2017

September 5, 2017 Finance and Facilities (F&F) Committee Meeting

Senior Vice President for Finance and Administration

THE UNIVERSITY OF NEW MEXICO
Board of Regents' Finance and Facilities Committee (F&F)
September 5, 2017 – Meeting Summary
REVISED - FINAL

Committee Members Present: Regent Marron Lee, Regent Tom Clifford, and Regent Alex Romero.

Administration Present: Chaouki Abdallah, Interim President, David W. Harris, EVP for Administration.

Presenters in Attendance: Brenda De La Pena, UNM Benefits; Bruce Cherrin, Chief Procurement Officer; Connie Beimer, Director, Government Relations; Dorothy Anderson, Vice President, Human Resources; Duane Arruti, Chief Information Officer, IT; Jason Strauss, President/CEO, Lobo Energy; Joey Evans, Manager, Human Resources; Kenny Stansbury, Controller, UNM Foundation; Laurie Moye, Chair, UNM Foundation Board; Liz Metzger, University Controller; Matt Munoz, Manager, Government Relations; Max Kotary, AON Hewitt, Ryan Mummert, Chair, UNM Foundation Investment Committee; Tim McEnery, AON Hewitt.

<u>**ACTION ITEMS:**</u>

1. **Call to Order, Confirmation of a Quorum, and Adoption of Agenda.** Chairperson Marron Lee called the meeting to order at 12:38 p.m. in Scholes Hall, Roberts Room and confirmed that a quorum was established. Chairperson Lee recommended moving Information items 12 and 13 above Action item 8 since these items will help determine the decision of Action items 8 and 9. **Chairperson Marron Lee moved to adopt the agenda and Regent Clifford seconded. The motion passed by unanimous vote with a quorum of committee members present and voting.**

2. **Finance and Facilities Committee Meeting Summary from August 8, 2017.** <u>Chairperson Lee also recommended that in the future the meeting summaries should be in a more condensed format with all Regent requests for information and for follow-up specifically indicated.</u> **Regent Romero moved to approve and Regent Clifford seconded. The motion passed by unanimous vote with a quorum of committee members present and voting.**

3. **Approval of Disposition of Surplus Property for Main Campus for June, July, and August 2017.** Bruce Cherrin presented one item of book value for approval.

   Regent Clifford moved to approve and Regent Romero seconded. The motion passed by unanimous vote with a quorum of committee members present and voting.

4. **Approval of UNM Information Technology – Edge Switch Refresh Program Contract.** Bruce Cherrin and Duane Arruti made the presentation, requesting approval on a bid for 11 different Cisco switches that are constantly being upgraded. Thirty-eight vendors received the request for proposals, and of them, 5 responded. The selection committee recommended awarding the contract to Advanced Network Management. The total cost will be $800,000 annually for 4 years.

Regent Clifford inquired whether the cost of contract is a flat rate or if the cost changes depending on the bidder.

Mr. Cherrin responded that depending on what is needed at the time, there are 11 different switches and a bid for each one of them. The department will keep a close eye on new technology being released.

Regent Clifford moved to approve and Regent Romero seconded. The motion passed by unanimous vote with a quorum of committee members present and voting.

5. **Approval of FY19 Research and Public Service Projects (RPSP)**. Connie Beimer and Matt Munoz made the presentation. Approval by the Regents is required prior to submitting the request to the Higher Education Department. Main Campus RPSP's totaled $15.6M in 2008, $9.8M in FY 15, and $10M in FY16. This request is for an increase back to the FY16 budget level of $10M for Main Campus.

   Regent Clifford expressed concern about a 20% increase, $1.3M of additional spending on top of $3.4M discussed earlier that morning at the HSC Board meeting, because there will not be this type of funding from I&G. Regent Clifford commented that we are not showing the legislature where the university's priorities lie.

   Regent Romero agreed with Regent Clifford's concern about our priorities and also inquired about what the next steps would be with these justifications for an increase.

   Regent Lee also agreed with Regent Clifford and Regent Romero's concern.

