

MINUTES

**UNIVERSITY OF WASHINGTON
BOARD OF REGENTS**

Finance and Asset Management Committee

**Thursday, February 14, 2019
Petersen Room, Allen Library**

Call to Order and Attendance

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

Present: Regents Benoliel (Chair), Ayer, Harrell, Jaech, MacPhee, Rice, Riojas, Tamaki, Zeeck, Zhou; President Cauce, Provost Richards, the Secretary.

Approval of Minutes

Regent Benoliel announced that, hearing no objections, the minutes from the Committee meeting on December 13, 2018, were approved, as distributed.

Regent Benoliel welcomed Regent MacPhee to her first meeting of the Finance and Asset Management Committee.

Actions Taken Under Delegated Authority (Information) (Item No. F-1)
2018 Internal Audit Results (Information) (Item No. F-2)

Regent Benoliel announced that, hearing no objections, items F-1 and F-2 would appear on the full Board's consent agenda.

See Attachments F-1 and F-2.

Finance & Capital Report (Information) (Item No. F-3)

Brian McCartan, Vice President, Finance, reported on two items. The bond resolution of \$100 million approved by the Board in July 2018 was issued on January 17, 2019 at a rate of 1.93 percent. It is a thirty-year bond, with a variable rate re-setting at three years. It will fund debt for North Campus Housing Phase IV(a) and the Life Sciences Building. Moody's has reaffirmed its Aaa rating of the University's debt, retaining its negative outlook. Standard and Poor's affirmed its AA+ rating. Mr. McCartan's second update concerned interim financial results for Fiscal Year (FY) 2019 through December 31, 2018. In FY 2018 revenues grew by 6 percent, while expenses grew by 3 percent. Interim FY 2019 results show revenues growing by 5 percent and expenses growing also by 5 percent. With challenging market conditions affecting investment returns, which nevertheless remain above the UW's benchmark, these are neutral results

Lou Cariello, Vice President, Facilities, reported that the shortfall on the Burke Museum Project has been resolved. The College of Arts and Sciences has issued a loan, repayable on a six-year term. The revision of what constitutes a substantial alteration in the Seattle Building Code has resulted in a shortfall of \$3.8 million for the Parrington Hall Renovation. The Evans School is exploring loan options with the Treasury Office. Even though it is not possible to reduce the scope of the project, he hopes to bring the project forward for Stage 2 approval in March.

Asked if these code changes will affect other renovation projects, Mr. Cariello replied that they will. Asked if the new Burke Museum will open in October, as planned, Mr. Cariello stated that it will.

Mr. Cariello reported that four buildings initially concluded in the first phase of seismic improvements have been deferred to the next phase to preserve the \$17 million project budget. Ribbon-cutting on the Bill & Melinda Gates Center for Computer Science and Engineering is expected for February 28. He thanked the Diversity, Equity, and Inclusion Advisory Committee for its engagement around the business equity scorecard, drawing attention to particular success with the Population Health Facility, which is very close to achieving its 20 percent goal of spending with small and minority- or woman-owned businesses.

Regent Harrell asked if it were possible to include a time series on the business equity scorecard.

Asked about the Northwest Hospital Childbirth Center, Mr. Cariello answered that the project is moving forward, but experiencing some issues with budget and scope. He expects to deliver it on schedule.

Asked about the numerous “to be determined” ratings in the safety column of the capital projects scorecard, Mr. Cariello replied that the rating comes only with Stage 2 approval and the start of construction.

See Attachment F–3.

Audit Advisory Committee Update (Information) (Item No. F–4)

Regent Zeeck reported that the Audit Advisory Committee had met and discussed Finance Transformation, information security, interim second-quarter financial results, 2019 Internal Audit results, the 2020 Internal Audit work-plan, and the UW’s engagement letter with KPMG. Committee members discussed audit oversight for UW Medicine and will bring this topic back to the Board for discussion.

Richard Cordova, Executive Director, Internal Audit, added that KPMG will henceforth be auditing the UW under two different audit standards: Generally Accepted Governmental Auditing Standards (GAGAS) and Generally Accepted Auditing Standards (GAAS).

See Attachment F–4.

Approve Consolidated Endowment Fund (CEF) Spending Policy (Action) (Item No. F–5)

President Cauce introduced the item. Much work has gone into the proposal, which has been reviewed by the Board of Deans and Chancellors and by the UW Foundation Board of Directors. Last year, the Board delayed implementation of the reduction because of improved market conditions. This year’s market events suggest implementation of the recommended phased reduction to 4.5 percent over three years. The phased reduction of 10 basis points in FY 2020, 20 basis points in FY 2021, and 20 basis points in FY 2022 will minimize adverse impacts to donors and to campus units.

Mr. McCartan observed that the reduction protects the University’s endowment, while minimizing immediate impact to campus support.

Regent Tamaki moved, Regent Rice seconded, and the Finance and Asset Management Committee approved the Consolidated Endowment Fund (CEF) Spending Policy, as presented.

See Attachment F–5.

