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2017

March 7, 2017 Finance and Facilities (F&F) Committee Meeting

Senior Vice President for Finance and Administration

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THE UNIVERSITY OF NEW MEXICO
Board of Regents' Finance and Facilities Committee (F&F)
March 7, 2017 – Meeting Summary

Committee Members Present: Regent President Robert Doughty (participating as a voting member) and Regent Marron Lee.

Committee Members Absent: Regent Tom Clifford

Administration Present: Chaouki Abdallah, President; David W. Harris, EVP for Administration; and Craig White, Provost/EVP for Academic Affairs.

Presenters in Attendance: Dr. Joe Cecchi, School of Engineering Dean; Bruce Cherrin, Chief Procurement Officer; Joey Evans, HR Projects Specialist; Dr. Geraldine Forbes Isais, School of Architecture and Planning Dean; Liz Metzger, University Controller; Lisa Marbury, Executive Director, ISS; Daniel Ortega, Master of Law Program Director; Jason Strauss, Lobo Energy CEO; Chris Vallejos, AVP, ISS; and Dr. Amy Wohlert, Naming Committee Chair.

ACTION ITEMS:

1. **Call to Order, Confirmation of a Quorum and Adoption of Agenda.** Chairperson Marron Lee called the meeting to order at 8:43 a.m. in Scholes Hall, Roberts Room and confirmed that a quorum was established. Due to a short quorum and time constraints, Regent Lee deferred Action Items 5, 6, and Information Item 9 to the full Board of Regents meeting. Information Items 10 and 11 would be presented together. No discussion or action would occur at the Finance and Facilities Committee meeting on the deferred items. **Regent Doughty moved to adopt the agenda as amended and Regent Lee seconded. The motion passed by unanimous vote with a quorum of committee members present and voting.**
2. **Finance and Facilities Committee Meeting Summary from February 7, 2017. Regent Doughty moved to approve and Regent Lee seconded. The motion passed by unanimous vote with a quorum of committee members present and voting.**
3. **Contract Approvals:**
 - a. **UNM Division of Human Resources – Dental Health Plan Administrative Services.** Bruce Cherrin and Joey Evans made the presentation. Regents' approval was requested for the Dental Health Plan contract with Delta Dental for administrative services.

Mr. Cherrin stated the University is self-insured for dental insurance; the RFP and contract were only for the Administrative Services component. There were two respondents, Blue Cross Blue Shield and Delta Dental; Delta Dental was the incumbent. The fees are \$351K projected for FY 17 and \$339K projected for FY 18.

Regent Doughty inquired about faculty and staff thoughts on the contract, and if they've had an opportunity to review it.

Pamela Pyle, Faculty Senate President, stated they have not looked at it.

Dorothy Anderson, VP HR, stated the contract was a decrease in the overall costs which could result in a decrease in premiums. Typically they have a representative from the Faculty and Staff Benefits Committee (FSBC) on the RFP committee and they do have an opportunity to voice concerns.

Mr. Evans stated they had individuals from HSC Faculty and from the FSBC to participate in the RFP process. The recommendation was unanimous amongst group.

Regent Lee inquired if companies declined to bid as they only had two bidders.

Mr. Evans stated that Delta Dental is the major player and network within New Mexico offering the largest choice for employees in the dental network. They did make multiple attempts to receive as many competitive bids as possible.

Mr. Cherrin stated that the company who runs the State dental plan did not bid. The University has been with Delta Dental for over 20 years. **Regent Doughty moved to approve and Regent Lee seconded. The motion passed by unanimous vote with a quorum of committee members present and voting.**

- b. Cogeneration Turbine Unit #1 Engine Overhaul.** Bruce Cherrin and Chris Vallejos made the presentation. Regents' approval was requested for the Cogeneration Turbine Unit #1 Engine Overhaul.

Mr. Cherrin stated the University has two cogeneration turbine units; Unit #1 was installed in 2005. It is considered a major maintenance contract as it is over \$1M. They have a maintenance agreement with the Utilities Division, so they receive a 5% discount of the bid.