   Ms. Beimer replied this request requires a larger conversation with legislators and other universities, however, the approval from the Regents was required in order to move forward.

   The motion to approve the FY 19 Research and Public Service Project Requests passed by a vote of 2-1; Regents Romero and Lee voted for; Regent Clifford voted against (1st Romero, 2nd Lee).

6. **Approval of Harwood Foundation Governing Board, Appointment and Re-Appointment.** No action was taken because a representative was not present.

7. **Approval of Lobo Energy, Incorporated, Board of Directors Appointments.** Jason Strauss made the presentation. Bruno Carrara and Thomas Ruiz were recommended for reappointment.

   Regent Clifford expressed concern about the Public Regulation Commission's rate setting policy with PNM and how a contract agent will work on UNM's behalf. Regent Clifford expressed discomfort about turning over University priorities to a contractor without having an understanding of what outside counsel is doing. Regent Clifford asked for reassurance on this matter.

Mr. Harris commented that UNM had a contract with an individual lawyer that represented UNM exclusively, but because rate actions of the PRC were continuous, the representation became expensive. With further research, the NMIEC group was found. There are about 5 to 6 large industrial users, and the Board opted to join this group for a low price. Mr. Gould represents the interests and priorities established by the coalition and does not advocate for the University.

Regent Clifford stated Mr. Carrara is seen as a representative of the University, and there is concern our priorities will pile on whatever priorities have been given to him by that group. This concern came from prior conversation with PNM about improvements in channels of internships and employment for graduates at PNM. Regent Clifford emphasized the importance of the relationship with PNM as rate cases continue to burden that relationship.

Mr. Strauss stated there is a natural conflict within these two parameters. We want to place our UNM graduates at PNM because they are one of the New Mexico's largest employers. At the same time, we want to do our due-diligence to ensure UNM gets a fair deal from one of the largest industrial consumers.

Regent Clifford responded with an understanding of the different priorities and requested that a summary of the presentation, made on the group's behalf, be brought to the Lobo Energy Board Meeting.

Mr. Harris commented the University never advocated for 0% rate increase, PNM is always guaranteed a certain profit margin. A balance in rate actions is what is advocated for. The university does not receive funding for utilities even though we pay up to $20M a year in utilities.

Regent Clifford moved to approve and Regent Romero seconded. The motion passed by unanimous vote with a quorum of committee members present and voting.

12. **UNM Foundation Regent Advisor Report.** Laurie Moye presented on the Foundation's fundraising report. A $5,000 endowment was created at the College of Fine Arts, Music Department, for student scholarships in the music program. The endowment was a gift from the "Friends of Music" organization. In addition to the endowment, the Foundation raised $91.4M for FY16-17.

Regent Clifford requested a few minutes to go through the specifics of the Fundraising Performance Report.

Kenny Stansbury made the next presentation and gave a detailed overview of the Fundraising Performance report, starting with a summary of the CASE Campaign.

Regent Clifford inquired if the summary of financials was a result of the Foundation's campaign and not from its total resources.

Mr. Stansbury responded that the total Foundation's resources are endowments. The endowment gifts are accounted for, but the current financial summary is the result of the campaign only.

Regent Clifford stated the breakdown of proceeds from donations between Main Campus, HSC, Athletics, and others must be used for specific areas on campus.

Mr. Stansbury responded that this requirement is similar to most gifts received; about 99% of gifts are restricted. Mr. Stansbury proceeded to explain the next few reports on gift commitments, pledges, metrics on donors and gifts, and the amount of money raised. The Foundation received an 11.8% endowment growth for the year, totaling $425M.

Regent Clifford clarified that the $15M is from the beginning balance of approximately $400M and also inquired about policies that would set up a band between 4-6%.

Mr. Stansbury responded with the current band at 4-6%, the change in policy would clarify approval of a certain dollar amount that is within the band and use unit averaging rather than straight dollar averaging. Mr. Stansbury also noted each year at the February meeting, the Investment Committee of the Foundation sets the approved spending distribution one fiscal year in advance.

