

**UNIVERSITY OF MASSACHUSETTS**  
**AMHERST•BOSTON•DARTMOUTH•LOWELL•WORCESTER**

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

**Wednesday, December 5, 2012; 8:30 a.m.**  
**Amherst Room**  
**225 Franklin Street – 33<sup>rd</sup> Floor**  
**Boston, Massachusetts**

**Committee Members Present:** Chair Woolridge; Vice Chair Collins; Trustees Gomez, Healy, Karam, Lee, Mullan and Peters; Ms. Lee (representing Trustee Reville); Chairman Thomas

**Committee Members Absent:** Trustees Campbell, Furman, Johnston, King-Shaw and Marvel

**University Administration:** President Caret; Senior Vice President Wilda; General Counsel Heatwole; Chancellors Subbaswamy, Motley, Grossman, Meehan and Collins; Budget Director Naughton; Assistant Vice President Gorzkowicz; Executive Director Craven, UMass Building Authority

**Faculty Representatives:** Professor May, UMass Amherst; Professor Tirrell, UMass Boston; Professor Carter, UMass Lowell; Ms. Gibbs UMass Dartmouth

**Documents Used:**

- FY2012 University Financial Report, Doc T12-087;
- Building Authority Update, Doc T12-094;
- Quarterly Capital Plan Report, Doc T12-100;
- State Budget Request, Doc T12-097;
- Update on the Efficiency and Effectiveness Task Force, Doc T12-095;
- Establishment of Endowed Professorship, UMass Worcester, Doc T12-098;
- Naming of the Emerging Technologies and Innovation Center, UMass Lowell, Doc T12-099;

Chair Woolridge convened the meeting at 8:42 a.m. and stated that the Committee had been provided with draft minutes for the September 12, 2012 Administration & Finance meeting and the September 12, 2012 Task Force on Long-Range Planning and asked for any corrections. There were no corrections and the minutes were approved.

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**Reports:**

**Chair's Report:**

Chair Woolridge welcomed the Committee and provided an overview of the agenda which centered around budget and planning topics spanning three different fiscal years: the review of the FY12 audited financials, an update on FY13 and the University's budget request for FY14.

Chair Woolridge addressed recent actions taken by the Patrick Administration: revising the Commonwealth's revenue forecast and filing legislation to make budget reductions totaling \$540 million. He also updated the Committee on the latest tax revenue collections reported by the State's Department of Revenue, noting the slower rate of growth than initially projected and the consequent emergency spending reductions across the Executive Branch departments and the filing of legislation asking for authorization to make cuts in other non-executive branch departments, including the University.

Chair Woolridge then reviewed the discussion items on the agenda as well as the action items before the Committee.

**President's Report:**

President Caret began his remarks by noting the 4.9 percent tuition and fee increase that the University undertook in June in order to cover the cost of collective bargaining and the need to execute infrastructure investment plans. In the vote, the University committed to freeze tuition and fees if the state could return to a reasonable level of support, where 50 percent is covered by the state and 50 percent is covered by students. He noted that the state is currently covering 43 percent, down from a high of 80 percent twenty-five years ago and 65 percent as recently as 2009. He added that the possibility of 9C cuts will make the 50/50 plan even more difficult, but the University has been effectively implementing efficiencies throughout the organization, without which the financial challenges would be even greater.

President Caret also highlighted the *UMass Performance: On the Move* initiative, a measurement tool in which the University will check in on 21 key data points.

**Senior Vice President's Report:**

Senior Vice President Wilda deferred her remarks until the discussion item on the FY12 University Financial Report.

**Discussion Items:**

Senior Vice President Wilda reviewed the **FY12 University Financial Report**, noting that it was a year of growth both in enrollment and infrastructure. She reviewed revenue trends, the Foundation's endowment performance, the operating margin and the financial cushion. She also reviewed the University's debt service to operations and stated that generally a ratio of greater than 10 percent was a concern. The University's ratio is in the mid-6 percent range and that with existing debt and additional debt, the debt service would grow to \$200 million annually.

