

**MINUTES**

**UNIVERSITY OF WASHINGTON  
BOARD OF REGENTS**

**Finance and Asset Management Committee**  
Regents Rice (Chair), Ayer, Blake, Harrell, Zeeck

**April 12, 2018**  
**Petersen Room, Allen Library**

Call to Order and Attendance

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

Committee Members present: Regents Rice (Chair), Ayer, Blake, Zeeck

Committee Members absent: Regent Harrell

Other Regents present: Regents Benoiel, Goddard (by telephone), Jaech, Riojas, Tamaki

Others present at the table: President Cauce, Provost Baldasty, Treasurer Scott, ASUW Tacoma President Arwa Dubad

Approval of Minutes and Consent Agenda

Regent Rice announced that, hearing no objections, the minutes from the Committee meeting on March 8, were approved, as distributed. Regent Rice announced that item F-11 would be presented out of order after item F-2.

Treasurer of the Board Report (Information) (Item No. F-1)

Treasurer Scott announced that his comments would be broader henceforth, as he planned to leave detailed financial reporting to the Vice President of Finance.

- i) One year ago he presented forecasts based on various scenarios to the Board and will do so again in May. He underscored that all of this month's requested Stage 1 capital project approvals were included in the capital plan approved by the Board in January 2018 and that the University's debt capacity would remain constant with issuances of \$100 million in each of the next five years, even as interest rates rise, market yields decline, and variable rate debt becomes more attractive.
- ii) Dr. Scott noted that the University faces considerable deferred maintenance, as was reported to the Board two years ago. This year a working group is identifying solutions for presentation to the Board. He noted that this problem had developed over a twenty-year period and would be resolved over a similar period.
- iii) The UW remains one of the safest places to work in Washington. Capital Projects and Facilities Services have instituted a formal accident review process, review incident data at their meetings, and have reached out to contractors to encourage a proactive attitude to workplace safety.
- iv) Risk Management Services now reports to him. Dr. Scott thanked Dave Anderson for taking on this area on an interim basis.
- v) Finally, with respect to workplace climate, Capital Projects and Facilities Services are pursuing a culture change initiative aimed at breaking down functional silos, creating an inclusive culture, and encouraging worker empowerment and accountability. Those responsible have been engaging in listening sessions with employees.

Finance & Capital Report (Information) (Item No. F–2)

Mike McCormick, Associate Vice President, Capital Planning and Development, reported that the Life Sciences Building is \$4 million under budget and that the North Campus Housing Project has a perfect safety record. The new Burke Museum is scheduled to open as planned in November 2019. Ground will be broken for construction of the new Population Health Facility later this month, delayed somewhat by the permitting process with the City of Seattle. With respect to business equity, there have been incremental improvements and there remain many new contracts to award. Chris Malins, Associate Vice President, Treasury Office, and President Cauce added that the delayed passage of the State's capital budget added \$900,000 in costs to the Burke Museum project, but that those costs would have been far larger had the Regents not approved the bridge loan.

Mr. Malins began by remarking that increased volatility in equity markets has led to volatility in fixed income markets. The thirty-day commercial paper rate is currently 1.3 percent. Long-term AAA bonds are at 3 percent. The bonds that the UW issued last month would presently be issued at 3.9 percent, 20 basis points higher than the issuance. The University has \$2.37 billion in outstanding debt, lowered by a \$24.5 million payment of principal for UW Medicine South Lake Union. This amount will remain constant for the next five years, with repayments of old debt and issuances of new debt. There is \$40 million of commercial paper outstanding for ongoing projects. All commercial paper required for the Burke Museum project has been repaid. With respect to variable interest rate debt, the Board has set a ceiling of 20 percent of the overall debt portfolio, but has not yet issued any variable-rate debt other than commercial paper.

Brian McCartan, Vice President of Finance, explained that variable-rate debt is a common tool for public sphere issuers. Proportions of 10 to 20 percent of overall debt are common. Average variable-rate debt as a proportion of total debt stands at 17 percent for thirty peer institutions and at 14 percent for the public institutions among that group. For the UW, the proportion is currently 1 percent. Mr. McCartan will report back next month on costs and benefits of issuing variable-rate debt.

Asked if it would have been better to be the University of Michigan, a comparison provided in the item, which has a greater proportion of variable-rate debt than the UW does, for the previous ten-years but not for the next ten years, Mr. McCartan responded yes, in general. Because it is likely that markets are headed for higher long-term rates, it would be best to gain exposure to variable-rate debt gradually.

