Call to Order and Attendance

Committee Chair Regent Jaech called the meeting to order at 8:30 a.m.

Committee Members Present: Jaech (Chair), Ayer, Benoliel, Blake, and Harrell
Other Regents Present: Rice, Riojas, Shanahan, Simon, and Wright-Pettibone
Others present at the table: President Cauce, Provost Baldasty, GPSS President Kim, ASUW President Menez, and Faculty Senate Chair Barsness

Approval of Minutes

Regent Jaech announced that hearing no objections the minutes from the Committee meeting on September 8, 2016, were approved, as presented, and information item F–1 would be on the consent agenda.

UW Advancement Report of Contributions (Information) (Agenda no. F–1)

Capital and Debt Report (Information) (Agenda no. F–2)

Mike McCormick, Associate Vice President of Capital Planning and Development, presented the capital report and pointed out the Animal Research and Care Facility (ARCF) project cost forecast is over the target amount. Mr. McCormick said he intends to take a “deeper dive” to research this situation. Regent Shanahan asked to receive an updated and accurate overage assessment at the next meeting of the Board and to see recovery plans for those projects whose forecasts are highlighted in yellow.

Mr. McCormick reported on a proposed revision to the Board of Regents Standing Orders to include a policy on approval of leases with high dollar amounts. Currently, the Board approves leases of real property of twenty years or over, while approval of those up to twenty years are delegated through the President for approval. The proposed revision would include a dollar amount required for Board approval. He also described a change to the Administrative Order for gift-funded capital projects. This would require 100% of the funds to be pledged, 50% received, and a five-year payment schedule for the pledged gifts before beginning the project.

Chris Malins, Associate Vice President of Treasury, described a potential “bridge” program designed to manage the cash flow timing for gift-funded projects. The program would look at when money is needed to make future principal payments on bonds, potentially to put funds currently held in the ILP residual account, and are intended for future principal payments, to use earlier. The bridge program addresses the challenge of timing differences between gift pledges and construction draws.
Next month, Mr. Malins plans to bring a complete item that will describe this program in more detail. The program can bridge timing differences between pledges and gifts-in-hand, is low cost, easily implemented, and has no impact on the UW’s debt capacity. Specifically:

- The minimum Bridge loan size is $2 million and the maximum size is no more than the uncollected pledge amount at the date the project was approved, but will likely be much less.
- The term will be no longer than five years from the date a project is approved by the Board.
- The interest rate will be set at the first draw and will be based on market-rates for short term borrowing.
- There will be no cost of issuance charged.
- Any use of the Bridge program will be brought to the Board for action as part of the project and financing approval.
- Since the Bridge program uses existing treasury assets, it does not impact institutional debt capacity.

Mr. Malins provided an update on Treasury’s upcoming debt issuance. The bond proceeds will provide $200 million in funding for previously approved projects, including Housing and Dining Phase 4a, Life Sciences Building, ARCF, and Phase 2 of the UWMC expansion. There is also $35 million in 2008 bonds that will be refinanced, for total savings of $5 million, or annual savings of $300,000 if rates hold.

UW recently received ratings reports from Moody’s and Standard & Poor’s. Both confirmed the UW’s lofty credit ratings, with a Aaa Stable from Moody’s and a AA+ Stable from S&P. The UW’s strengths noted were an impressive national research profile, strong student demand, and its position as a major clinical care provider in the Pacific Northwest. Credit challenges include high balance sheet leverage, meaning UW’s debt has outpaced its growth in reserves; pressured healthcare operations; liquidity lower than peers; slowing growth in tuition revenue; and an increasingly competitive research funding environment.

From a financial ratio perspective, the UW is near the bottom of its Aaa peers and rating agencies have indicated that if the identified credit challenges continue, there is a likelihood of a downgrade. The Treasury Office will continue to have regular communications with the credit analysts to keep them up-to-date on goings-on at the UW.

Mr. Malins shared a quote from Moody’s: “UW’s governance and management are excellent, contributing to its Aaa rating,” and said this statement is unusual in a rating report and is a reflection of the skill and commitment of university leadership in guiding the institution and to the team from all areas of the campus who assembled to tell the UW’s story to rating agencies and investors.

**Asset Liability Management Semi-Annual Borrower Reports (Information) (Agenda no. F–3)**

Mr. Malins provided an overview of the Semi-Annual Borrower Reports (SABRe). The SABRes typically appear on the consent agenda, but since two of them, School of Dentistry (SOD) Clinics and Intercollegiate Athletics (ICA), recently issued Financial Stability Plans (FSP), he commented on both of them. Dentistry came to the Board in April with an FSP that committed them to break-even on their operating results for FY17. This is still the case and is reflected on
their FSP. When the FSP was brought to the Board in April, Dean Berg discussed decreasing costs, increasing revenue, and optimizing space.