Regent Doughty inquired if Lobo Energy was involved in the contract.

Mr. Vallejos stated it is an asset owned by the University through the Utility Plant which is in conjunction with Lobo Energy. The cogeneration turbine unit helps drive the energy conservation program as cogeneration generates both steam and electricity.

President Abdallah inquired how often they do the overhaul.

Larry Schuster, PPD, stated that the overhauls are based on the number of operating hours, about 50,000 hours, which ranges from four to five years. This is the third overhaul for the unit. **Regent Doughty moved to approve and Regent Lee seconded. The motion passed by unanimous vote with a quorum of committee members present and voting.**

- 4. Approval of Appointment of Erica Jorgensen as Non-Positional Board Member to the Lobo Development Corporation Board.** Chris Vallejos made the presentation. Regents' approval was requested for the appointment of Erica Jorgensen as a non-positional Board Member to the Lobo Development Corporation Board. In accordance with the Lobo

Development Corporation bylaws, the non-positional board appointment is for a one year term. Ms. Jorgensen was in attendance and her resume was included in the agenda eBook.

EVP Harris asked Mr. Vallejos to explain for Ms. Jorgensen the debt posture at Lobo Development and how they service that debt.

Mr. Vallejos stated that Lobo Development has purchased two buildings, they service that debt by revenues generated from the tenants occupying the two buildings; Lobo Development is the landlord.

EVP Harris stated the UNM Hospital has its business operations in one of the buildings, which they have a long term lease with. The UNM Press building is being rented to a large research grant that is operating in the building.

Mr. Vallejos stated that within the corporation, they also have cash flow from their public private partnership with American Campus Communities for two student housing: Lobo Village on South Campus and Casas Del Rio on Main Campus, both of which help generate revenue to service the debt portfolio.

Regent Doughty knows Ms. Jorgensen and stated she is talented and dedicated to the University and believes she will make a wonderful addition to the Lobo Development Board. **Regent Doughty moved to approve and Regent Lee seconded. The motion passed by unanimous vote with a quorum of committee members present and voting.**

5. **Approval of Lobo Development Corporation Annual Meeting Minutes and External Audit for FY 15-16.** Item was deferred to the full Board of Regents meeting. There was no discussion or action taken on the item.
6. **Approval of Lobo Energy, Incorporated Annual Meeting Minutes, External Audit for FY 15-16, and Update on Energy Conservation Program.** Item was deferred to the full Board of Regents meeting. There was no discussion or action taken on the item.
7. **Naming Committee Request for Approval to Name the Antoine Predock Architectural Studio at 300 and 308 12th Street NW exterior space, the “Antoine Predock Center for Design and Design Research.”** Dr. Amy Wohlert and Dr. Geraldine Forbes Isais made the presentation. Regents’ approval was requested to name the Antoine Predock Architectural Studio at 300 and 308 12th Street NW exterior space, the “Antoine Predock Center for Design and Design Research.”

Dr. Wohlert stated that the naming request is for a couple of small former houses that were the studio of Antoine Predock. They have been donated to the University to house a center to benefit the School of Architecture and Planning. It will also house the archive the estate is giving to the Center for Southwest Research. It benefits the University in two ways; it provides a solution for housing the archive, as well as expansion space for these programs. The request was approved by the Naming Committee and by the President. **Regent Doughty moved to approve and Regent Lee seconded. The motion passed by unanimous vote with a quorum of committee members present and voting.**

8. **Recommendations for Consent Agenda Items on Full Board of Regents' Agenda.** Chairperson Marron Lee recommended action items 4 and 7 to be placed on the full Board of Regents' consent agenda. **Regent Doughty moved to approve and Regent Lee seconded. The motion passed by unanimous vote with a quorum of committee members present and voting.**

INFORMATION ITEMS:

9. **Monthly Consolidated Financial Report for Main Campus.** Item was deferred to the full Board of Regents meeting. There was no discussion on the item.

