

**UNIVERSITY OF MASSACHUSETTS
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**MINUTES OF THE MEETING OF THE
COMMITTEE OF THE WHOLE**

**Tuesday, December 10, 2013; 4:00 p.m.
University of Massachusetts Dartmouth
Woodland Commons
285 Old Westport Road
North Dartmouth, Massachusetts**

Trustees Present: Chairman Thomas; Vice Chair Furman; Trustees Buonomo, Collins, Fubini, Geoffroy, Gomez, Lowe, Mullan, Murphy, O'Brien, Osterhaus-Houle, Peters, Woolridge and Xifaras

Phone Participation: Trustee Johnston

Trustees Absent: Vice Chair King-Shaw; Trustees Campbell, Carpman, Kingston, Lee and Malone

University Administration: President Caret; General Counsel Heatwole; Senior Vice President Wilda; Chancellors Subbaswamy, Motley, Grossman, Meehan and Collins; Ms. Craven, Executive Director, UMass Building Authority

Guest: Susan Kendal, Senior Vice President, First Southwest

Chairman Thomas convened the meeting at 4:12 p.m. and stated that Trustee Johnston will be participating by telephone pursuant to 940 CMR 29.10(5)(e), since he is geographically distant from Dartmouth making it unreasonably difficult for him to attend the meeting in person.

Chairman Thomas stated that the Board had been provided with a copy of the minutes from the September 17, 2013 meeting. With no corrections, the minutes were approved.

Reports:

Chair's Report

Chairman Thomas provided an overview of the agenda and commented on the significant capital challenges that the University is facing. He stated that the future of the University depends on the strategic stewardship of resources.

President's Report

President Caret thanked Chancellor Grossman and her team for hosting the Board of Trustees. He indicated that he was looking forward to the in-depth discussion on debt, capital planning and bond ratings and noted that other university systems are also facing the same issues that the University is faced with. President Caret noted the role of the state with regard to the

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capital funding structure and the current capital projects debt the University is responsible for. He added that the University was at a critical juncture for decision-making, with \$1.6 billion in priority projects and an 8 percent debt cap, and that it was important to understand the impact of debt on the financial structure of the University.

Discussion Items:

Senior Vice President Wilda introduced the discussion item, **Presentation on the University's Capital Program**. She reported on the University's current and future capital needs and reviewed key financial indicators. Senior Vice President Wilda also reviewed the recent approval of the \$5.5 billion dollar five-year Capital Plan and provided an overview of the projects within the plan. She commented on the deferred maintenance challenges and the 2007 University-established policy which provides for deferred maintenance funds going forward.

Executive Director Craven provided an update on the University's debt portfolio and discussed future borrowing strategies. She commented that a number of projects were ones that the state traditionally funded and noted the relatively young portfolio of the University because of a conservative approach to borrowing. Executive Director Craven reviewed the debt profile and debt capacity and emphasized the importance of maintaining the bond rating.

Ms. Kendall, First Southwest Senior Vice President, presented on the Moody's score card and reviewed the various factors in the determination of credit ratings, including market position, operating performance, balance sheet and capital investments, and management. Ms. Kendall reviewed factors most important in the credit profile over the next several years, including financial performance; strong management, including leadership and long-range planning; emphasizing the capital campaign; and the relationship with the state of Massachusetts.

President Caret remarked on the University's key strengths and challenges, as well as the opportunity costs associated with borrowing. He noted a number of strengths, including the improved capital planning process, Board of Trustees policy related to reserves for new buildings, bond rating, and the quasi-endowment. President Caret added that the challenges include the type of debt the University is carrying, potential future rates, changes to project scopes, emergency needs and dialogue with the state. He indicated that the opportunity costs for borrowing include faculty, financial aid and support for staff and students.

Trustee Johnston remarked that as Chair of the UMass Building Authority Board, he was looking forward to integrating that work with the Board of Trustees.

Trustee Woolridge was pleased to discuss strengthening the process for capital projects planning and approval, the appropriateness of the 8 percent cap, the strategic use of funds and monitoring financial indicators against goals and objectives.

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Vice Chair Furman asked if the bond-rating modeling was based on a worst-case scenario and if it was being monitored in an ongoing way. Senior Vice President Wilda stated that the models were based on an assumption of going to market in February. Vice Chair Furman also asked if there was Board policy on a minimum bond rating.

