



UNIVERSITY SYSTEM
of MARYLAND

BOARD OF REGENTS
COMMITTEE ON FINANCE

January 31, 2019
Towson University

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 10:07 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 Gooden seconded to convene in closed session. In response to the motion, the Committee members voted unanimously to convene in closed session at 10:07 a.m. for the reasons stated on the *Convening in Closed Session statement*. The session adjourned at 10:12 a.m.

The Committee reconvened in public session at 10:13 a.m. Regents participating in the session included: Mr. Pevenstein, Mr. Attman, Mr. Gossett (via phone), Ms. Gooden, Mr. Holzapfel (via phone), Mr. Neall (via phone), and Mr. Pope. Also present were: Chancellor Caret, Ms. Herbst, Ms. Wilkerson, Assistant Attorneys General Bainbridge, Lord, and Palkovitz; Mr. Dworkis, Ms. Aughenbaugh, Ms. Kemp. Mr. Lockett, Mr. Lowenthal, Mr. Savia, Mr. Beck, Mr. Hickey, Mr. Page, Ms. Denson, Mr. Lurie, Ms. McMann, and other members of the USM community and the public.

1. University System of Maryland: Summary of Intercollegiate Athletics Workgroup Review of Program Finances

Regent Pevenstein stated that the item would be addressed later in the agenda as Regent Gossett was traveling and would be joining the meeting in progress via phone.

2. Discussion of FY 2018 USM Audited Financial Statements

Regent Pevenstein introduced the information item concerning the System's annual audit of its financial statements for the year ended June 30, 2018. Since each audited financial statement provides updated information on the System institutions' finances, reserves, and debt outstanding, the document is crucial in preparing for the upcoming capital budget cycle and updating the System's capacity to borrow or spend additional cash reserves. Regent Pevenstein then turned over the discussion to the USM comptroller, Ms. Denson. She proceeded to review the materials included in the package, including the USM Balance Sheet; Statement of Revenues, Expenses, and Changes in Net Position; and the Financial Snapshot. Ms. Denson noted that the latter is one of the first analyses prepared to assess the USM's financial health. She pointed out that the ratio of "available resources to debt" stands at 185% as of

June 30th compared to 168% one year ago. The significant increase is in part due to the redeeming of \$35 million of revolving equipment loan debt in June 2018. This loan program started off with \$60 million of debt in 2003. As the program was never fully utilized, a decision was made to instead utilize internal funds to finance equipment loan purchases. Ms. Denson then explained that the second part of the snapshot takes into account outstanding commitments as of June 30th. These are commitments that have been authorized by the Board of Regents either as a cash-funded program or through the use of revenue bonds. For these commitments, the USM maintains a one-to-one relationship. The current BOR policy requires that the ratio of “available resources to debt” be at least 95%. Taking all into consideration, the USM’s adjusted ratio of “available resources to debt” outstanding is 126% compared to 119% a year ago.

Ms. Denson also touched on the pension liability, which decreased from \$1.2 billion to \$1.1 billion. Looking ahead, that figure is expected to drop again next year. She explained that accounting standards allow the System to defer the recognition of expenses and gains related to recording the pension liability and amortize those costs generally over a five-year period. The USM recorded \$81 million in additional noncash expense related to pensions in FY 2018. Ms. Denson reminded everyone that last year she discussed the implementation of an accounting standard related Other Post-Employment Benefits (OPEB). She provided as an update that the State decided to record the entire \$11 billion liability on its financials and did not allocate any of this cost to the System or other State agencies. In closing, Ms. Denson noted that with the exception of one institution, all of the institutions met their fund balance goal.

Regent Pevenstein inquired into the status of the credit rating agency meetings. Vice Chancellor Herbst responded that the meetings with the three agencies went well and that the USM had all of its ratings reaffirmed with a stable outlook. Mr. Page added that the System was scheduled to auction \$154 million of revenue bond debt (\$115 million of new money and \$39 million of refunding bonds) on February 6th.

The report was accepted for information purposes.

3. Review of USM Affiliated Entities: Affiliated Foundations, Business Entities, and High Impact Economic Development Activities

Regent Pevenstein stated that the financial statements include the balances and activity for USM institutions, as well as summarized financial statements of the USM’s affiliated foundations. He noted that the affiliated foundations are an important part of the System’s financial strength, and the credit rating agencies take the fundraising and investment management capabilities into account when considering the System’s financial health and strength. He went on to say that at the same time, each affiliated organization has its own independent governing board that sets policy and is expected to be accountable for the organization’s actions. In addition, there are other affiliated or created entities that are not always included in the System’s financial statements—either by design—or because the nature of the relationship does not satisfy accounting rules for what should be included. Regent Pevenstein then turned to Mr. Page, the USM’s associate vice chancellor of financial affairs. Mr. Page reviewed the presentation slides included in the item, highlighting the various types of affiliated foundations, their assets and endowments, oversight, and expectations. Mr. Page indicated that a condensed report will be provided to the Board annually.

The report was accepted for information purposes.

