

UNIVERSITY OF MASSACHUSETTS

AMHERST•BOSTON•DARTMOUTH•LOWELL•WORCESTER

**MINUTES OF THE MEETING OF THE
COMMITTEE ON ADMINISTRATION AND FINANCE**

Friday, September 25, 2009; 8:00 a.m.

Amherst Room

225 Franklin Street – 33rd Floor

Boston, Massachusetts

Committee Members Present: Chair Karam; Trustees Boyle, Bloch, Collins, DeSisto, Hoyt, Johnston, Koffman, MacAfee and Young; Chairman Manning

Committee Members Absent: Trustees King-Shaw, Lawton, Reville and Tocco

University Administration: President Wilson; General Counsel Heatwole; Executive Vice President Julian; Senior Vice Presidents Gray and Williams; Vice President Smith; Chancellors Holub, Motley, MacCormack, Meehan and Collins; Mr. MacKenzie, Executive Director, Building Authority; Mr. Douglas, Associate Vice President, Interim University Budget Director; Ms. Wilda, University Controller; Vice Chancellors for Administration and Finance Hatch, McLaughlin, O'Connor, Yestranski and Jenal; Mr. Harrison, Director of Auditing; Mr. Lenhardt, Deputy Chief Operating Officer; Mr. O'Riordan, Associate Vice Chancellor for Financial Services, UMASS Lowell

Faculty Representatives: Professor May, UMass Amherst; Professor Tirrell, UMass Boston; Professor Gibbs, UMass Dartmouth; Professor Carter, UMass Lowell; Dr. Weinstein, UMASS Worcester

Chair Karam convened the meeting at 8:05 a.m. The first item on the agenda was the **Chair's Report**. Chair Karam welcomed everyone to the beginning of the new academic year and introduced the newest members on the Committee: Emily Bloch from UMASS Amherst, Tara DeSisto from UMASS Boston, Matt Hoyt from UMASS Dartmouth and James Young from UMASS Worcester; David Koffman from UMASS Lowell has been reelected. The challenges facing our University this year will be substantial, but our opportunity to make a meaningful impact has never been greater.

Since our last meeting in June, some sprouts of optimism have appeared concerning the national economy. Federal Reserve Chairman Ben Bernanke stated last week that the recession was "very likely over" and that a recovery has begun. However, growth next year will be tepid and national unemployment rates in 2010 will continue to hover around 10%.

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According to a Mass Taxpayers Foundation report released earlier this month, Massachusetts ranked fifth from the bottom nationally in terms of the percentage of jobs lost this decade (down 5.5%). And they predict that our state's unemployment rate, currently at 9.1%, will not peak until hitting 9.4% sometime next year.

Continued high unemployment means that state tax revenues will likely not recover to any meaningful extent. This condition translates into ongoing pressure on our state funding both in this fiscal year and into FY11. The University continues to brace against the potential for a 9C reduction in FY10 appropriations. The need for such action probably won't be known until next month or even later.

President Wilson and the Chancellors continue to provide the firm leadership required during these turbulent times. There will be a budget update from the President and Chancellors during this meeting; such updates will become a fixed part of our quarterly meeting agenda until this financial storm passes.

Among the action items before the Committee this morning is approval of the University's FY2010-2014 capital plan. Related to this is consideration of a debt policy for the University and a resolution to allow the Building Authority to incur debt on our behalf. While we appropriately pay a high degree of attention to the current challenges with our operating budget, we must remember our important stewardship obligations to the long-term well-being of our capital facilities, with a replacement value approaching \$6 billion. These facilities have a lasting and measurable impact on our recruitment and retention of good students and outstanding faculty. They are the backbone of our learning and research enterprise. They are the most visible legacy that we leave to future generations who will be educated on our campuses.

The next item on the agenda was **Consideration of Minutes of the Prior Meeting of the Committee.**

It was moved, seconded and

VOTED: To approve the minutes of the June 3, 2009 meetings of the Committee.

Under the **President's Report**, President Wilson reported that despite the campuses and the University being seriously stressed by the budget situation, the University has recently announced a series of successes: Research Growth, CVIP Revenue, Growth in UMass Online and the Green High Performance Computing Center in Holyoke. Other highlights included:

- The University must maintain fundamental mission despite the difficult budget challenges;
- FY10 is shaping up to be a similar year to FY09, with tax revenues coming up under projections and 9c cuts on the horizon;

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- Federal stimulus funds allowed the University's revenues to remain flat from FY09 to FY10 and permitted the issuance of the Board-approved fee rebate. It appears the University will face an approximate funding gap of \$118 million in FY11;
- There is a strategy to eliminate the funding gap that will include balancing expense reductions and revenue growth: request more stimulus funding, ask for additional state appropriations, increase other revenues (online, research, out-of-state tuition, etc.), efficiency task forces, staff reduction, salary freezes, department consolidations.

