dramatic improvements in lead quantity led to an increased number of new students in Summer (10.5%) and Fall (7.7%) this year over last year. Overall, UMUC believes it gained more and better leads at a slight increase in the cost per lead. President Miyares then addressed the Committee. He explained the concept of a "lead" —essentially a marketing term that refers to generating prospective interest/inquiry into a product. In the case of UMUC, that would be a customer clicking an ad and providing information. The leads are scored on their likelihood of becoming an enrollment. UMUC then focuses its resources accordingly on the stronger leads.

The Finance Committee recommended that the Board of Regents approve for the University of Maryland University College to exercise the remaining three one-year renewal options for online digital advertising placement and media buying services. Overall, the total shall not exceed five years and \$80 million.

(Regent Pevenstein moved recommendation, seconded by Regent Brady; unanimously approved)

10. University of Maryland, College Park: Five-Year Energy System Operation and Maintenance Agreement, and Overview of Long-Term Energy System Renewal and Operational Plan

Regent Pevenstein asked Mr. Colella to provide an update to the Committee on the energy system program. By the use of a presentation, Mr. Colella informed the Committee of the University's long and short-term plans for its energy system. The campus intends to issue an RFP in June for the purpose of obtaining a replacement management operating agreement to allow time to develop a long-term energy system renewal and operational project. The University will return to the Committee and Board for approval of the contract. Mr. Colella acknowledged that long-term, there will need to be a capital infusion. The plans are for the plant on the "east campus" property to continue to provide energy for the campus. It currently provides all of the steam and a significant part of the thermal. With regard to electricity, the campus produces 50% of peak during the summer months and 90% in the winter. Currently, solar panels are installed on three of the campus parking structures. The presentation contained a timeline for the program. The presentation in its entirety is available online at <http://www.usmd.edu/regents/agendas/fc20180125>.

The item was accepted for information purposes.

11. University System of Maryland: Report on FY 2017 Procurement Contracts

The report was accepted for information purposes.

The meeting was adjourned at 12:04 p.m.

Respectfully submitted,

Robert L. Pevenstein
Chairman, Committee on Finance



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January 25, 2018

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Minutes of the Closed Session

Regent Pevenstein called the meeting of the Finance Committee of the University System of Maryland Board of Regents to order in closed session at 10:45 a.m. in the Prince George's Room.

Regents participating in the session included: Mr. Pevenstein, Mr. Brady, Mr. Attman, Ms. Gooden (via phone), Mr. Gossett, Mr. Holzapfel (via phone), Ms. Johnson, and Mr. Rauch. Also taking part in the meeting were: Chancellor Caret, Ms. Herbst, Mr. Neal, Mr. Sadowski, Assistant Attorneys General Bainbridge and Lord, Mr. Beck, Mr. Hickey, Mr. Page, Ms. Denson, Ms. Skolnik, and Ms. McMann. Mr. Colella, Mr. Maginnis, and Ms. Martens were present as well.

1. The committee considered and unanimously recommended the acquisition of property in College Park (§3-305(b)(3)). (moved by Regent Pevenstein; seconded by Regent Gooden)

The meeting was adjourned at 10:49 a.m.

Respectfully submitted,

Robert L. Pevenstein
Chairman, Committee on Finance