4. University System of Maryland: Summary of Intercollegiate Athletics Workgroup Review of Program Finances

Regent Pevenstein stated that the item is a required report from the Board's Workgroup on Intercollegiate Athletics. Regent Gossett chairs this workgroup. At its March meeting, a report of student-athletes' academic progress and achievement was shared with the Education Policy and Student Life Committee. Regent Pevenstein noted that this item summarizes the financial information provided by the USM institutions with Division I programs. He then turned to Mr. Page for a few comments.

Mr. Page stated that the workgroup is an active workgroup, whose members review a range of financial information, including the results of operations for the fiscal year as well as also select balance sheet items like cash, debt, and amounts collected in advance of being earned. Mr. Page added that since the last policy revision in 2013, information is now reviewed on funds accumulated in affiliated foundations as well. He pointed out that the workgroup is focused on contingent liabilities, for example, "guarantees" and buy-out obligations built into coaches' contracts, or how incentive pay is earned.

Mr. Page stated that like most universities, the institutions and their leadership are expected to manage athletics on a self-support basis over the long-run, and as such the institutional leadership should keep track of shortfalls that are temporarily covered by the rest of the institution. Mr. Page explained that the report is intended to reduce a great deal of information into a few key and important considerations from a public accountability perspective: did the athletic program manage spending within its resources, and what is the status of amounts owed to System bondholders and the institution. Mr. Page reviewed the fiscal summary, noting that Towson and UMBC routinely manage their athletics budgets very well. He pointed out that Towson and UMBC operate in athletic conferences where the drive to spend is not at the same level as the Power 5 conferences. Mr. Page indicated that UMES and Coppin's athletic programs have struggled largely because of enrollment declines and the dependence on student activity fees as the primary fund source for the programs. Turning to UMCP, Mr. Page offered that the athletic program is not simply the largest in terms of spending and resources, but is unique in the demand for ongoing capital investment to ensure competitiveness on the field for its teams. As such, the workgroup monitors the status of borrowings and commitments closely each year. The amount of debt issued and institution funds borrowed associated with its ICA program are carefully tracked and expected to be repaid over the coming ten to twelve years. Regent Pevenstein thanked Mr. Page for his report.

The report was accepted for information purposes.

5. Revisions to USM Real Property Policies and Procedures

Regent Pevenstein summarized the item. He stated that the Board of Regents has instructed the staff to periodically review and update the USM policies and procedures. A workgroup led by Tom Hickey, and comprised of individuals from the Office of Attorney General and several System institutions, has offered changes to the real property policies and procedures that were last updated in 2001. Regent Pevenstein noted that the changes are stylistic in nature to make the policies more understandable and to improve efficiency. The proposed revisions were presented to the Administrative Vice Presidents on November 13th and the Council of University System Presidents on January 7th. He reviewed several of the major changes including authorizing USM institutions to grant licenses for use of space such as cell phone towers and ATM machines; increasing the threshold for Board of Regents review when an institution is a tenant from \$500,000 to \$1 million in any year and correspondingly the ten-year aggregate amount increases from \$2 million to \$10 million. The dollar threshold for Board review when

an institution is a landlord is deleted entirely, and therefore any lease, regardless of dollar value, requires Board approval if the term exceeds ten years. Also included in the revisions are several changes that delegate to the institution presidents the ability to sign routine real property documents including easements, rights of way, rights of first refusal, utility connection easements related to larger construction\development projects and other documents related to real property leases. Focusing on the procedures, Regent Pevenstein noted that they are substantially the same with some minor revisions to clarify the various approval processes and to allow for greater institution flexibility as it relates to options or rights of first refusal. Regent Pevenstein acknowledged Tom Hickey in the audience and asked the committee members if there were any questions.

The Finance Committee recommended that the Board of Regents approve the revised USM Real Property Policies and Procedures as presented.

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

6. University System of Maryland: Report on FY 2018 Procurement Contracts

Regent Pevenstein stated that this is an annual report on procurement activity.

The report was accepted for information purposes.

The meeting was adjourned at 11:15 a.m.

Respectfully submitted,

Robert L. Pevenstein
Chairman, Committee on Finance



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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 10:07 a.m. in the Minnegan Room of the Unitas Stadium Field House

Regents participating in the session included: Mr. Pevenstein, Mr. Attman, Ms. Gooden, Mr. Holzapfel (via phone), Mr. Neall (via phone), and Mr. Pope. Also taking part in the meeting were: Chancellor Caret, Ms. Herbst, Assistant Attorneys General Bainbridge, Lord, and Palkovitz; Ms. Denson, Mr. Beck, Mr. Hickey, and Ms. McMann. Mr. Pyles participated for a portion of the session.

1. The committee considered and unanimously recommended the acquisition of real property in the City of Salisbury (§3-305(b)(3)). (moved by Regent Pevenstein; seconded by Regent Pope)

The meeting was adjourned at 10:12 a.m.

Respectfully submitted,

Robert L. Pevenstein
Chairman, Committee on Finance