

Approved at the meeting of the Committee on October 13, 2016.

MINUTES

UNIVERSITY OF WASHINGTON BOARD OF REGENTS

**Finance and Asset Management Committee
September 8, 2016
Hemmingson Center, Room 314
Gonzaga University**

Call to Order and Attendance

In Committee Chair Jaech's absence, Committee Vice Chair Regent Blake called the meeting to order at 10:55 a.m.

Committee Members Present: Ayer, Benoliel, Blake, and Harrell

Other Regents Present: Rice, Riojas, Shanahan, Simon, and Wright-Pettibone

Others present at the table: President Cauce, GPSS President Kim, ASUW President Menez, and Faculty Senate Chair Barsness

Approval of Minutes

Regent Blake announced that hearing no objection the minutes from the Committee meeting on July 14, 2016 were approved, as presented.

Capital and Debt Report (Information) (Agenda no. F-1)

Chris Malins, Associate Vice President, Treasury, provided an update on the bond issue the Board approved through an annual resolution in July. The Treasury Office is preparing for the sale, which is currently planned for October 18. It has hired an underwriting team, which includes Bank of America Merrill Lynch, Barclay's, Citigroup, and Drexel Hamilton. The par value of the bonds will be around \$200 million which will be used to refinance \$38 million in 2008 bonds for savings, fund \$150 million in project expenditures through December 2017, and pay off \$45 million in commercial paper. The bond proceeds will fund Housing and Dining Phase 4a, the Life Sciences Building, the Animal Research and Care Facility, and Phase 2 of the UW Medical Center expansion. This issuance is in line with the maximum authorized amount of \$210 million. This will be the only bond issue this year. He noted there is a \$142 million issue from 2011 that is also under consideration for refinancing, but a decision hasn't been made yet whether to proceed.

Since the last Board meeting, long-term interest rates have remained stable and the yield curve has flattened, meaning short-term rates have risen, shown in the UW's commercial paper program, where a recent rate reset was 50 basis points. If these bonds were repriced today, the all-in interest rate would be about 3.3% for a 30-year term.

The UW recently completed presentations to rating agencies Moody's and Standard & Poor's. Both presentations were very well received, but questions were raised about recent flattening of research revenues, tighter margins in clinical areas, and the reductions of in-state undergraduate tuition. While it is still too early to tell if these issues will affect the UW's credit rating, Mr.

Malins believes these items will be mentioned by both agencies as a credit weakness. He promised to send the Regents the final ratings for the bond transaction when they are available, along with the credit reports. He also offered to share the final results of the bond sale with the Regents when they become available.

Mike McCormick, Associate Vice President, Capital Planning and Development, reviewed the Capital Plan distributed in advance of the meeting. His office is collaborating with other universities in the state to develop a state-wide approach to deferred maintenance. His office is also examining projects to determine how to get the most value out of each project. He noted business equity is going up and attributed this to outreach and training. Regent Blake asked that the project changes be noted, highlighted, and summarized in the narrative. Mr. McCormick agreed that would be useful and said he planned to display trend data in the future.

Regent Benoliel asked that the sources and uses of funds for the Burke Museum construction project be displayed.

Actions Taken Under Delegated Authority (Information) (Agenda no. F-2)

This report of actions taken under delegated authority is customarily on the consent agenda but Todd Timberlake, Chief Real Estate Officer, UW Real Estate, was present to offer a more detailed description of the South Lake Union Phases 1 and 2 amendments to the facility and ground leases. The owner, Vulcan, sold the properties, and UW passed on the first right of refusal. The buyer extended terms to the UW which would align with Phase 3. The closing date of August 31 was between scheduled Board meetings, so this time-critical transaction was approved, and pursuant to the Standing Orders, is reported at the meeting. Regents expressed support for the decision to move forward with this transaction.

Audit Advisory Committee Update (Information) (Agenda no. F-3)

Regent Blake, who serves as Chair of the Audit Advisory Committee, provided a report from the recent meeting. She began by pointing out that one or two of the appointed members shall be selected from the Board, so there is a spot for another Board member to serve on this committee.