See Attachment F–2.

Approve Intercollegiate Athletics (ICA) Product Supply and Sponsorship Agreement (Action) (Item No. F–11)

Jennifer Cohen, Athletic Director, and Kate Cullen, Senior Associate Athletic Director/CFO, ICA, reported that the UW was currently in a ten-year re-extension of its contract with Nike that will expire in June 2019. ICA's Financial Stability Plan (FSP) means that the apparel contract is a crucial contributor to financial stability. With knowledge of this, Ms. Cohen made the decision to go to market for a new apparel contract. Of the three largest apparel providers for collegiate athletics, Nike, Adidas, and Under Armour, only Adidas and Nike chose to make offers. Adidas made a generous offer, as described in the attachments, offering annually \$5.3 million in cash, \$5.75 million in product, \$1.1 million in marketing and branding, and performance bonuses potentially amounting to more than \$120 million. Holding first right of refusal, Nike's counteroffer did not match this.

Ms. Cohen conceded that the ongoing FBI investigation of college basketball had revealed a rogue employee at Adidas to have operated in violation of NCAA standards. She stated that this employee had been operating independently and that Adidas had made internal changes to demonstrate its commitment to

ethical behavior, for instance, by including an ethics clause in the proposed contract. Over the ten-year contract, there is both “look in” language and provision for two reviews of the UW—Adidas relationship. She concluded by stating that uniform design has not yet been settled.

President Cauce commented that she appreciated her close partnership with ICA and how Ms. Cohen has kept her in close contact throughout the process. In fact, President Cauce had reached out to the presidents of ten other universities with Adidas apparel contracts for their experiences with the company.

Asked about the views of coaches and student athletes, Ms. Cohen stated that she had elicited the input of coaches and of her executive team during the process. All groups were content, with the possible exception of former student athletes who strongly identified with the Nike brand.

Asked about reputational risks, potential costs for early termination, and potential appearance of endorsing improper behavior, Ms. Cohen responded that the intent was not to endorse unethical behavior. The UW partners with many organizations, some of which have had issues in the past. She is focusing on the future and on Adidas’s commitment to ethical behavior moving forward. Asked if she was aware that Kansas State had just signed a \$190 million, twelve-year contract with Adidas, Ms. Cohen responded that she was not.

Asked how the UW would respond if the Rice Commission discovers further ethics violations within Adidas, and why the two review opportunities were not included in the agreement as presented, Ms. Cohen responded that the UW could terminate the contract and that the review provisions were in the long-form agreement that she would negotiate, if the Regents granted her the delegation in the item.

It was commented that concerns about Adidas in the press reflected the fact that the unethical behavior of the employee in question had been intended to defraud universities of revenue.

Regent Ayer moved, Regent Zeeck seconded, and the Finance and Asset Management Committee approved the Intercollegiate Athletics (ICA) Product Supply and Sponsorship Agreement with Adidas, as presented. Regent Blake abstained from the vote.

See Attachment F–11.

#### Intercollegiate Athletics (ICA) Financial Review and Semi-Annual Borrower Report (SABRe) (Information) (Item No. F–3)

Ms. Cohen began by noting that the Financial Stability Plan (FSP) had been created while she was assembling her new leadership team.

Ms. Cullen highlighted the April SABRe included in the Board’s materials. She stated performance relative to the FSP had been good. ICA departmental culture was directed at achieving financial stability. Success in football and in philanthropy had improved results beyond what was budgeted. ICA forecasts a \$2.7 million deficit for the last year of its FSP, which it will cover with reserves. Ms. Cullen pointed out that cash-flow was counted on an accrual basis, while reserves were counted on a cash basis.

Ms. Cullen pointed out that initial market-based projections had ICA still struggling to break even in Fiscal Years (FY) 2019-2021. However, the Adidas contract allows ICA to better balance capital expenditures and cash flow, to increase its fund balances, and to pay the new 20 percent excise tax on salaries exceeding \$1 million per year.

Asked why the \$900,000 in capital projects moved from FY 2019 to 2018 did not appear in FY 2019, Ms. Cullen responded that they had already been incorporated in the SABRe. They were not, however, yet accounted for in the October 2017 ICA SABRe.