President Wilson discussed how these issues are being worked through in consultation with faculty and student groups.

The next item was the **Senior Vice President's Report**. Senior Vice President Gray reported that the University must continue to focus on long-term capital requirements. To meet the growing research and student needs, the University and the Building Authority are preparing the largest bond issuance in University history. Other highlights included:

- The President's Office just completed a credit-rating meeting with Moody's Investors Services and a meeting with Standard and Poor is scheduled for next week;
- Significant budget reductions have already taken place to prepare the University for FY11, including painful decisions for the President's Office.

Senior Vice President Gray concluded his report by noting the excellent work that has been done by the financial aid offices and budget offices to properly handle the federal stimulus dollars and to process the student fee rebates.

Chair Karam noted that it is critical that the University maintain a high credit rating in order to allow the capital financing to continue.

Under **Discussion Items**, Chairman Manning reported on the status of the **Budget Oversight Task Force**. He first thanked all of the Chancellors and campuses for the time and effort they committed to the process. He indicated that a full report from the Task force is likely to be issued in the near future.

Chairman Manning noted that the decline in the state's investment in the University has us moving to a private model. The silver lining in the problems being faced by the University is that demand for our product has never been stronger. He then suggested three changes that should be considered by the University: the University should move to a high tuition, high aid model with a differential fee structure implemented to charge students more for a more valuable product; enrollment should be increased which means more new faculty and new infrastructure; faculty compensation should be evaluated to get the best talent.

Chair Karam thanked the Chancellors for the excellent presentations that were made to the Task Force and agreed that the fee structure should be reconsidered.

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Trustee Collins stated that the University should push to keep the state support by looking to establish a dedicated revenue stream rather than relying on an annual appropriation. Trustee DeSisto requested the Board tap into the student energy to push some of these initiatives. She also requested that Secretary of Education and Trustee Reville explain the rationale for the budget cuts to the University. Trustee Johnston suggested organizing a group that will push for a ballot initiative to establish a dedicated state revenue stream.

The next item for discussion was **UMass Budget Update**. President Wilson introduced the subject by indicating the fight to keep it a public university. We will handle the University's management by being good stewards under financial stress, maintain affordability, ensure that we maintain quality, and position the University to help the Commonwealth come out of the recession.

Chancellor Holub gave the update for UMass Amherst:

- Budget planning task force established to implement spending reductions and prepare for the funding cliff in FY11;
- Zero-based budgeting is being used for administrative functions and academic reviews are underway;
- Federal stimulus funds have provided a grace year to increase revenue for FY11;
- Recruit out-of-state students;
- Expand continuing education with new cost structures;
- Increase summer programs;
- Introduce new master programs;
- Increase research activity;
- Expand fundraising enterprise.

Chancellor Motley gave the update for Boston:

- The Boston Campus is looking to tackle the expected funding gap of \$35 million for FY11 with a strategy focused on two-thirds revenue increases and one-third expense reductions;
- Fee increases are already in place, enrollment growth has been tremendous, and professional programs will get more focus.

Chancellor Motley explained that he will not let the budget challenges interfere with the long-term strategy of refocusing the Campus.

Chancellor MacCormack gave the update for Dartmouth:

- Campus targeted stimulus funding for one-time investments so that they will be prepared for FY11;
- They are focused on administrative streamlining, reducing positions, changing the faculty composition, and leaving vacant positions unfilled;

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- Campus continues to experience enrollment growth and they are challenging their advancement team to put more focus on alumni and corporate support.

Chancellor Meehan gave the update for Lowell:

- Chancellor Meehan expressed his disappointment at the cuts and argued that the Campus should only be responsible for funding those programs that are central to its academic mission. The Chancellor indicated that he would not support funding for programs that don't fall into this category, even if he sees merit in the program.

President Wilson expressed support by saying that the Legislature should not be pushing unfunded mandates. Professor May interjected that Commonwealth College (which in the past has had a separate earmark in the state budget) should be permitted to increase its fees to support the specialized learning experience.