Senior Vice President Wilda highlighted comments from ratings organizations that acknowledged that the University was prudently overseen but noted the challenges of falling

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state support, reliance on in-state students and modest fundraising. Trustee Mullan suggested that the expense trend line go back to 1999 and that the relationship to enrollment growth should be highlighted. Trustee Karam highlighted that endowment per student had increased and that that likely helped with the ratings. He also noted that sometimes the campuses dip into the quasi-endowment fund. Instead of using the quasi-endowment fund, he suggested that borrowing the money would keep the endowment high and continue to help with the ratings.

Executive Director Craven provided the **Building Authority Update** on recent initiatives and plans for an upcoming borrowing. Executive Director Craven reviewed the building projects that were in various phases of completion from the RFP and Early Stage Design phase to the Late Construction phase and recent completions. She noted the growing project pipeline, some of which the University was partnering with DCAM and others that were all through the UMass Building Authority and the campuses.

Executive Director Craven provided an overview of the options available for the \$1 billion of borrowing, including Just in Time Borrowing, a hybrid of short and long-term financing. Trustee Lee inquired if rates started to rise would anything preclude the University from then getting fixed rate financing. Executive Director Craven responded that the University has the ability to be nimble because investors are always interested in the University's bonds. Executive Director Craven also reviewed the possibility of restructuring debt, which would lower the annual debt service by moving it out in years. President Caret remarked that if the state took back the bonds on the academic buildings that the University is paying for, student fees could be reduced by 20 percent. Trustee Mullan expressed concerns about the "scoop and toss" because it takes pressure off the budget now but limits the University and UMBA later. Chair Woolridge stated that these are some of several concepts being discussed and there are pros and cons.

Executive Director Craven added other strategic options which included prioritizing projects that were revenue producing, looking at opportunities in taxable and tax exempt debt and considering century bonds (which would require a statutory change because of a current 50 year maturity limit). Trustee Karam stated that looking at 100 year debt was risky. Trustee Woolridge remarked that this was something to be careful with because the life of the asset is only 30-40 years. Trustee Mullan asked UMBA to follow up on several items: 1) highlight that the University is stepping up on capital investments and 2) clarify how the investments by the University in academic buildings affect the operating budget in the form of debt service. Chancellor Meehan stated that in the old model, the state built academic buildings, but the campuses are investing in these buildings now because they need to accommodate for growth and seize opportunities to grow revenue.

Chancellor Collins noted that the state did not contribute to the Sherman Center or the Ambulatory Care Center and the Board must consider making additional investments in Worcester because it is the most appreciating asset in the University. Professor May noted that there has not been any state investment on the Amherst campus in 20 years, except for the Mullins Center and that the unmet needs on campus are great. Chancellor Subbaswamy noted that there is a \$1.2 billion deferred maintenance and capacity gap. Chair Woolridge stated that prioritizing capital investments was a real challenge and that questions remain. Trustee Karam noted that as a Board, strategic priorities can be set to help decide what receives investment

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priority. Chancellor Subbaswamy added that the pressure should be kept on the legislature to invest in academic buildings. Chair Thomas agreed with Trustee Karam that it was the role of the Board to think strategically and in the overall best interest of the University and that the Board should provide guidance for priorities in additional growth and development.

Chair Woolridge provided the Committee with an **Update on the Efficiency & Effectiveness Task Force** meeting on Purchasing in November. He reported that Chair Furman updated the Committee on a recent meeting with David Fubini, an Amherst alum and Director at McKinsey. Chair Woolridge highlighted the Task Force's review of the system-wide procurement savings of \$1.3 million, the Accenture Study findings, and additional potential procurement opportunities.

President Caret added that he wanted to consider academic efficiency and effectiveness efforts like utilizing online courses, using Summit, and team-based teaching. He noted recent IR data that reported 8 year graduation rates and the cost to government for subsidizing students for extended periods. He added that if students graduated in a shorter number of years, the savings to both students and the state would be great. He added that graduation rates and retention would be part of the performance measures. Trustee Lee asked about the calculation of graduation rate and if students took a year off, is that year part of the calculation. President Caret answered that a year off without courses is not part of the calculation. President Caret went on to say that states have different needs with regard to graduation rates and are coming up with solutions to fit their needs. In California, the oversubscription of students is leading to policies that charge extra for repeating courses and surcharges for taking extra courses. While in Idaho, the University is charging for a minimum number of courses per semester and students can take more or less than that number of credits. Trustee Gomez asked if part-time students are taken into consideration. President Caret answered that it was full-time students that qualified for aid. Additionally, he added that tracking students is difficult because of the large number of transfers. President Caret also added that there would likely be changes in federal financial aid in which universities that get their students through quickly would get priority.