Asked about assumptions of the model, Ms. Cullen responded that ICA assumed current levels of season ticket sales, \$2 million in additional revenue every other year when the UW plays the University of Oregon and WSU in home football games, and reduced transportation expenses for travelling teams. Ms. Cohen added that ICA took an optimistic but conservative approach.

Asked what the expected capital projects were, Ms. Cullen and Ms. Cohen pointed to numerous expensive repairs to playing fields, to the surface in Hec Edmundson Pavilion, to the roof of the Nordstrom Tennis Center, and to track surfaces.

Asked about plans for further luxury seating for football games, such as the conversion of more seats to club-level seats, Ms. Cullen stated that the \$600,000 expected cost of this conversion would be paid back in the first year with expected annual revenues of \$600,000 from the converted seats.

See Attachment F-3.

#### Capital Projects Overview (Information) (Item No. F-4)

Mr. McCormick explained that capital projects come before the Board three times: first for inclusion in the capital plan, second for Stage 1 approval, and third for Stage 2 approval. Stage 1 approval provides for the preconstruction budget, choice of architect, and site approval.

Asked if there were no maintenance reserves included in these projects, Mr. McCormick replied that there were not, but that, in the cases of the Parrington Hall and Kincaid Hall renovations, reduced utility costs would be reallocated to maintenance costs. In the case of the Foster School Expansion and Northwest Hospital Childbirth Center, increased revenue will pay for maintenance.

See Attachment F-4.

#### Parrington Hall Renovation: Stage 1 Approval (Action) (Item No. F-5)

Mr. McCormick stated that the project would reduce the load of deferred maintenance on campus and involved a selective renovation, not a full 'gut' renovation.

Sandra Archibald, Dean of the Evans School of Public Policy and Governance, stated that the Evans School currently has only two classrooms that accommodate its 25- to 40-student class sizes. First-year classes use these rooms for 40 hours each week. Second-year classes must be held elsewhere, scattered across campus. The renovated Parrington Hall will contain new heating and lighting systems, six new team rooms, five new interactive classrooms, and flexible seminar and staff spaces adequate to new pedagogical methods.

Regent Blake moved, Regent Ayer seconded, and the Finance and Asset Management Committee granted Stage 1 approval to the Parrington Hall Renovation project, as presented.

See Attachment F-5.

#### Kincaid Hall Renovation: Stage 1 Approval (Action) (Item No. F-6)

Mr. McCormick said that Kincaid Hall was constructed in 1971 as a wet laboratory facility. With those labs planned to relocate to modern laboratory spaces in the Life Sciences Building, Kincaid Hall remains a useful container for other uses, such as the psychology clinics displaced by the construction of the Population Health Facility. The project will be debt-funded.

Steve Majeski, Associate Dean for Research Administration and Infrastructure, College of Arts and Sciences, reported that twenty years ago the College identified two capital priorities in addition to the ‘restore the core’ initiative: space for biology and the life sciences and space for psychology. The new Life Sciences Building will address the former, the renovation of Kincaid Hall will partly address the latter, helping to centralize spaces for a department that is in the top five nationally but that has hitherto been dispersed across campus.

Regent Blake moved, Regent Ayer seconded, and the Finance and Asset Management Committee granted Stage 1 approval to the Kincaid Hall Renovation project, as presented.

See Attachment F–6.

Foster School Expansion (FSE): Stage 1 Approval (Action) (Item No. F–7)

Mr. McCormick stated that the Seattle Landmarks Commission had voted four to three against granting Mackenzie Hall landmark status. This project will be 100-percent donor-funded and will require a bridge loan. Pledges were expected to be paid by the summer of 2019.

James Jiambalvo, Dean, Foster School of Business, with Michelle Griffin, Assistant Dean for Finance and Facilities, explained that the project will replace Mackenzie Hall, eliminating much deferred maintenance and provided much-needed additional space for students, faculty members, staff members, career services, team meeting rooms, modern classrooms, video production spaces for ‘flipped’ instruction, and event spaces. The fundraising goal is \$70 million, to cover the debt costs for the \$60 million project. Dean Jiambalvo has not been able to secure a lead donor at the \$30 to \$35 million-dollar level, but has secured eight ‘founders’ at the \$5 million-dollar level. \$57 million were pledged to date, of which \$25 million have already been received in cash.

Provost Baldasty added that this project will contribute to the new life in the North Campus area and facilitate a robust student experience for business students outside of the classroom.

