

**MINUTES**

**UNIVERSITY OF WASHINGTON  
BOARD OF REGENTS**

**Finance and Asset Management Committee**

**March 8, 2018**

**Rose Room, Founders Hall, UW1-280, UW Bothell**

Call to Order and Attendance

Committee Vice Chair Regent Blake called the meeting to order at 9:40 a.m. in place of Committee Chair Regent Rice, who participated by telephone.

Committee Members present: Regents Blake (chairing), Ayer, Harrell, Rice (by telephone), Zeeck

Other Regents present: Regents Benoliel, Goddard, Jaech, Riojas, Tamaki

Others present at the table: President Cauce, Provost Baldasty, Treasurer Scott, GPSS President Kim, ASUW Bothell President Juarez, and Faculty Senate Chair Way

Approval of Minutes and Consent Agenda

2017 Internal Audit Results (Information) (Item No. F-1)

Actions Taken Under Delegated Authority (Information) (Item No. F-2)

Regent Blake announced that, hearing no objections, the minutes from the Committee meeting on February 8, were approved, as distributed. Regent Blake stated that, hearing no objections, items F-1 and F-2 would appear on the consent agenda.

See Attachments F-1 and F-2.

Treasurer of the Board Report (Information) (Item No. F-3)

Jeff Scott, Executive Vice President, Finance & Administration and Treasurer of the Board, gave his report. Treasurer Scott introduced Brian McCartan, newly hired as Vice President of Finance, noting, with reference to the biography provided in the Regents' packets, that Mr. McCartan comes to the UW from Sound Transit and before that from the City of Seattle, where he managed its debt portfolio.

Treasurer Scott offered an update on Finance Transformation, stating that implementing the new financial reporting system will improve financial transparency, help to identify potential issues earlier, facilitate better forecasting, and reduce staff workload. The University is approaching Finance Transformation in a different manner than it approached the HR Modernization Project, securing more user participation, in particular with respect to the design of the chart of accounts. He concluded by noting that the annual financial planning process was underway and that capital and operating budgets would likely come to the Board for approval in June.

Consolidated Endowment Fund (CEF) Spending Policy Update (Information) (Item No. F-4)

EVP Scott noted that the UWINCO Board had, almost one year ago, recommended reducing the Consolidated Endowment Fund (CEF) spending rate from 5 to 4.5 percent. Subsequent market performance, particularly with

respect to equities, has been stronger than expected. Long-term market fundamentals remain less promising: real long-term returns will decline as interest rates rise and monetary policy tightens. The University has decided not to recommend a change in the current CEF spending policy, which remains at 5 percent, but will revisit that decision as part of the annual financial planning process.

See Attachment F-4.

#### Finance & Capital Report (Information) (Item No. F-5)

Asked by Regent Blake about the report's new title, EVP Scott noted that this title reflects not just the hire of a Vice President of Finance but the potential for this report to capture broader financial issues facing the University of Washington and to broaden the scope of the conversation beyond only debt and capital projects.

Mike McCormick, Associate Vice President, Capital Planning and Development, stated that there were no significant changes to his report from last month. The first two projects appear for the last time as they near completion, and will make room for five new projects that will come before the Board for Stage 1 approval next month. Indicators are mainly green, but additional Burke costs have turned that indicator yellow. It is hoped that additional state funding will turn that indicator back to green. The Population Health Facility remains impacted by permitting delays and has turned yellow. Last month's safety incidents are now appearing on his report. Although it remains three times as safe to work on the UW campus as elsewhere in the state on average, Capital Projects is undertaking a major safety campaign, with a particular focus on the later phases of construction when systems are fully powered up. Yellow and red indicators on the business equity scorecard highlight a past communications gap, in which requests for proposals and quotes included language directed at small businesses, as well as minority- and woman-owned businesses. This will improve as new projects come on line.

Asked why North Campus Housing IV(a) had greater minority- or woman-owned representation, Mr. McCormick responded that the UW had hired a major woman-owned electrical contractor.