North Campus Housing Phase IV(b), Oak Hall: Stage 2 Approval (Action) (Item No. F-6)

Mr. Cariello introduced the item. Mike McCormick, Associate Vice President, Capital Planning and Development, stated that the Board had granted Stage 1 approval to the project in July 2016. All debt funding has since been removed: the project is now entirely funded by Housing & Food Services (HFS) reserves. The original general contractor-construction manager contract was terminated and replaced by a design-build contract, generating substantial savings. The overall project cost was approved at \$140 million in July 2016, reduced to \$86 million in September 2017, and stands presently at \$65.5 million. There are plans to reduce project scope in the event of altered circumstances. Mr. McCormick pointed out that the project's cost per bed exceeds its target because the project includes the renovation of Denny Field and other greenspace.

Pamela Schreiber, Assistant Vice President for Student Life and Executive Director, HFS, stated that HFS has delivered on its Master Plan, providing approximately 6,400 new beds and eliminating 2,250 beds on time and under budget. New residences include more student support spaces and will serve students beyond the term of the underlying debt.

Asked about the continued strength of student demand for on-campus housing, given ongoing construction in the University District, Ms. Schreiber responded that there has been no softening of student demand. Housing opened at 106 percent of capacity in the Fall Quarter. There were approximately 11,000 applications for 9,000 spaces. HFS has engaged a consultant to research developments in the University District housing market. Preliminary research suggests that many units under construction will be targeted not at students but at workers commuting to jobs in downtown Seattle.

Asked about demand for double rooms converted into triples, Ms. Schreiber stated that most students assigned to converted triples are freshmen. However, the request rate is high for designed triples and quadruple rooms in the North Campus area.

Asked about the stress tests for the project, Ms. Schreiber replied that there were two main variables: the occupancy rate and the cost of construction.

Regent Rice thanked Ms. Schreiber for contributing to improved student completion, known to be linked to on-campus residency.

Regent Ayer moved, Regent Rice seconded, and the Finance and Asset Management Committee granted Stage 2 approval to the North Campus Housing Phase IV(b), Oak Hall project, as presented.

See Attachment F-6.

Finance Transformation Update and Introduction of New Leadership: Assistant Vice President for Finance Transformation (Information) (Item No. F-7)

Mr. McCartan stated that he last updated the Board on Finance Transformation in June 2018. He then introduced the newly hired Assistant Vice President for Finance Transformation, Edward J. Loftus. Mr. Loftus told Regents that he had been at Bucknell University for eleven years, where he managed transformative change. Prior to that, he worked for ten years with Prudential Financial in mergers and acquisitions. He emphasized that this is not just an information technology implementation, but an institutional transformation requiring change in staff roles and business processes across the University.

Mr. McCartan reported that current work in the readiness phase is focusing on the nearly 800 auxiliary systems built around the legacy COBOL system. After being refreshed in 2017 following nine months of work with Deloitte Consulting, Finance Transformation is estimated to take three years and to cost \$200

million. Work is underway to validate both estimates. He sees Finance Transformation as an opportunity to centralize decentralized financial management processes for greater efficiency and control. Financial processes will be redesigned from the ground up. The quality of data input must be assured. UW Finance will apply the lessons of the HR/Payroll Modernization to Finance Transformation. Challenges include the 800 auxiliary systems handling financial data at the UW and UW Medicine and the difficulty of hiring qualified workers. Amazon.com is currently implementing Workday Finance and frequently offers twice the compensation that the UW can.

Asked how much customization will be permitted, Mr. McCartan replied that his and Mr. Loftus's task will be to allow only necessary customizations, in keeping with best practices. Each team will escalate requests for customization as necessary within the project's governance structure, if necessary to the Provost, its executive sponsor. He noted that this is the first time that the same financial management system will be simultaneously implemented for a university and for its academic medical center. Asked further about the path of escalation, Provost Richards stated that many important questions concerning customization have been devolved to deans and their senior advisors. Deans must take responsibility to say no, so the administration is cultivating these leaders. Finance Transformation must transform not just business practices but the institution as a whole. Two years of implementation difficulties are usual with such large projects.

Asked about retraining current UW employees, Mr. McCartan stated that there is a substantial training budget. Workday Finance will be tested before the system goes live, which was not done with Workday HR/Payroll, so as to identify major issues for remediation early. Mr. Loftus is working with Ann Anderson to ensure that new workers are onboarded not just to the current state of UW financial systems but to the planned future state. He invoked the image of an iceberg, stating that the technological change is the smaller portion visible above the surface of the water, while that the bulk of work required to change staffing and business processes is the larger portion below the surface.

Asked how long the UW will run parallel financial reporting systems, Mr. Loftus replied about one year.

Asked about the financial plan for Finance Transformation, Mr. McCartan stated that the draft plan is under review. It provides for one-third equity and two-thirds debt funding. After the project goes live, debt service and operational costs will be allocated to campus units. The cost side has yet to be validated.

See Attachment F-7.

Adjourn

Hearing no other business to come before the Committee, Regent Benoliel adjourned the Finance and Asset Management Committee meeting at 9:43 a.m.

Approved at the meeting of the Committee on March 14, 2019.