Dean Jiambalvo added that the construction of Paccar Hall rejuvenated the Foster School, which is now the third-ranked public business school after UC Berkeley’s and the University of Michigan’s business schools. President Cauce commented that the impact of constructing Paccar Hall on the Foster School has convinced her that facilities matter.

Regent Ayer moved, Regent Zeeck seconded, and the Finance and Asset Management Committee granted Stage 1 approval to the Foster School Expansion project, as presented.

See Attachment F–7.

Northwest Hospital Childbirth Center (NWH CBC): Stage 1 Approval (Action) (Item No. F–8)

Mr. McCormick began by stating that childbirth is an important area of discretionary healthcare spending. Doubling capacity and improving childbirth-related facilities at Northwest Hospital & Medical Center (NWH) is an important part of UW Medicine’s Financial Stability Plan, also known as Project FIT. This is a 100-percent debt-funded project, with predicted returns sufficient to repay debt costs. He will return with a funding plan in September.

Lisa Brandenburg, Chief Health System Officer, UW Medicine, reported that NWH provides an ideal campus for a childbirth center. NWH captured much of the local childbirth market fifteen years ago, but this has been flat for five years because the facilities are no longer competitive in a market in which 50 percent

of first-time mothers choose their childbirth location before they choose their doctor. In addition, aging facilities make the recruitment and retention of top medical staff challenging. That said, current patient satisfaction is high: patients compliment NWH staff but note that its facilities need improvement. UW Medicine plans to recruit more obstetricians to practice at NWH to better serve the growing population of the North King County and South Snohomish County area.

Asked about the financial impact of these renovations, Jacqueline Cabe, Chief Financial Officer, UW Medicine, Vice President for Medical Affairs, replied that from a health system perspective, repairs at NWH will benefit UW Medical Center (UWMC). The five-year base model predicts positive cash flow and assumes that 1.5 percent of births at NWH will require use of the UWMC NICU, below the current rate of 3 percent.

Regent Blake added that the UW Medicine Board's Finance and Audit Committee endorsed this proposal after robust discussion.

Regent Blake moved, Regent Ayer seconded, and the Finance and Asset Management Committee granted Stage 1 approval to the Northwest Hospital Childbirth Center project, as presented.

See Attachment F-8.

#### Quarterly Advisory Committee on Real Estate (ACRE) Update (Information) (Item No. F-9)

Todd Timberlake, Chief Real Estate Officer, was unable to attend.

Regent Benoiel, Chair of ACRE, reported that the committee held its quarterly meeting in the Luskin Conference Center on the UCLA campus, where it engaged in a deep dive into the finances of the conference center. This 250-room hotel with 250,000 square feet of event space had brought conference expenses in-house for UCLA. Dr. Scott added that the UCLA conference center has already recaptured \$4 million of conference revenue. One year in, the project has broken even and is on-target with respect to its proformas.

Dr. Scott reported that the Rainier Square project is on track, with no issues, and will now include a large, high-end grocery outlet. The search for creative financing opportunities related to other projects is ongoing. He will return in two months to present funding options for the University District Station Building.

#### Resilience and Compliance Update (Information) (Item No. F-10)

David Anderson, Interim Associate Vice President, Compliance and Risk Services, stated that the day's updates focus on two areas: global activities and information. Clery Act compliance is difficult for foreign locations because of foreign governments' different manners of reporting crimes. The category of export controls also applies to the access of foreign nationals to UW research. The UW has created the position of Assistant Vice Provost for Export Control to oversee this important area. In the second category, work is ongoing to balance FERPA concerns about the disclosure of student information in emergencies with the imperative to prevent harm to students' selves and to others. To that end, Risk and Compliance has developed criteria for appropriate release of student information and procedures for documenting that appropriate steps have been taken.

Finally, Mr. Anderson discussed risk with respect to the Internet of Things. Most electronic devices lack rigorous security capabilities. Each time a new device connects to the UW's IT infrastructure it increases risk. His team has made good, incremental progress in this area where there is no magic security bullet.

See Attachment F-10.

Executive Session

Regent Rice announced that the Committee would go into executive session to discuss with counsel litigation or potential litigation as defined in RCW 42.30.110.

Adjourn

Returning to open session, and hearing no other business to come before the Committee, Regent Rice adjourned the Finance and Asset Management Committee meeting at 10:47 a.m.

*Approved at the meeting of the Committee on May 10, 2018.*