Asked about the difference between figures for certified and non-certified minority- and woman-owned contractors, Mr. McCormick responded that there are two reasons: many contractors see little benefit from submitting to the State's certification process, in spite of the UW's encouragement; and, for instance, the large woman-owned electrical contractor from Housing IV(a) is ineligible for certification because of its size. Certification is therefore not a complete indicator of minority- or woman-owned status. Mr. McCormick concluded by observing that future reporting would focus on monitoring at the commitment rather than at the spending level.

Chris Malins, Associate Vice President, Treasury Office, highlighted the annual Internal Lending Program (ILP) Report, noting that there is about \$150 million in the program account, which includes both the rate stabilization account and the residual account which exits to fund debt service. He also drew attention to note 2, reminding Regents that these are accrual-based figures. The cash-based numbers in the audit are therefore overstated.

See Attachment F-5.

#### Semi-Annual Borrower Reports (SABRes) for Housing & Food Services, the UW Medicine Clinical Enterprise, and the School of Medicine South Lake Union (Information) (Item No. F-6)

Mr. Malins began by noting that Attachment 1 to the item explains the ILP framework.

Pam Schreiber, Assistant Vice President for Student Life and Executive Director, Housing & Food Services (HFS), reported that North Campus Housing Phase IV(a) is on schedule and within budget. Three buildings will

open for Fall Quarter 2018. North Campus Housing Phase IV(b) includes one new building in the design phase. A new contractor has recently been hired. She expects the new building to open by Fall Quarter 2020. Occupancy has been strong through the Winter and Spring Quarters, exceeding projections. Next year HFS will create 571 net new beds, accounting for new construction and for the return of doubles that had functioned as triples to double occupancy. There is a tremendous wait-list. HFS nevertheless monitors occupancy, its primary risk, on a weekly basis.

Jacqueline Cabe, Chief Financial Officer of UW Medicine and Vice President for Medical Affairs, reported that UW Medicine will be operating under a financial stability plan (FSP) until 2020, providing SABRes for the consolidated Clinical Enterprise and for UW Medical Center (UWMC) and Northwest Hospital and Medical Center (NWH). She noted that Harborview Medical Center (HMC), Valley Medical Center (VMC), and the School of Medicine are excluded from the Clinical Enterprise as presented. Debt service coverage for UWMC exceeds ILP requirements, while debt service coverage for NWH is lower than ILP requirements. Cash on hand at UW Medical Center (UWMC) is lower than required by ILP standards but favorable to budget, while cash on hand at NWH is favorable to ILP standards. UW Medicine continues to work aggressively to improve its financial performance, as previously presented under its FSP, otherwise known as Project FIT. UW Medicine South Lake Union has seen increased grant activity and therefore increased indirect cost recoveries. Its proforma for 2019 to 2022 has improved. Occupancy projections are likely understated, as they include only confirmed activity.

See Attachment F-6.

Approve 2018-2019 Student Housing Rental and Dining Plan Rates at UW Seattle (Action) (Item No. F-7)

Denzil Suite, Vice President for Student Life, introduced Ms. Schreiber, recognizing the extraordinary efforts that she and Karis Kim, President of the Residential Communities Student Association (RCSA), have made to involve students as collaborators in the rate-setting process.

Ms. Schreiber reported that her goals are always to find cost savings and to provide an outstanding residential and dining program. The HFS budget is developed prior to comparisons with other PAC-12 and Washington State institutions. HFS makes no assumptions about increasing, decreasing, or maintaining fees at the outset, seeking the lowest possible increase. Opportunities to offset new expenses are aggressively sought. This year, she recommends a 5.21 percent increasing in housing rates, a 2.5 percent increase in dining rates, and a 2.91 percent increase in family housing costs. New housing types in North Campus will offer students residential options that are cheaper than traditional doubles with private baths. Currently, 41.7 percent of HFS stock consists of doubles with private bath, 47.1 percent consists of less expensive housing options and 11.2 percent of more expensive housing options.