Regent Clifford asked if the total market value is below the 4% or if the 4% is something other than the total market value.

Mr. Stansbury responded that the market value is below 4% because it is based on an average of the prior 20 quarters (5 years). There was some growth in the endowment for the past 20 quarters, which is why the percentage of the ending value is below the 4%. $15M is sitting at 4.2% of that average. $15.5M was already approved by the Board, and it is also near the bottom of the approved ban of around 4%.

Mr. Stansbury continued with the last section of the report which covered endowment funding. Endowment funding is a component of the Foundation funding and different institutions fund the Foundation either through direct support or through an endowment funding allocation fee.

13. Consolidated Investment Fund Performance Update. Ryan Mummert, Tim McEnery, Max Kotary, and Kenny Stansbury made presentation.

Tim McEnery gave an informational update on investment performance. Two graphs were presented comparing investment performance to the policy benchmark. The performance measurement criteria showed the Foundation did very well on endowments within the last year. Policy benchmark is looked at as a passive representation, and the portfolio is comprised of both passive and active benchmarks. The issue with the policy benchmark is investments from private markets have no available public proxy. In that case, public markets plus a premium is usually taken over a long term. It is expected that the private market investments pay out to the public market indices plus premiums. In short term, when public market performance is strong, private markets lag particularly when public market premium benchmarks are at 2-3%. There are two reasons why the foundation is behind the benchmark: 1) public market plus premium benchmarks are very hard to beat, and 2) the Foundation did not invest in private equity between 2010 and 2015. The other performance metric is based on information taken from the National Association of College and University Business Officers (NACUBO) report.

Regent Clifford requested to see the data that illustrates our underperformance was not due to private equity.

Mr. McEnery responded data was not present at the current meeting but if we looked at the data from investment committee reviews, the private equity allocation is compared to a public market benchmark plus a 2-3% premium. Even though they received good, absolute returns out of the private equity portfolio, they fell behind in the public market. It is believed it will even-out after a full market cycle.

Regent Clifford responded that the question about private equity came from uncertainty of what the equity is worth now. Even though it is a popular strategy, Regent Clifford expressed concern with what private equity does for the University. Some people turn to private equity to stabilize their portfolio.

Mr. McEnery responded with the 10% of equity on the portfolio, the hope is to get the premium over the public markets, which has not been done in recent years because public markets have had a strong return. It is hard to build a public portfolio based on any assumptions for the traditional market asset class, which will preserve purchasing power over fees. The hope is the private market allocation, in the long term, will outperform public equities.

8. **Approval of Revision to Consolidated Investment Fund Investment Policy.** Ryan Mummert, Tim McEnery, Max Kotary, and Kenny Stansbury made the presentation.

Tim McEnery provided a detailed overview for the proposed revision to the consolidated investment fund policy’s asset allocation and spending distribution sections. He also provided detailed rationale for the proposed changes.

Regent Clifford inquired about the lender for the private debt and about the risks involved with this debt.

Mr. McEnery responded the regulatory framework drove the interest of these investments. Banks are unable to lend to smaller to big market companies.

Regent Clifford stated there is an active discussion in Washington, D.C. about revisiting the Volcker Rule and questioned what would happen to the market if banks were able to re-enter the market.

Mr. McEnery stated if banks are able to re-enter the market, there would be increased competition. We are looking for managers that are active in making these types of loans. The Foundation is currently looking at the fund manager, Golub Capital, who is both a private equity and private debt manager.

Regent Clifford inquired about the structure of the investment, specifically from cash flow compared to private equity since they have fairly long lock-ins and draw-downs.

Mr. Mummert responded the draw-downs are faster because the loans are being written. This fund is expected to be fully drawn in 5 years. Mr. McEnery also stated these loans are similar to a private equity structure, but everything is expedited. Cash flow starts quickly so the J-Curve is shallow. These loans pay out within the first quarter of investment bonds received.

Mr. Mummert stated that within these terms, the debt can be refinanced. The rate might be for a longer time period depending on if the market goes soft on a company or when a buyer comes into the market.