Chancellor Grossman added that she saw a big opportunity in offering a summer semester, but was currently limited because of the non-air conditioned buildings on campus and issues with faculty. She also added that in Florida, there were fee penalties when going beyond 4-6 years.

Trustee Mullan commended the Efficiency and Effectiveness efforts and encouraged the Chancellors to keep their teams at it. Trustee Lee asked what was preventing students from graduating in a timely manner, for example not receiving the proper advising and how to get at the root cause of the issue. Ms. Lee added that she appreciated the comments about the financial aid and that the state is looking at potential ways to use financial aid as an incentive.

Budget Director Naughton provided an overview of the **Quarterly Capital Plan Report** which reviewed selected campus building project information including, schedule, funding, updated costs and background. Budget Director Naughton provided an overview detailing budget increases, decreases and combinations, totaling \$13.6 million in increased costs. He noted the following projects: the Amherst Academic Building, the Honors College, the Life Sciences labs, and the Boston Integrated Sciences Building. With regard to the Integrated

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Sciences Building, he noted ongoing negotiations between the state and the campus. Chair Woolridge inquired about the issues on the project. Budget Director Naughton replied that the project was over-budget and there were discussions about who is responsible for the cost overruns. Executive Director Craven added that there were process issues and architect and contractor issues and that it was a DCAM project with some UMBA funding. Chancellor Motley added that they were working with the DCAM commissioner on a list of issues and that the negotiations were continuing to move forward. Trustee Karam inquired about the order of magnitude. Vice Chancellor O'Connor stated that the project was currently at \$180-185 million up from \$155 million, owing both to design issues and market forces. President Caret asked about the entities providing the cash flow. Vice Chancellor O'Connor responded that the state, UMBA, and MassDevelopment were contributing.

Budget Director Naughton continued his review of campus projects with the Dartmouth Library and Lowell's University Crossing.

Chancellor Collins then presented a new project for the Worcester campus in which MassBiologics would move its remaining Tetanus and Diphtheria vaccine manufacturing operations from Jamaica Plain to Mattapan. Chair Woodridge noted that the JP building was a DCAM building. Trustee Lee inquired if there was an approval process necessary with the City of Boston. Chancellor Collins responded that there was not.

Assistant Vice President Gorzkowicz provided an update on the **State Budget Request**. He reported 3 percent enrollment growth in the past year and a prediction of similar growth in the next year. He added that in FY13, the \$444 million state support did not fully fund the collective bargaining agreements and that the Board's vote for a fee increase, went to financial aid, the remainder of the collective bargaining agreements and debt service. He added that demand still continues and the likelihood of 9C cuts will add to the challenges. Assistant Vice President Gorzkowicz reviewed the state budget request's goal of increasing state support to achieve a 50/50 distribution of the costs to educate a student and noted the gap of \$98.6 million in current state support in reaching the 50/50. There was discussion about the gap in funding, the 50/50 plan and various approaches the state might take. President Caret added that the administration has been open to the 50/50 and that the University needs to be forthright about its needs to keep fee increases at 0 percent. Chancellor Meehan added that if the state can find a way to make a cut without looking like a cut, they will do it and that it is very important to stay on top of the numbers.

Assistant Vice President Gorzkowicz continued his presentation and reviewed the two main portions of the University's budget: self-supporting activities and core education and general operations. He then focused on the cost drivers, which included fixed costs of faculty and staff; fringe; and collective bargaining. Faculty Representative Tirrell asked if the Payroll line item included administrators and the system office. Senior Vice President Wilda answered that it includes all staff, administrators and faculty. Assistant Vice President Gorzkowicz noted the growth in faculty and professional staff. He also reviewed debt financing, financial aid, and the Efficiency and Effectiveness efforts underway. However, because of non-discretionary fixed costs, there is no easy solution and that E&E efforts, while helpful, won't solve the problem. He added that a 1 percent increase in state support is about equal to a 1 percent increase in fees.