Ms. Kim stated that she was the student advocate at HFS and had participated in weekly budget committee meetings with thirteen representatives from residential communities and the ASUW. Representatives communicate resources on HFS proposals to hall councils. She noted that this is the second year of the Budget Advisory Committee (BAC). It now has a website created by students to share accurate information about housing and dining rate proposals. She thanked Ms. Schreiber and her team for a cooperative learning experience and stated that the RCSA and HFS would continue to co-sponsor the BAC. She then read the following communication from Matt Marshel, RCSA Director of Administration and Finance and Chair of the BAC, into the record:

“The Budget Advisory Committee (BAC) was created to provide financial transparency to HFS residents regarding the HFS Budget and Operations. After only our second year in operation, I can proudly say that we have been extremely successful in executing our mission. With thirteen BAC representatives, one from each residential community, we have been able to act as a direct resource to residents and provide them with relevant HFS information. Each BAC member has demonstrated a

strong commitment to learning and communicating HFS knowledge to residents by regularly attending BAC and hall council meetings. The BAC has been instrumental in presenting the new rates proposals to hall councils, a critically important procedure that leads to an RCSA endorsement. Through the initiative of a BAC member, we have also launched a public BAC website that showcases helpful and frequently requested information for all residents to view. Our website has garnered over 1,200 views in just two months. The BAC has been a great experience for anyone looking to learn about HFS and develop his or her financial acumen. All of our past members have thoroughly enjoyed the experience.”

Asked about the largest factor motivating the rate increase, Ms. Schreiber replied that labor costs are the largest exposure. This year, the City of Seattle’s mandated minimum wage, which will inflate each year with the City’s estimate of inflation every October, and two mandated two-percent wage increases for classified staff are the main factors. In addition, many classified staff who were formerly at the highest step in their categories were moved down a step at the same pay, opening up the possibility of a 5 percent step increase at their next work anniversaries.

Complimented on the peer comparisons, and asked about the methods for compiling them, Ms. Schreiber responded that they are based on outreach to peer institutions. HFS seeks comparable rooms by a number of factors, but finding comparable dining plans is harder. Some institutions charge a unified fee for housing and dining, but HFS seeks greater transparency, and so requests figures for required base plans analogous to the UW’s dining plan.

Asked if HFS has a target increase relative to peers at the outset of budgeting, Ms. Schreiber affirmed that HFS does not. Rate comparisons come only after HFS has determined its costs and potential offsets.

Asked if labor will continue to drive cost increases, Ms. Schreiber replied that it will, particularly with respect to the minimum wage but not necessarily with respect to classified staff.

President Cauce interjected to note that those who complain most vocally about housing and dining rate increases often clamor most loudly for a higher minimum wage, higher salaries for custodial staff, and for more expensive food.

Asked about new room types, Ms. Schreiber described design triples and quads with private bath. Both room types require fewer bathrooms and accommodate more students in the same square footage, reducing costs to HFS and thereby to students.

Asked about the origin of the Stevens Court variance, Ms. Schreiber replied that age and privacy are the two major variables impacting differential rates. Stevens Court rates should therefore have been reset in 2016 after the completion of an extensive renovation. They were not. In addition, Stevens Court does not contribute proportionally to the pooled reserve fund for all residence halls. Asked whether current residents can stay, Ms. Schreiber responded that current occupants get priority and that all present Stevens Court residents have absolute priority in housing choice: at present 331 of 538 have elected to stay.

Asked about the reserve fund, Ms. Schreiber responded that it was an aggregated fund drawing on prorated contributions from each residence hall.

GPSS President Kim complimented Vice President Suite and Ms. Schreiber for excellent communications. Regent Goddard reminded Regents that many students worked for HFS and benefitted from the increased minimum wage.

Regent Harrell moved, Regent Ayer seconded, and the Finance and Asset Management Committee approved 2018-2019 Student Housing Rental and Dining Plan Rates at UW Seattle, as presented.