Regent Clifford inquired if the target policy tolerance range for international equity is 40%. He further inquired if this included international or domestic equity or both.

Mr. McEnery responded the vast majority is domestic. The private equity portfolio shows a ratio of 80/20 or 75/25 for real domestic assets and market alternatives versus international.

Regent Clifford inquired about the international allocation for the portfolio, as the current allocation for international equity is 21%, and if there are other international assets in other categories.

Mr. McEnery responded that some are domestic and others are international, but a total allocation could be created using percentage points from domestic and international.

Regent Clifford expressed concern with 40% international policy tolerance and wondered how long the policy has been in place and if it has been revisited in recent years. Regent Clifford also understood the policy tolerance's flexibility and emphasized its importance to the Board.

Regent Romero inquired if this process was vetted through the Investment Committee.

Mr. Stansbury responded the recommendation was approved by the Investment Committee and then approved by the Foundation.

Regent Clifford moved to approve and Regent Romero seconded. The motion passed by unanimous vote with a quorum of committee members present and voting.

9. Approval of AON Hewitt Investment Consulting Contract. Ryan Mummert and Kenny Stansbury made the presentation.

Mr. Mummert presented the request for consideration of a 2-year contract extension for AON Hewitt for $265,000 that will begin after the current contract is up. He stated AON Hewitt is very cost competitive and added there was a modest increase to the contract.

Regent Clifford inquired about the contract procurement process and about other offers that were made on the original contract. Regent Clifford called Bruce Cherrin to the table.

Mr. Cherrin stated the original investment contract went through a normal procurement process with a request for proposal (RFP).

Henry Nemcik added there were 25 original offers, and the committee narrowed it down to three offers. Each of three finalists were interviewed individually by the committee, which included Regents.

Mr. Mummert also noted the Board's intent was to go through the full RFP process. The Foundation was comfortable extending AON Hewitt's 2-year investment consulting contract because the committee has been pleased with the level of expertise and service they have provided.

Regent Romero moved to approve and Regent Clifford seconded. The motion passed by unanimous vote with a quorum of committee members present and voting.

10. Recommendations for Consent Agenda Items on Full Board of Regents' Agenda. Chairperson Marron Lee recommended items 3, 4, 7, 8, and 9 to be placed on the full Board of Regents' consent agenda.

Regent Clifford moved to approve and Regent Romero seconded. The motion passed by unanimous vote with a quorum of committee members present and voting.

INFORMATION ITEMS:

11. Monthly Consolidated Financial Report for Main Campus Month of June 2017. Liz Metzger made the presentation.

Ms. Metzger detailed the preliminary monthly financial report. Since the audit is still underway, there is potential for additional adjustments. The summary information discussed in previous meetings related to the revised budget. A summary graph represents the report on I&G tuition and fees for Main Campus. Line item details of the report are comprised of not only centrally pooled tuition and fees that are distributed to various colleges, but also tuition and fee amounts that come in, such as course fees, and go directly to the different colleges. The second section shows that the main campus tuition pool at the end of the year totaled $132.9M against a revised budget of $132.8M. The second summary graph represented final results of operations for Athletics.

Regent Clifford wanted clarification on whether line-items running a surplus for the year are indicated on the chart.

Ms. Metzger responded that is correct. When previous calculations were made to see where Athletics operations would end the year, a $200,000 deficit was projected. The audit discovered there were some adjustments that needed to be made for the year-end, which increased the adjustments by $160,000. That increased the overall operations deficit to the displayed total of $372.7 M.

Mr. Harris asked Ms. Metzger to explain the discovered adjusting entries that totaled the $160,000 of which Athletics was unaware.

Ms. Metzger responded that when the books are being closed every year, accruals are done on receivables that need to be booked. There were some receivables booked in the prior year end that had not been revised in the current fiscal year end. Overpayments to some individuals were correct for this fiscal year end, which changed the deficit.