- Chancellor Meehan explained that the Campus is boosting enrollment by increasing retention and graduation rates and looking to their continuing and professional programs to bring in more revenue. They are also growing research activity and focusing on increasing fundraising;
- Chancellor Meehan indicated that he would like to make a push in collaboration with the Boston and Dartmouth campuses to increase international students and to get the Legislature to allow the campuses to keep tuition and fees.

Chancellor Collins gave the update for Worcester:

- Chancellor Collins explained that the Medical School is in a different space than the other campuses. Revenue growth has been spearheaded by Commonwealth Medicine expanding to 20 states. The Medical School also has had strong revenue growth at Mass Biologics;
- Chancellor Collins explains that research results have been great because of the strength of their professors and the increased federal funding. The Campus has also begun to see modest investment returns and fundraising results are starting to be seen;
- Even with the successful revenue streams, the Campus is cautious;
- Department spending budgets have been reduced;
- The merit pool was reduced.

Chair Karam interjected that the University should consider system funding distribution in light of the fact that the Medical School is doing well while the other campuses struggle.

Chancellor Collins responded by saying the Medical School is not flush in cash and they contribute to the System in other ways:

- The Campus has to pay the President's Office more in assessment;
- The Campus doesn't get credit for reducing the borrowing costs of the other campuses;

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- The Campus contributes to central administrative computing systems even though they are not heavy users;
- The Campus is about to borrow \$405 million for the Sherman Center project.

President Wilson indicated the Medical School has been allocated its fair share of the state appropriation over the years because they have been able to take care of themselves. Trustee Johnston asked that the University look into replicating the Commonwealth Medicine model at other campuses.

Chancellor Meehan explained that the Medical School boosts the stature of his campus and helps Lowell with innovation. Professor Tirrell, Faculty Representative from the Boston campus said she felt that the conversation was dangerous because it threatened the current system of campus autonomy.

Trustee Bloch requested that the Medical School set up programs that would make it easier for University undergraduates to attend. Chancellor Collins explained that programs are in place and that a new collaborative program is in the pipeline.

Chancellor Collins made an additional point that the Medical School is separate financially from the Hospital (unlike other public medical schools) so while the Medical School does share a small portion of surpluses, it is not to the extent that other medical schools benefit when performance is strong.

The next item for discussion was **UMass Building Authority Report**. Mr. MacKenzie reported on the plan to borrow a maximum of \$550 million in October. He explained that right now is an excellent time to borrow because of historically low interest rates and a receptive market. The Building Authority plans to use Build America Bonds for a portion of the borrowing, which will result in an even lower interest rate. Mr. MacKenzie identified the projects being considered for financing and the various approvals needed in order to go to market.

Trustee Johnston questioned how the recent press about the \$20 million earmark for the Kennedy Institute will impact the project on the Boston campus. Mr. MacKenzie responded that there are numerous funding sources anticipated for the project, so he is confident that the funding will be in place.

The Chancellor reiterated his point that the University is able to get these great rates because of the strength of the Medical School. Chair Karam requested that a financial analysis be completed that illustrates how much will be saved by issuing the debt under current market conditions in comparison to an estimated interest rate of 5.5%.

The first item for action was **University Debt Policy**. The University needs to make capital investments in order to fulfill its mission, which requires decisions that impact the University's

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credit; debt can provide a low-cost source of capital for the University to fund investments to achieve its mission and strategic objectives. This policy will help the University manage the cost of capital and monitor debt levels.

It was moved, seconded and

VOTED: To recommend that the Board take the following action:

To approve a University Debt Policy.
(Doc. T09-050)

The next item for action was **FY2010-2014 Capital Plan**. The University is committed to maintaining and upgrading its capital assets. The University needs to invest a significant amount of its operating funds in capital projects.

It was moved, seconded and

VOTED: To recommend that the Board take the following action:

Pursuant to Trustee policy T93-122, to approve the following new capital projects:

**Cost
Estimate
Aug-09**

Amherst Campus

Marks Meadow Renovations	\$10,000,000
Totman renovations for Kinesiology (NIH)	\$13,500,000
Totman addition for Kinesiology (NIH)	\$16,000,000
Morrill I Vivarium (NIH)	\$6,000,000
New Science Building Fit-out	\$44,000,000
Hasbrouck Renovations (NIH)	\$10,000,000
Marcus Upgrade and Relocate Electrical Power	\$1,400,000
LGRC Faculty Renovations (NIH)	\$11,761,000
Tennis Court Enclosure	\$10,400,000
Wayfinding and Signage	\$1,000,000
Property Acquisitions	\$2,000,000
LGRC Window Replacement	\$6,000,000
Coal Yard Decommission	\$2,000,000
Energy Efficiency Equipment Installations	\$1,500,000
Electric Distribution Upgrade	\$2,000,000