10. Differential Tuition Proposals:

- a. **School of Engineering.** Dr. Joe Cecchi presented the School of Engineering (SOE) Differential Tuition proposal, which was also included in the agenda eBook. The rationale for the SOE differential tuition request was discussed. SOE delivers high quality research driven graduate engineering and computer science degree programs, which are expensive to deliver. They have difficulties in recruiting and retaining the outstanding research-active faculty who are successful in bringing research funding that supports students. They also face challenges in recruiting high quality graduate students. In both cases, they are recruiting on the national market. Unique among UNM's graduate programs, approximately 70-80% of MS and PhD students are supported by companies and continue to draw salaries, as Teaching Assistants, or by a tuition stipend support from research faculty contracts. The SOE differential tuition request proposed a \$100/credit hour fee to be phased in over two years. The average course load for their students is 6 credit hours per semester, 12 credit hours per year, which turns out to be a \$1,200 increase with a differential tuition fee.

Dr. Cecchi showed a comparison with UNM and 22 peer institutions. With the proposed differential tuition, the tuition would be 24% below the AY 16-17 engineering tuition average of the 22 peers. That places UNM 15th in tuition among 23 schools; however, UNM ranks 10th in annual research and 12th in current US News graduate program rankings. Most graduate engineering students would be supported by faculty research contracts and grants, the faculty are competing in a national market for graduate students so they have to cover mandatory fees and a stipend in addition to tuition. Currently, faculty members are paying slightly over \$45K per students including all of these costs. The average stipend is \$27,330 which is a necessary component of the package to compete. With the increase in differential tuition, the total cost per student would go up to \$46,358 which is slightly less than a 3% increase. A slide illustrated the comparisons for MS and PhD post graduate salaries; SOE MS students earn \$30K more and SOE PhD students earn \$12K more.

The proposed graduate differential tuition for SOE would be the third lowest at UNM. They estimate the differential tuition would bring in \$1.2M. The allocation of the differential tuition would include 20% set aside for need-based financial aid of \$240K, \$400-500K for recruitment and retention of faculty, \$270-370K for TA/RA/GA expense, \$80-120K for graduate student recruiting, and \$60-120K for operating expenses.

Regent Lee inquired about past differential tuition proposals. Dr. Cecchi stated this is the second differential tuition proposal; the first was for undergraduate tuition. The SOE pulled their differential tuition request last year. SOE is the only graduate program that does not have differential tuition.

President Abdallah stated the 20% need based aid would cover those SOE graduate students not being supported on a research contract or by their company.

Dr. Cecchi stated the increase being passed to the contracts and grants represents a 2.7% increase in what they are now spending to support a student. It is not just tuition that is needed to recruit students nationally, they have to offer a package with a stipend that equates to a little of \$27K per year.

President Abdallah stated UNM SOE is still very inexpensive, other schools' tuition and stipends are much more. The peer group included the 22 public institutions that the University uses for comparisons. With the differential tuition, SOE will be able to get more faculty members; each faculty member in SOE generates about \$300K in funding.

Regent Lee is worried about relying on the idea of federal funds flowing to the University. Dr. Cecchi stated they hire good faculty to bring in these research funds.

- b. School of Law.** Daniel Ortega presented the School of Law Differential Tuition proposal, which was also included in the agenda eBook. The differential tuition request was for the new Master of Studies in Law program at the Law School. The degree was approved in 2015 by the Regents and received final approval from the State Board of Finance in late 2015. It is intended to address the need for more workers who have some knowledge of the law to enhance skills in the workplace, or for those interested in legal education. It is a graduate degree, not a professional degree. The program will allow for diverse classroom experiences to enrich discussion. It is a very small program peaking at eight FTE students, a combination of full-time and part-time students, due to the requirements set by the ABA Legal Education Standards that require limited MSL enrollment to avoid interference with the JD program.