The next part of the monthly financial report goes over bottom line balances. Consolidated total operations were $9.3M for the year, and Main Campus' use of balance totaled $4.2M. All branches broke even for the year. HSC's surplus at the end of the year totaled $13.8M.

Ending the presentation was a report of the ending balance of I&G funding, including state appropriations. This report showed I&G broke even and the difference of revenues and expenses was $850,000.

Regent Clifford commented that from these charts, cost containment efforts were successfully implemented, and Santa Fe should be informed of this. It is very important to articulate how the university was able to achieve that and also helpful to understand how it impacts the budget. The F&F Committee and Board of Regents' would like to know how the savings were achieved and if this indicates sustainability moving forward. Lawmakers need to know our campus is paying attention to such things. Regent Clifford also inquired what the "Other Expenses" are in reference to the Main Campus breakdown.

Ms. Metzger responded that this specific line item is inclusive of things such as utilities and equipment and not anything related to salaries and benefits.

Regent Romero noted that the university's mission is impacted when staff is reduced or rehire is slow. However, from a financial point, this report is good news.

Mr. Harris commented the FY18 budget will be presented in the next meeting, along with a report that was pledged earlier on balances. Once the audit is complete and numbers are finalized, it will be brought forward to the Board.

14. 65+ Senior Medical Plan Premium Renewal Rates. Dorothy Anderson, Brenda De La Pena, and Joey Evans made the presentation

Ms. Anderson provided information about why this item was brought to the Committee meeting. Typically, renewal for post-65 coverage is not brought forward to the Board since increases have been minimal and the premium splits are 30% UNM, 70% retiree, funded by non-I&G dollars. However, when this information was being analyzed, it was discovered the cost to UNM would increase by about $500K.

Ms. De La Pena presented detailed information regarding the plan. Traditionally, the insurance options for 65+ is Medicare Advantage and supplement plans for retirees and eligible dependents. We do provide various plan coverage to address access with major networks in New Mexico, and the varying levels of coverage through Medicare, part D, prescription coverage gap and also providing options for out-of-state coverage. These plans are subsidized by Centers for Medicare and Medicaid (CMS) and have historically been at a relatively low cost to UNM.

Regent Clifford asked if this means our employees are not eligible for retiree healthcare.

Mr. Evans responded these plans are specific to Medicare eligible retirees. Employees who were hired on July 1, 2015 or later, will no longer be eligible for retiree benefits. These plans are for those who are eligible to retire currently and hired prior to July 1, 2015. Rather than being a part of our pre-65 group which are a part of the self-insured plan, these individuals are Medicare eligible and therefore are eligible for supplemental and Medicare Advantage type plans.

Ms. De La Pena provided a detailed presentation on the five Medicare Advantage plans that are being offered.

Regent Clifford inquired who designs these benefit packages for Medicare and asked what it covers.

Mr. Evans responded the monthly premiums are the focus. The Medicare Advantage plan is a plan that cannot be offered with HMO or PPO type plans. There are various plan designs, but Part D is what provides prescription/drug coverage.

President Abdallah wanted to know if these plans are vastly different enough to justify the price range.

Ms. De La Pena responded the utilization is similar amongst all plans, and the differences between the HMOs or PPOs is higher level of coverage. Ms. De La Pena also stated that the impact on UNM totaled $591K, which is 30%.

Regent Romero inquired if the 30% is a benefit provided by UNM for those retirees hired before 2015. He also wanted know the timeframe for the increase to take place.

Mr. Evans responded I&G funding is not used to cover these costs. Funding is provided through a miscellaneous pool of funds. VEBA is in the process of taking over funding so the money would no longer come from UNM directly. The estimated time to implement VEBA funding would be 2028.

COMMENTS:

Donna Smith, UNM Retiree, provided comments on the 65+ Senior Medical Plan Premium Renewal Rates.

EXECUTIVE SESSION:

There was no executive session.

Regent Lee moved to adjourn at 2:08 p.m., and Regent Clifford seconded. The motion passed by unanimous vote with a quorum of Committee members present and voting.