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Chenoweth Food Science Phase II	\$2,000,000
Solar Panels	\$2,000,000
Waltham & Glouster renovations	\$5,000,000
Facility Demolitions	\$20,000,000
<i>subtotal Amherst</i>	\$166,561,000

Boston Campus

Replace Primary Electrical Switchgear in the Utility Plant	\$2,500,000
Master Plan Phase I: Purchase of Expansion/Swing Space	\$25,000,000
<i>subtotal Boston</i>	\$27,500,000

Dartmouth campus

Replace Failed HVAC Systems	\$3,500,000
Campus Entrance Building	\$45,000,000
Re-roof Four Oldest Residence Halls	\$1,900,000
Student Lab Program Enhancements	\$4,000,000
<i>subtotal Dartmouth</i>	\$54,400,000

Lowell campus

ESCO	\$40,000,000
Energy Improvements	\$10,000,000
Capital renewal/deferred maintenance	\$39,300,000
Academic & ongoing modernization	\$54,250,000
Compliance	\$6,000,000
Net Asset value (NAV) Support	\$90,000,000
Residential Hall Renewal Program/Dining & Bookstore Replacement-- 2011	\$50,000,000
800 Additional Residence Hall Beds	\$90,000,000
North & South Powerplant Cogen conversion	\$15,000,000
<i>subtotal Lowell</i>	\$394,550,000

Medical School

Construct the ATC Clinical Development Center (cGMP)	\$10,000,000
Renovate Labs to Offices in Basic Wing - Backfill Project	\$4,000,000
Medical School Building Retro-Commissioning and LEED EB	\$3,000,000

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South Street Deferred Maintenance	\$7,500,000
Century Drive - Install Emergency Generator	\$800,000
Century Drive - Replace Roof Top Units	\$700,000
<i>subtotal Medical School</i>	\$26,000,000

<i>Total all new projects</i>	\$669,011,000
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And further,

To approve the following revised project cost estimates for previously approved capital projects:

Project Name	Initial TPC	Revised TPC
Boston Campus		
Healey Library Fire Protection	\$5,100,000	\$7,000,000
Dartmouth Campus		
Library Renovations	\$18,000,000	\$44,000,000
Biomufacturing Building	\$10,000,000	\$15,000,000
Energy/Water Savings Project	\$4,800,000	\$14,560,000
Medical School		
Power Plant Expansion	\$35,000,000	\$42,000,000
Class Size Increase	\$4,000,000	\$8,000,000
Mattapan, R&D and Office Building	\$50,000,000	\$69,000,000

And further,

To approve the FY2010 to FY2014 University Capital Plan as described in Doc. T09-051.

And further,

With respect to any or all of the projects identified in the said University Capital Plan as described in Doc. T09-051, to authorize the President of the University

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and such other officers of the University as he may designate (the President and each such other officer referred to herein as an “Authorized Officer”), each acting singly, in the name and on behalf of the trustees, the University or the Commonwealth, as appropriate, (a) to effectuate the financing of one or more or all of such projects by such means as such Authorized Officer shall deem advisable, including without limitation by requesting in writing the University of Massachusetts Building Authority, the Massachusetts Health and Educational Facilities Authority, the Massachusetts Development Finance Agency or any other statutorily qualified issuer in the Commonwealth to issue debt therefor, or to request the Worcester City Campus Corporation to effectuate the financing thereof through any such issuer of debt, so long as the estimated total project cost does not exceed the estimated total project cost listed in Doc. T09-051 by more than 20% (exclusive of capitalized interest, debt service reserve funds, cost of issuance of the obligations, costs of bond insurance or other credit enhancement and other cost of the financing), and, (b) in connection with any such financing, to take such actions (including without limitation the execution of the guaranty of the Commonwealth on any obligation guaranteed by the Commonwealth), secure such governmental approvals, execute such agreements (including without limitation contracts for financial assistance, management and services, contracts for management and services or leases or subleases) containing such provisions and provide for such terms and sources of repayment, all as such Authorized Officer shall deem advisable and as may be required or permitted by law, including without limitation St. 1960, c. 773, §_19A, as amended, and St. 1992, c. 138, §_15A, as inserted by St. 2000, c. 159, §_303. (Doc. T09-051)

The next item for action was **Resolution Authorizing Requests for Initiation by the UMBA of University Projects and Related Matters**. This resolution is needed to allow the Building Authority to undertake projects authorized as part of the Capital Plan.