Based on what they've seen from the applications, they expect part-time students will outnumber full-time students, and NM residents will be the entire population of students. This is something new for the Law School and first new degree since it was founded. It will open the door to legal education in NM beyond JD students and it will teach the students how to understand court cases, statutes and regulations, how the legal system addresses situations, learn legal principles applicable to the job, and understand how the law works. It is a 30 credit hour program and could be done full-time in three semesters, or part-time in eight semesters. There is one required course; otherwise it is a self-designed program. People will take the courses that pertain to their interests or needs for the job. They do have optional concentrations related to circular strengths of Indian Law and Natural Resources-Environmental Law. It is not a practitioner degree, so the graduates cannot take the bar exam, practice law, or give legal advice. The ABA does not allow MSL credits to be applied to a JD degree program because these students do not have to take the LSAT or the GRE.

The request is to extend the existing differential at the Law School to the new MSL program and the students enrolled in that program. All courses are taught by law professors so the cost of instruction is the same for both programs. The current differential tuition is \$342.34/ credit hour for residents. The differential will never generate a lot of revenue; at its peak they estimate \$85K per year. They did post the request as required and received no feedback from current and prospective applicants. They have a 10% financial aid set-aside, approximately \$35K, but there are other options for these students. These students could also obtain loans, work study, assistantships in other departments, and scholarships from Graduate Studies. UNM School of Law is reasonably priced and was listed as the seventh best value law school in 2016 according to preLAW magazine. Tuition for 2016-17 full-time residents is \$16,236 and non-residents is \$35,292; part-time residents pay \$677/ credit hour and part-time non-residents pay \$1,470/ credit hour.

When they were developing the proposal and going through the process, they did receive letters of support within UNM and outside UNM. The interest they have received is from a diverse cross-section of full-time employees; interest from Tribal Government Leaders, University Administrators, Compliance Managers, biologists, small business owners, hydrologists, and others.

Regent Lee stated that the MSL is not a practitioner license, but in areas such as compliance, they may be perceived as practicing law.

Mr. Ortega stated they are having non-attorneys perform these compliance functions in a lot of companies. Many compliance managers report to their general counsel, in house counsel, or outside counsel of their company, so they do not do their compliance work without legal supervision. They are not practicing but ensuring companies stay within regulations and statues of the enterprise. They are not practicing law or giving advice.

Regent Lee commented that the program may dilute the professional responsibility and believes there are some unthought-of pitfalls that could affect the legal practice in the State of New Mexico.

- 11. BLT Progress Report on FY 17-18 Budget Development.** EVP David Harris and Provost Craig White provided a progress report on the BLT and FY 17-18 budget development. The report was included in the agenda eBook.

EVP Harris discussed the Budget Leadership Team (BLT) which has extensive membership including several Deans, faculty, staff, and students who meet regularly. It is led by EVP Harris and Provost White. This year they created sub-committees to focus on specific components of the budget to bring back reports to the full committee which has proven very useful. Those sub-committees included: Budget Development, New Revenue Models, Tuition and Fee Modeling, Cost Reallocation, Long-Term Strategic Planning, and Branch Campuses. The BLT has been in existence for eight years and has been a useful tool in assisting the President in formulating recommendations to the Regents.

Provost White stated that the committee has worked well this year and they are receiving a lot of feedback and input across the spectrum this year. They have been working on many elements that will continue on into the future for longer term processes.

President Abdallah stated in the past they've dealt with the budget on a year to year basis but due to many changes at the University, the State, and in higher education in general, they need to focus on long-term planning and improve processes in the future. That was the key improvement to the BLT.

EVP Harris reviewed a budget spreadsheet that was provided to the Committee. On the revenue side, they tried to capture the impacts of revenue reductions the University experienced this past year. After the Special Session in October 2016, the current fiscal year appropriation for the University was reduced by 5%.