The 3:1 hiring plan began in July to reduce labor expense. It states that for every new dollar in labor expense, the department must identify $3 dollars in savings. This policy is managed by the Dean and overseen by the Office of Planning and Budgeting. There are ongoing discussions regarding enhancing revenue from Medicaid patients. Dean Berg plans to update the Board on the next SABRe in March.

Regent Blake expressed concerns about the reliability of information Regents are receiving from the School of Dentistry. Internal Audit is working with the School. There has been a lack of progress toward the steps described in the FSP. She asked for a report from Dentistry on progress toward a balanced budget before their scheduled return in March 2017. Regent Riojas suggested Dentistry meet with the Health Care Authority and the Governor’s office to negotiate additional reimbursements for the Medicaid-covered population served by Dentistry.

Sarah Norris Hall, Associate Vice Provost of Planning and Budgeting, came forward to tell the Regents about the ongoing work of her office with the SOD to develop new budgeting practices and focus on shared services. She believes there needs to be a culture change in the various clinical and operating areas around budgeting to reflect shared ownership and responsibility.

ICA’s FSP was approved by the Regents in May. At that time, a $14.8 million deficit was projected. The actual unaudited deficit for 2016 is closer to $7.6 million. This more positive result reflects additional revenue from men’s basketball renewals, and higher-than-modeled Sound Transit settlement. Actual expenses were also lower than modeled due to delayed hiring and decreased spending on supplies and team travel.

As a final reminder, the Debt Service Coverage Covenant was suspended through FY19 and the minimum reserve was lowered to $10 million as a result of the FSP.

Athletic Director Jen Cohen and ICA CFO Kate Cullen were present to provide more detail and answer questions. Ms. Cohen introduced Ms. Cullen, who came to ICA in June from the Foster School of Business. Ms. Cohen reminded Regents of her commitment to the Board to be present when ICA is discussed.

**UW Medicine Board Report (Information) (Agenda no. F–4)**

Regent Riojas provided a report from the meeting of the UW Medicine Board on September 12. At that meeting:

1) Dr. Jay Shendure gave an overview of plans for the Institute for Precision Medicine.
2) Dr. Ramsey announced Dr. Brian Goldstein would serve as the Chief Health System Officer for UW Medicine, effective November 1.
3) UW Medicine Chief Financial Officer, Jacque Cabe provided a financial update. July was challenging for the UW Medical Center budget, and there were discussions regarding the mitigation plans that are in place. Partial results from August are encouraging.
4) Don Theophilus gave an update on the UW Medicine campaign. To date, over $1 billion has been raised, and UW Medicine is working on determining campaign goals prior to the public launch of the campaign on October 21.
5) UW Medicine, Fred Hutch, and Seattle Children’s are working together to identify ways to improve the Seattle Cancer Care Alliance.
6) Reports were received from the UW Medicine Board Compliance Committee, Finance and Audit Committee, Patient Safety and Quality Committee, and the UWMC Committee.

Discussion of Proposed Divestment Guideline (Information) (Agenda no. F–5)

Ann Sarna, Associate Treasurer, Treasury Office, prepared a draft Divestment Guideline for discussion at the meeting. She reported three institutions of higher education recently adopted formalized policies.

Regents discussed the policy and offered suggestions, specifically noting that criteria number 5 includes implementation information which should be moved to process. A request was made to rewrite process number 5 to make it less formal and to delete the last sentence. Others felt criteria numbers 1 and 3 were overly restrictive. Students who were in the audience for their upcoming presentations asked how students were involved in the policy development. Because of their fiduciary responsibility, this is intended to be a Regent policy.

Following discussion, there was consensus to create a working group, which would include students, to continue to refine the guideline and return to the Board with a revised draft.

Community Stakeholder Presentation on Prison Divestment (Information) (Agenda no. F–6)

A group of current and former UW students provided a presentation advocating for prison divestment. They began with an overview of the prison industrial complex, mass incarceration, and the school-to-prison pipeline, explaining the connection between slavery, race, and prisons. They also presented background about the state of Washington Correctional Industries. The slides they displayed are attached to these minutes.

They ended their presentation with a list of four demands of the University of Washington:
   1) Divest from the prison industrial complex;
   2) Reinvest in the community;
   3) Proactive ethical code for procurement and investment;
   4) Strong and public statement against the new King County youth jail.

Student Presentation on Fossil Fuel Divestment (Information) (Agenda no. F–7)

UW students, members of Divest UW, advocated the University divest from fossil fuel companies.

The students demanded the formation of a working group, to include students, to explore fossil fuel divestment.

Adjourn

Hearing no other business to come before the Committee, Regent Jaech adjourned the Finance and Asset Management Committee meeting at 10:30 a.m.

Approved at the meeting of the Committee on November 10, 2016.