See Attachment F-7.

Approve 2018-2019 Student Housing Rental Rates at UW Tacoma (Action) (Item No. F-8)

Tye Minckler, Vice Chancellor for Finance & Administration, UW Tacoma, thanked Brittany Iwaszkiw, Residence Life Coordinator, UW Tacoma, and Mike Russell, Manager of Auxiliary Finance & Operations, UW Tacoma, for their efforts.

Ms. Iwaszkiw stated that Court 17 occupancy was at 101 percent at the beginning of the year and that Residence Life would seek to maintain 95 percent occupancy throughout the year. She noted that last year's 2 percent rate increase funded known expenses, but only on the basis of three months of experience. Mr. Russell stated that this year's request reflected sixteen months of operational data. This data-driven, financially defensible budget meets ILP requirements. As elsewhere, labor is driving increases.

Ms. Iwaszkiw noted that UW Tacoma has engaged Court 17 residents. Mr. Russell added that it is undertaking a phased right-sizing of rates in response to student concerns. Ms. Iwaszkiw noted that three of four residents will return in Autumn Quarter 2018, according to a recent survey.

Asked why their report differed from Ms. Schreiber's, Mr. Russell responded that the PAC-12 is not an appropriate comparison for UW Tacoma. UW Tacoma's peer, regional institutions lack comparable housing: Court 17 is a market-style apartment building hard to compare to dormitory-style housing at UW Tacoma peer institutions. In addition, the rate increase reflects costs that were not apparent last year, when only three months of operational data on Court 17 were available when UW Tacoma presented its housing rates for Board approval.

Regent Harrell then asked for input from student leaders, and invited Arwa Dubad, ASUW Tacoma President, to the table. Ms. Dubad reported after a two-hour discussion on February 7, ASUW Tacoma declined to endorse UW Tacoma's housing rate proposal. She stated that internet service at Court 17 was spotty and fears that some students will be pushed out of Court 17 into homelessness by the proposed fee increase.

Asked if there was a structured process for engaging students, Mr. Russell responded that UW Tacoma is small and has owned only one, market-style apartment building for less than two years. It is still developing the infrastructure of student consultation and engagement. Increases could have been better contextualized, in his opinion. Ms. Iwaszkiw reported that UW Tacoma has created a Residence Hall Association.

President Cauce observed that UW Tacoma and UW Bothell were initially commuter campuses and remain much more regionally focused than UW Seattle.

Ms. Dubad stated that she believes that students residing in Court 17 either chose a residential college experience or have families that reside outside a commutable range.

Regent Ayer moved, Regent Zeeck seconded, and the Finance and Asset Management Committee approved the 2018-2019 Student Housing Rental Rates at UW Tacoma, as proposed, with the modification proposed by Regent Harrell that UW Tacoma return to the Board with updates on internet service at the Court 17 Apartments and on its student engagement plans within two months.

See Attachment F-8.

Approve 2018-2019 Student Housing Rental Rates and Student Housing Parking Permit Rates at UW Bothell  
(Action) (Item No. F-9)

Ruth Johnston, Vice Chancellor, UW Bothell, stated that the new Chancellor’s Advisory Council on Students has been working with ASUW Bothell to engage students in the rate-setting process. Vice Chancellor Johnston introduced Chelsea Knodel, Director of Auxiliary Services at UW Bothell.

Ms. Knodel reported that last year Regents had encouraged UW Bothell to emulate the HFS student engagement process. She has “Bothell-ized” this process, scaling it to a smaller campus and much less extensive residential life system. A liaison from the Residence Hall Association (RHA) and the ASUW Bothell President have been delegated to the Chancellor’s Advisory Council. There were regular community conversations between the administration and residence hall executive boards, twice as many as last year.

This year UW Bothell has sought the lowest rises possible, investigating potential offsets aggressively. Last year’s rate proposal was a 0 percent increase. This year a 4.82 percent increase reflects increasing maintenance costs. The cost of maintenance services, greatly in demand for what Ms. Knodel described as “vintage” buildings, increased by 12 percent. In addition, UW Bothell seeks to restructure parking permit fees.

