

**MINUTES**

**UNIVERSITY OF WASHINGTON  
BOARD OF REGENTS**

**Finance and Asset Management Committee**

**Thursday, November 12, 2020**

Call to Order and Attendance

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

Assistant Secretary Tennant called the roll. Present by videoconference and telephone were the Regents: Regents Tamaki (Chair), Ayer, Benoliel, Harrell, Jaech, MacPhee, Pogosian, Rice, Riojas, Zeeck; President Cauce, Provost Richards, the Secretary.

Approval of Minutes

Regent Tamaki announced that, hearing no objections, the minutes from the Committee meeting on October 8, 2020, were approved, as distributed.

Actions Taken Under Delegated Authority (Information only) (Item No. F-1)  
UW Advancement Annual Return on Investment Report (Information only) (Item No. F-2)

Hearing no objections, and praising Advancement's efficient operations, Regent Tamaki announced that Items F-1 and Item F-2 would appear on the full Board's agenda, as distributed.

See Attachments F-1 and F-2.

Finance, Budget, and Capital Report (Information only) (Item No. F-3)

Sarah N. Hall, Vice Provost, Planning & Budgeting, noted that the format of the Budget Report had been rearranged, and that a hyperlink to definitions of each budget area is now included. This defines fund sources, contextualizes their use, and identifies how each budget area is reported to the Regents. In comparison to last year at this time, core academic units have spent less of their budgeted amounts. Self-sustaining auxiliary units other than UW Medicine have seen revenue declines of 13 percent and expense reductions of 8 percent through September. Each unit has reserves, which are helping to sustain it. This will be reported on next month's Quarterly Borrower Risk Reports. These revenue declines are concerning.

Asked where revenues are increasing, Ms. Hall replied that the revenues of some Seattle fee-based programs are increasing.

President Cauce interjected that the situation of Housing & Food Services (HFS) is trending in a positive direction. It appears that 1,000 more students will reside on campus for Winter Quarter because HFS has so far prevented any community transmission of the coronavirus in campus housing. She expects continued losses at HFS, but is most concerned about the medical centers. Renewed cancellations of elective procedures would be absolutely devastating.

Ms. Hall continued that Autumn Quarter census data are encouraging from a budget perspective. They are predicted to be 1.8 percent greater than projected in the spring. There have been some enrollment declines in the professional schools, especially in the health sciences. The Fiscal Year (FY) 2022 budget development process is underway.

Brian McCartan, Vice President, Finance, reported that construction work for Finance Transformation is moving ahead, while integration work has been challenging. He last reported to the Board that there was a perilously narrow window remaining to achieve a go-live date in July 2022. It is now estimated that remediation work will extend beyond July 2022. His team is validating schedule estimates and exploring options, which he will present to the Board in December.

Asked how much of the contingency funds provided in the project budget have been used, Mr. McCartan replied that they will be needed for two additional expenses: first, for the purchase of an additional, necessary piece of information technology (IT) architecture, for which a cost estimate is forthcoming, and, secondly, to fund the extension of the program on account of delayed schedule. A six-month delay would exhaust contingency funds.

Lou Cariello, Vice President, Facilities, reported that five of thirteen active projects are under construction. The three yellow indicator lights on the Milgard Hall, Behavioral Health Teaching Facility, and the UW Bothell STEM 4 projects are a function of the present stage of the integrated design-build process. Project teams are exploring maximal scope and seeking the highest-value expenditures while remaining within project budgets. These indicators should revert to green when project scope has been defined. A Request for Proposals has been issued to developers for the Site W27 project. He expects to request developer selection from the Board in the autumn of 2021. Designer selection is underway for the Interdisciplinary Engineering Building. The Architectural Commission will select one of three proposed design firms. Projects are meeting or exceeding business equity targets. Target-setting for new projects is encouraging.

Regents thanked Mr. Cariello for his efforts toward business equity.

See Attachment F-3.

Approve IMA Locker Rooms and Pool Upgrades (Action) (Item No. F-4)

Mr. Cariello noted that the item had been presented last month for information and was now returning for additional discussion and potential action. This is a top student priority, with the \$5.5 million internal loan secured by a gross revenue pledge on student fees giving the project priority before other uses of those funds. It aligns with the Long-Term Capital Strategy's move to invest in existing rather than new facilities.