It was moved, seconded and

VOTED: To recommend that the Board take the following action:

WHEREAS, the University of Massachusetts Building Authority is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the “Commonwealth”) created to aid and contribute to the performance of the education and other purposes of the University of Massachusetts (the “University”) by providing dormitories, dining commons and other buildings and structures for the use of the University, its students, staff and their dependents and for lease to or use by an organization or association, in any form, of students or others the activities of which are a part of the activities at the University and subject to regulation by the Board of Trustees of the University (the “Trustees”);

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WHEREAS, pursuant to the Building Authority's enabling act, the Building Authority may issue bonds to finance projects undertaken by the Building Authority at the request of the Trustees, or, with the approval of the Trustees, issue refunding bonds, all of which bonds are secured, in part, by revenues from the Building Authority, the University and the Commonwealth, as authorized by the Trustees on behalf of the University and the Commonwealth;

WHEREAS, in the judgment of the Trustees it is in the best interests of the University, its students, staff and their dependents and said organizations that the Building Authority undertake projects and finance such projects as described below;

WHEREAS, in the judgment of the Trustees it is in the best interest of the University for the Building Authority to refund bonds when market conditions are favorable; and

WHEREAS, the Building Authority's enabling act authorizes the Trustees, on behalf of the Commonwealth, to provide a Commonwealth guaranty of not to exceed \$200,000,000 outstanding principal amount of Building Authority Bonds;

NOW, THEREFORE,

1. Each of the President and the Senior Vice President for Administration, Finance and Technology and Treasurer of the University, acting alone, be and each, acting alone, (each, an "Authorized Officer") hereby is authorized in the name and on behalf of the Trustees to make a written request of the Building Authority that the Building Authority initiate and undertake:
 - (a) Any or all of the projects set forth in the University of Massachusetts FY2010 to 2014 University Capital Plan (Trustee Document T09-051); and
 - (b) Any other construction of or respecting or renovation, repair, remodeling or other work in or upon or respecting any building or structure owned or used by the University or the Building Authority, or the provision, installation, renovation, repair or remodeling of or other work upon or respecting any furnishings, furniture, machinery, equipment or facilities with respect to any such building or structure, all as may be requested of the Building Authority in writing from time to time by an Authorized Officer, the making of any such request being hereby authorized.
2. The projects to be initiated by the Building Authority in accordance with any request authorized to be made in Section 1 of this resolution may in the discretion

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of the Building Authority be undertaken separately or together for financing purposes.

3. The issuance of refunding bonds by the Building Authority is hereby approved, in such amount and on such terms as shall be approved in writing by an Authorized Officer.
4. Each Authorized Officer hereby is authorized to execute and deliver on behalf of the University and the Commonwealth one or more contracts for financial assistance, management and services with respect to the projects financed or refinanced by the Building Authority and the Building Authority bonds issued in connection therewith, including any refunding bonds. Each such contract may include the Commonwealth guaranty of all or a portion of such bonds, as determined by an Authorized Officer and within the limits prescribed by the Building Authority's enabling act.
5. Each Authorized Officer is hereby authorized to take such other action as deemed necessary or desirable to be done or taken to effectuate the matters hereby authorized, as conclusively evidenced by their doing the things or taking the action hereby authorized. (Doc. T09-052)

The next item for action was the **Establishment of an Endowed Chair, UMass Amherst**. The endowment for this Chair will be fully funded at \$2.5 million.

It was moved, seconded and

VOTED: To recommend that the Board take the following action:

In accordance with sections 1A(e) and 11 of Chapter 75 of the General Laws, to establish an endowed chair in the Isenberg School of Management at the University of Massachusetts Amherst to be known as the **Dean Thomas O'Brien Endowed Chair**. (Doc. T09-053)

The next item was **Amendments to Grants and Contracts Policy**. Recent advances in technology now enable the use of digital signatures to improve efficiencies.

It was moved, seconded and

VOTED: To recommend that the Board take the following action:

To amend the Grants and Contracts Policy to enable the use of electronic signatures and related technological efficiencies. (Doc. tT09-034, as amended)

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There being no further business the meeting was adjourned at 10:08 a.m.

Barbara F. DeVico
Secretary to the Board of Trustees