Trustee Xifaras asked about the strategic opportunities for public-private partnerships (P3). Trustee Mullan briefed the Board on work the Building Authority P3 committee is undertaking on this topic. He added that there were unique legislative challenges, but anticipated presenting a model to the Building Authority that meets the needs of the campuses and expected a policy to emerge from this work. Chairman Thomas inquired about the most challenging aspects and requested an analysis of the legislative language for the Board to develop strategies to mitigate the challenges. Trustee Mullan commented that statute was difficult. There was a discussion about the statute resulting from the Ward Commission. Trustee Mullan added that public-private partnerships played a small part and won't solve all financial issues.

Vice Chair Furman asked how Moody's considers the University as a whole, and how not to penalize individual campuses.

Trustee Fubini asked whether or not the Board actually approves projects and asked for better understanding of the priorities and data used to decide on them. He also suggested the need for clearer linkages between strategy and capital planning.

Trustee Buonomo stated that strategy needs to include revenue and whether or not it is increasing at an appropriate rate. Senior Vice President Wilda noted that the most problematic projects were those "contingent on funding". Trustee Buonomo asked how debt-service by campus works. Senior Vice President Wilda stated that the system provides guidance to the campuses and sets perimeters. Trustee Fubini asked for an understanding of the value of projects within a broader criteria, including revenue and margin.

Trustee Woolridge noted the importance of the credit ratings and the significant costs associated with a drop in the rating. Executive Director Craven discussed the stress test included in the presentation slides. Trustee Woolridge suggested that the rate may not be appropriate. Trustee Mullan believed there were two issues: the process and the ratio of debt limit. He added that with the process, the definition of "project" needed to be considered, including defining a project as a study or a construction. Trustee Mullan asked Ms. Kendall about the stability of the University's current credit rating and the influence of higher education in general on the University's credit rating. Ms. Kendall stated that all ratings look stable and that continued planning was important. She added that there was a negative outlook in general on higher education and rating agencies expect universities to be under stress. Trustee Woolridge asked about the space before migrating toward a negative outlook. Ms. Kendall stated that the best measure was a stable outlook and that additional debt could be a factor that triggers a negative outlook.

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Chancellor Grossman stated that investing in capital and investing in academics were linked together. Chancellor Meehan added that the Lowell campus invested in master and strategic planning and that more on-campus housing leads to higher success and graduation rates by attracting the best students. Trustee Fubini agreed that capital and academics were linked and that the problem was limited resources and the allocation of those limited funds. Chancellor Meehan stated that the Lowell campus will not exceed the 8 percent cap and the campus is strategically planning.

Trustee Furman asked, with regard to Moody's, if the unfunded pieces of the five-year plan should be included or if it should be more conservative. Ms. Kendall noted that long-range planning was a key component of the presentation. Senior Vice President Wilda noted that \$1 billion was underway but other projects in the current five-year plan may not occur. Trustee Collins agreed with Trustee Fubini that the Board needs to be more deeply involved in project prioritizing, and that revenue-generation should be rather low compared to retention and enhancing projects as measures for prioritizing. Chancellor Subbaswamy stated that the state has not come up with its fair share of funding and that there should be increased pressure on the state to care for its buildings.

Trustee Gomez thanked everyone for the informative and useful session.

Trustee Mullan agreed with Chancellor Subbaswamy and suggested that strategic tactics were needed, including one for the relationship with DCAM. He added that the Building Authority should be the University's capital arm and suggested that there was a need for a return on investment matrix for potential projects. Trustee Collins stated that he feared that academics would fall to the bottom of the matrix. Chairman Thomas asked if there had been substantive conversations with DCAM on this topic. Trustee Johnston reiterated the need for a strategy with DCAM. Chairman Thomas suggested that the return on investment needs to be student-centered and stated that he was not convinced that the debt cap alone should be a deal-breaker for a campus project that addresses a system goal. He also stated that there needs to be a strategy that does not undermine the system debt.

Trustee Xifaras stated that it was important to remember the change in government that will take place next year.

Professor May stated that there were many projects that were coming forward that were replacements for failing buildings and not optional.

Trustee Woolridge summarized the key points of the discussion, including the potential and challenges for public-private partnerships; the importance of the credit rating; strategically allocating capital funds; balancing capital expenditures with revenue gains; capital planning that is linked to strategy; contending with aging infrastructure; the state's responsibility to pay its fair share; and return on investment, both financially and the impact on students. He indicated that

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This was an ongoing discussion and understanding the process in greater detail enables the Board to be good stewards.

There being no other business, the meeting adjourned at 6:05 p.m.

Kate Wilkinson
Staff Assistant