Asked about risks of the proposed funding structure, and whether the Husky Union Building (HUB) remodel project had been less risky, Margaret Shepherd, Chief of Staff in the Executive Office of the President and the Provost, replied that there are multiple statutory authorities for student fees. The HUB project was funded by a dedicated fee. This project is instead funded by gross student services and activities fee revenue and secured by a financing agreement between the students and the administration.

Regent Rice moved, Regent Harrell seconded, and the Finance and Asset Management Committee approved the IMA Locker Rooms and Pool Upgrades, as presented.

Regents thanked Nina Cao, Services and Activities Fee Committee Chair, for attending.

See Attachment F-4.

Review of Real Estate Strategy (Information only) (Item No. F-5)

Regent Tamaki explained that this item had been presented last month, but was again included on the agenda to allow for further discussion. He summarized the questions posed to Regents in the item.

Mr. Cariello added that rent is a powerful motivator to efficient space usage.

When it was noted that the pandemic has clouded long-term trends in the use of space, Mr. Cariello responded that the costs of space usage need to be clear to allow for efficient space usage.

Asked how the possible growth of peri-urban areas might be relevant, President Cauce observed that the way the state funds capital expenditures creates perverse incentives by, for instance, cutting funding for maintenance first.

Asked what appropriate measures of space efficiency might be, Mr. Cariello replied that costs can be compared to revenues generated by tuition or research. When this is done, his team has found a real gap. New space management software will soon enable even better analysis of space usage.

Asked about future student populations, Mr. Cariello stated that the UW's square footage has increased more rapidly than its revenues in recent years. Mike McCormick, Associate Vice President, Asset Management, Facilities, observed that trends in the demography of university students are relevant. As the population of college-going students is expected to level out, managing the growth of space is an imperative aspect of cost control. Facilities does consider the ratio of square feet per person. Furthermore, there is significant change in space usage when departments are required to pay for space, as is the case for leased space. The UW is, however, on the low end of square footage per student when compared to its peers. Office space is used less efficiently than student space, although there are gains in efficiency to be had in either case.

When it was noted that the greatest risk here seems to be incentives to disinvest in existing buildings, and that the Governmental Affairs Advisory Committee might help in communicating about space usage and capital investment to the Legislature, other Regents agreed. President Cauce stated that Finance Transformation will combine with activity-based budgeting (ABB) to allow for the efficient and transparent allocation of costs for space usage to campus units. She does not believe that in-person education will disappear, but suspects that working arrangements will be much more flexible.

Asked whether the chart of accounts and Workday Finance are being configured in order to incentivize efficient space usage, Mr. Cariello stated that he is confident that this will be the case. It was emphasized that costs must be transparent to units for all services, whether these are space, IT, or recruitment costs.

Asked whether universities are the best comparison for efficient space usage, Mr. Cariello responded that he and Mr. McCormick have examined corporate space usage. Because the UW has low tuition and state appropriations in comparison with peer institutions, efficiency is crucial. President Cauce noted that corporations can also be much less efficient than the university, adding that the University's heritage buildings use space relatively inefficiently. Newer buildings use space more efficiently.

Asked whether he might wish to contribute as chair of the Advisory Committee on Real Estate (ACRE), Regent Benoliel made two comments. First, the question of how to finance capital expenditures is embedded in the real estate strategy under discussion. In addition to public-private partnerships (P3s), Advancement has been brought into the discussion of a possible real-estate entity to fund development. Secondly, the image of Fritz Hedges park in the meeting materials offers an excellent example of creative possibilities. Jeanette Henderson, Executive Director, Real Estate, explained that this park reflects a mitigation for the loss of park land in the Arboretum because of construction on State Route 520. Because

much of the Arboretum belongs to the City of Seattle, the University negotiated the transfer of the site of the park to the City, in return for the construction of a new building for the UW Police Department, which was formerly located there. Todd Timberlake, Chief Real Estate Officer, added that this park is the first manifestation of a larger park that will anchor the West campus area.

See Attachment F-5.

Adjourn

Hearing no other business to come before the Committee, Regent Tamaki adjourned the Finance and Asset Management Committee meeting at 9:58 a.m.

*Approved at the meeting of the Committee on December 10, 2020.*