Asked to give his opinion, ASUW Bothell President Juarez stated that ASUW Bothell as a whole was not consulted. Ms. Knodel added that ASUW Bothell President and the RHA could not alone carry the burden of liaising between ASUW Bothell, the RHA, and UW Bothell.

Mr. Juarez requested the same proviso on UW Bothell rate proposal as had been appended to the UW Tacoma rate proposal.

Regent Harrell moved, Regent Ayer seconded, and the Finance and Asset Management Committee approved the 2018-2019 Student Housing Rental Rates and Student Housing Parking Permit Rates at UW Tacoma, as proposed, with the modification that UW Bothell return to the Board with an update on its student engagement plans within two months.

See Attachment F-9.

Financial Performance Update for the School of Dentistry (Information) (Item No. F-10)

Gerald J. Baldasty, Provost and Executive Vice President, introduced the item. In spite of additional funds received from Medicaid, a large gift from Children’s Hospital and Medical Center, and reduced spending, the School of Dentistry ended Fiscal Year 2017 with an accumulated debt of \$36 million, which is anticipated to grow to \$42 million by the end of this year. Deloitte Consulting has mapped a clear path forward in the report included in additional materials distributed to Regents and available on the web prior to the meeting. Provost Baldasty drew attention to the School’s large supplement, which is proportionately the second largest in the University when measured with respect to tuition revenues. The Deloitte study confirms that losses are concentrated in the clinics. Provost Baldasty affirmed that the School of Dentistry will not be self-sustaining moving forward, but that the clinics must be.

James Johnson, Interim Dean of the School of Dentistry, enumerated the steps taken, listed on Slide 5 of the attached presentation. A proposed partnership with a community health clinic to run the Pediatric Dentistry Clinic has proven unsuccessful. He noted that the School is still short of the Provost’s requirements that it save \$2 million this year and \$5 million next year.

Sarah N. Hall, Associate Vice Provost, Office of Planning and Budgeting, added that the School is moving to a one-clinic model, seeking to align resources with demand. The example of a dashboard included in the

attachments will help the School manage its resources more effectively so as to attain its revenue and cost savings targets. December 2018 is the deadline for the design of the School's clinical strategy, which will then be implemented. Fiscal Year 2019 budget construction is underway.

See Attachment F-10.

UWINCO Investment Performance Quarterly Report – Quarter Ended December 31, 2017 (Information) (Item No. F-11)

Benchmarking University Advancement Performance (Information) (Item No. F-12)

Audit Advisory Committee Update (Information) (Item No. F-14)

Regent Blake announced that, hearing no objections, the written reports for Items F-11 and F-12 would suffice and that no report would be given from the Audit Advisory Committee's recent meeting. The Committee therefore proceeded directly to Item F-13.

See Attachments F-11, F-12, and F-14.

Approve Institutional Gift Assessment (Action) (Item No. F-13)

Regent Blake requested that, in order to get the meeting back on time, the written presentation of the item would suffice, and that President Cauce and Provost Baldasty might take questions.

President Cauce stated that the Regents had discussed the assessment in February and that the proposed 5 percent assessment on gifts between \$1,001 and \$5 million should yield approximately \$5.5 million next year. She emphasized that there is no free lunch, and that every gift generates costs. New gift-funded buildings will in fact generate up to \$20 million in annual maintenance costs. The assessment has been endorsed by Provost Baldasty in collaboration with the Board of Deans and Chancellors and by the UW Foundation Board.

Regent Harrell moved, Regent Ayer seconded, and the Finance and Asset Management Committee approved the Institutional Gift Assessment, as proposed.

See Attachment F-13.

Adjourn

Hearing no other business to come before the Committee, Regent Blake adjourned the Finance and Asset Management Committee meeting at 12:04 p.m.

*Approved at the meeting of the Committee on April 12, 2018.*