At the last meeting, the committee heard about:

1. Cybersecurity from UW-IT. The UW is proactively researching how and where there are exposures and has created web resources explaining what to do in the event of cyber-attacks.
2. Selection of external auditors.
3. Internal audit plans. These have been reprioritized to address emergent activities.
4. Financial Fraud & Ethics Hotline. This went live on July 1, allowing anonymous reporting of financial irregularities. To date, it has generated about 13 reports. Reports are routed to Internal Audit staff and the Audit Advisory Committee Chair. This is a “best practice” tool. Internal Audit plans to add a position to respond to these reports.
5. Annual risk assessment conducted by Richard Cordova.
6. Internal controls over financial reporting. This, Regent Blake said, is a huge task but is showing impressive progress.

Approve the Appointment of External Auditors (Action) (Agenda no. F-4)

Regent Blake reported the Audit Advisory Committee participated in the process to select external auditors and recommends a contract with KPMG, as auditor for financial reports listed in the item and Peterson Sullivan for UW Real Estate entities listed in the item. These would be ten-year contracts beginning with four year terms, ending June 30, 2020, with an option to extend in two year segments, through the fiscal year ending June 30, 2026

Richard Cordova, Executive Director, Internal Audit, joined the meeting by phone to answer questions about the selection process.

Regent Benoliel moved, Regent Harrell seconded, and the Committee voted to appoint the external auditors as presented.

UW Medicine Board Report (Information) (Agenda no. F-5)

Regents Blake and Riojas serve on the UW Medicine Board. Regent Riojas presented a report from the meeting held on June 28, 2016. This item was inadvertently omitted from the meeting agenda in July, so is “catching up” at this meeting.

Regent Riojas reported Drs. Suzanne Allen and Leo Morales led a discussion on the School of Medicine’s efforts to reduce health disparities. Dr. Allen described a number of medical school education programs that have been successful in attracting students to practice in underserved areas. Graduates of UW Medical School are more than twice as likely as the average U.S. medical student to practice in rural areas. The UW Medical School is one of the leading programs in the nation for training primary care physicians.

Dr. Morales reported on the Center for Equity, Diversity and Inclusion established to build individual and institutional capacity to achieve excellence, foster innovation, and further equity in the state. The Center’s staff members are involved in several programs to improve diversity of medical school students, efforts to improve diversity in residents and fellowship programs, and to improve faculty diversity. There are several programs available for medical students including the Hispanic Health Pathway, Indian Health Pathway, LGBTQ Pathway, African American Health, and the Medical Spanish Program.

Two fourth-year medical students presented an idea they plan to take to the legislature that involves an effort to increase the physician workforce in rural areas in Washington through the use of a state loan program for medical students that uses incentivized interest rates to keep trained doctors in Washington, particularly in high-need rural areas.

Jacqueline Cabe, Chief Financial Officer, presented an update on the fiscal year performance through May 2016. UW Medicine is behind budget year-to-date primarily due to UW Medical Center performance impacted by increases in expenses due to the opening of the new tower, a shift in payer mix, and other factors. In general, all other UW Medicine entities are fiscally stable. Leadership is undertaking several initiatives to improve the operation performance of UW Medical Center.

Dr. Ramsey updated the Board on the Health Metrics and Evaluation Institute. The Institute is now established as the best organization in the world for measuring the health of the population and is having a global impact.

Cindy Hecker, Interim Chief Health Systems Officer, gave an operational report on UW Medicine. A major focus is on quality of care and all UW entities have received recognition regarding the quality of care.

Don Theophilus, Chief Advancement Officer, reported on UW campaign progress. UW Medicine has raised approximately \$1 billion dollar toward the \$1.6 billion dollar goal. Areas of success include broad faculty engagement, a robust volunteer structure, and transparent goal-setting. A new Chief Communications Officer has joined the team to help integrate marketing and communications.

Carlos Pellegrini, Chief Medical Officer, reported on care transformation. Three hundred physicians have been recruited to become Clinical Practice Innovators.

Investment Performance Quarterly Report – Quarter Ended June 30, 2016 (Information) (Agenda no. F-6)

Keith Ferguson, Chief Investment Officer, UWINCO, offered highlights from the report distributed in advance of the meeting. Scott Davies, Senior Investment Officer/COO, UWINCO, joined the meeting by phone.

Adjourn

Hearing no other business to come before the Committee, Regent Blake adjourned the Finance and Asset Management Committee meeting at 11:50 a.m.

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