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Trustee Mullan asked about the calculation for the collective bargaining number and suggested that it should be clarified and relabeled the increase in collective bargaining. Assistant Vice President Gorzkowicz concluded his presentation with the anticipated schedule of the state budget.

**Action Items:**

Chair Woolridge asked for a motion to approve a **Resolution Authorizing the President to Prepare and Submit the FY2014 State Budget Request and Funding Formula**. It was moved and seconded:

To recommend that the Board take the following action:

To authorize the President to prepare and submit the University's Fiscal Year 2014 State Budget request and to submit the State funding formula pursuant to Section 7 of Chapter 75 and Section 15B of Chapter 15A of the General Laws. (Doc. T12-097)

The Chair asked for a vote and the motion passed. Ms. Lee abstained.

Chair Woolridge asked for a motion for the **Establishment of Endowed Professorship, UMass Worcester**. It was moved and seconded:

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 professorship to be known as the Melvin S. and Sandra L. Cutler Chair in Biomedical Research at UMass Worcester. (Doc. T12-098)

The Chair asked for a vote and the motion passed unanimously.

Chancellor Meehan described the generous gift by Mark and Elisia Saab as the largest contribution in UMass Lowell history. Chair Woolridge asked for a motion for the **Naming of the Emerging Technologies and Innovation Center, UMass Lowell**. It was moved and seconded:

To recommend that the Board take the following action:

To name the Mark and Elisia Saab Emerging Technologies and Innovation Center at the University of Massachusetts Lowell and to accept with sincere gratitude the generous gift of Mark and Elisia Saab. (Doc. T12-099)

The Chair asked for a vote and the motion passed unanimously.

Chair Woolridge asked for a motion on the **Approval of the Capital Project, UMass Worcester**. Trustee Mullan asked how the \$6.4 million was allocated, through additional funding or a separate borrowing. Vice Chancellor Jenal replied that there was a MassBiologics

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trust fund and a consideration of leftover bond money from the Sherman Center. Trustee Mullan asked who was doing the work. Vice Chancellor Jenal replied that an RFP would be issued. Chancellor Collins added that a small portion of MassBiologics was in Jamaica Plain and that the facility condition necessitates the move. They are working on a transition plan and would like to move as soon as possible. Trustee Mullan asked if it would be a new space in Mattapan. Chancellor Collins replied that it would be a separate part of the building and that they were looking at all options. Trustee Mullan asked if the City of Boston knows about the move and Chancellor Collins replied that the facility would be doing nothing new. It was moved and seconded:

To recommend that the Board take the following action:

Pursuant to Trustee Policy Doc. T93-122, to approve the following Medical School Capital Project to be initiated in the FY13-14 time period:

<u>Project Name</u>	<u>Total Project Cost Estimate</u> <u>November, 2012</u>
<b>Vaccine Manufacturing</b>	<b>\$6,400,000</b>
<b>Operations Relocation</b>	

(Doc. T12-100)

The Chair asked for a vote and the motion passed unanimously.

Chair Woolridge then asked for a motion to place the Action Items #2 and #4 on a Consent Agenda for the Board meeting. This means the Board can approve all these items by a single vote, and that no discussion will be permitted.

It was moved and seconded to place the above matters on a Consent Agenda. The Chair called for a vote and the motion passed unanimously

Chair Woolridge stated that he determined that an **Executive Session** was necessary to advise the Board of a **Discussion of Potential Real Estate Transaction** since an open meeting would have a detrimental effect on the negotiating position of a public body, as permitted by Chapter 30A, Section 21(a)(6).

It was moved and seconded and the Secretary called the roll with each Trustee asked to vote yes or no to enter into Executive Session for those purpose listed. Chair Woolridge voted for the motion as did Vice Chair Collins and Trustees Gomez, Healy, Karam, Lee, Mullan, Peters, Thomas and Ms. Lee (representing Trustee Reville).

The time was 11:09 a.m.

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Kate Wilkinson  
Staff Assistant