They are planning on another potential reduction of 2% in State appropriations for next year. House Bill 2 currently sits at a 1% reduction, but there is potential for much greater reductions perhaps as high as 6% additional reduction.

Regent Doughty inquired what dollar amount a 1% reduction equates to for UNM's State appropriation.

EVP Harris stated a 1% reduction to the State appropriation equates to \$1.7M based on the current base State appropriation. In terms of tuition, they are projecting a 3% decline due to a reduction in spring student credit hours and potential decrease in overall enrollment which will be built into the budget. The mandatory student fees reflect the bond issue that the Regents approved last week.

Norma Allen, Associate Director of Planning, Budget and Analysis, stated they had an increase of \$292K from interest revenues.

EVP Harris stated that in the revenue portion of the FY18 budget, they're projecting about a \$13.5M decline in revenue from the current fiscal year.

Provost White reviewed some of the spending dynamics, almost all of them calling for a reduced level of expenditure.

The bottom line, \$11.6M gap, is a reflection of what they are projecting in terms of declines in revenue where they are coming in this year. It would have been higher if they didn't make any cuts earlier in the fiscal year. New items were added to the budget spreadsheet that they are trying to take into account for the budget build including fixed costs for healthcare, Department of Justice compliance, faculty promotions, and UNM Press.

EVP Harris stated they are not talking about aggressive increases in spending. Faculty promotions will keep the promise to faculty as they improve and gain experience and tenure as they are traditionally awarded with increased pay. Health insurance is being monitored carefully. UNM Press has had a difficult time historically operating without some form of central subsidy. There have been a number of consulting studies that have

been done that indicate that is the norm nationally for these university presses that continue to survive. There is an internal discussion whether or not this is the right number, it was put in the spreadsheet for planning purposes but may be different once President Abdallah reviews the budget. If the University is going to have a UNM Press, they will have to figure out how to finance it.

President Abdallah stated they will have a University Press and will support it at some level. They need change the model so they can survive with a reasonable subsidy. Very few presses in the United States can live on their own.

Regent Doughty stated they have an \$11M gap they need to fill in order to balance the budget.

EVP Harris stated the spreadsheet did not include Athletics or HSC. They are working with VP Paul Krebs to specifically address Athletics' challenges.

Regent Doughty stated that overall UNM is a \$3B institution and they are projected to be down \$11M; he inquired what the percentage was.

EVP Harris stated that it may not be an accurate calculation because a major portion of the \$3B is the HSC and UNMH. The portion of the budget they are concerned about is the Instruction and General (I&G) portion of \$315M. In Research, there is approximately \$180M restricted dollars; those all come into the \$3B.

Regent Doughty stated if the University was focused on being "one" institution like he is advocating for, then it would be a much easier task; it continues to be a work in progress.

Provost White stated that when looking at the big picture, they need to look at the transferability of different elements and how much can be integrated. They have been working hard in the BLT to make each unit stand on its own to minimize some subsidies that are sent to those units.

Regent Lee stated they are at a critical juncture; they can make some real changes in the institution, multi-year substantial changes.

EVP Harris stated after the Legislature concludes they will have more information to provide the Committee.

Terry Babbitt, AVP Enrollment Management, stated that enrollment looks solid. Summer was poor performing, fall was solid, and spring saw reductions in credit hours taken. They are optimistic that enrollment is leveling out. They will continue to be conservative in planning. They have made progress in areas including online and international programs, specifically a program with China that will bring 70 Chinese students to ASM.

- 12. Major Capital Projects Update.** Lisa Marbury made the presentation. An update was provided to the Committee on the University's major capital projects. They are in the second largest period of capital improvements that the University has gone through in its history. A slide was presented which illustrated the current project timelines for capital

projects, not all projects were listed on the slide as they were still consulting with some departments. Three of the University's major capital projects were in construction including Farris Engineering, HSC Health Education Building Phase 3, and McKinnon Center for Management at ASM. Three projects were in design including the Physics and Astronomy Interdisciplinary Sciences Building, Johnson Center, and Smith Plaza/Union Square.

Regarding Farris Engineering Center (FEC), the project budget was \$25.5M and it was 56% complete with an expected occupancy date of November 2017. It is a 90,000 square foot facility. They had a beam signing and several slides with images were shown depicting the progress.

Regarding the Health Education Building Phase 3, the project budget was \$27.3M and it was 43% complete with an expected occupancy date of January 2018. It is a 76,000 square foot facility. They had a beam signing and several slides with images were shown depicting the progress.

Regarding the McKinnon Center for Management (MCM) building, the project budget was \$24.3M and it was 11% complete with an expected occupancy date of April 2018. It is a 60,000 square foot facility. They held a ground breaking event, and the Mayor of Albuquerque, UNM Regents and Leadership, and the generous ASM donors Ian and Sonnet McKinnon were in attendance.

Regarding the Physics and Astronomy Interdisciplinary Science (PAIS) building, the project budget was \$65.7M and it was in the design phase. The project was slowed down while awaiting approval for the bonds, which they received. They will seek Regent approval in May 2017, HED approval in June 2017, and SBOF approval in July 2017. Construction is estimated to begin in November 2017 and ending in July 2019. They anticipate the reservoir site will come down in July or August 2017. They have an occupancy date of August 2019 and it is a 137,000 square foot facility.

Regarding Smith Plaza/Union Square, the project budget was \$3M and it was in the programming phase. They received the final \$1M funding from the bond package. It is 130,000 square feet of space; including the lower basin and Union Square outside of the upper level of the Student Union Building (SUB). There are many ADA concerns with Smith Plaza so they are working that into programming. They have had student, faculty, and staff forums to present picture boards to get ideas of what other things would go into the space and how it would look. They have received a lot of good feedback and participation. They will seek Regent approval in June 2017, HED approval in July 2017, and SBOF approval in September 2017. Construction is estimated to begin in September 2017 and ending in June 2018. They have an occupancy date of August 2018.

Regarding the Johnson Center Expansion and Renewal, the project budget was \$35M and it was in the master planning and programming phase. It is 100,000 square foot new building and renewal of some of the current structure. They will seek Regent approval in June 2017, HED approval in July 2017, and SBOF approval in September 2017. Construction is estimated to begin in April 2018 and ending in November 2019. They have an occupancy date of December 2019. The \$35M they received does not solve all of Johnson Center's

problems but if they receive more funding in the future, they can focus on other areas/phases of the project. They are focusing on recreation for the students which is what students want and will help with recruiting. Three concept drawings for Phase 1 were presented and illustrated what areas were on levels 1 through 3. On Level 1 they are repurposing some spaces for multipurpose courts. The current parking lot will be a new fitness center. They will also be fixing code compliance issues. On Level 2 is the main floor, and the new concourse will become the main entry way for the fitness center areas. They are going to expand the shop where students can rent equipment and get their bikes fixed. There will also be a three story climbing wall. On Level 3 there will be an indoor jogging track and some cardio/strength space. An image rendering of the building was presented, it will be very open building but is still in design. They are sitting currently at \$180M worth of capital projects. Albuquerque Business First has contacted the University about doing a story on the projects as they are all major capital renewal for the State, City, and University.

Regent Lee thinks it is important that they show the cost benefit analysis as spending a lot of money on capital outlay at a public institution facing budget challenges can be seen as contradictory. The public need to know their money is not being wasted.

Ms. Marbury stated they can show where their funding is coming from, capital outlay and GO Bonds, and were fortunate to receive funding from the State when it did have money. The University has gone out for institutional bonds to fund the rest of the projects.

EVP Harris commended the students for stepping up and agreeing to support this project for future students.

COMMENTS:

There were no comments.

EXECUTIVE SESSION:

No executive session was held.

Regent Doughty moved to adjourn at 9:55 a.m., and Regent Lee seconded. The motion passed by unanimous vote with a quorum of Committee members present and voting.