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University of New Mexico Board of Regents Minutes for January 16, 2018

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**Minutes of the Regular Meeting of the Board of Regents of the University of New Mexico
January 16, 2018
Student Union Building (SUB) – Main Campus
Open Session - Ballroom C**

Members present

Robert M. Doughty, President; Marron Lee, Vice President; Tom Clifford, Secretary Treasurer; Alex O. Romero; Garrett Adcock; Brad Hosmer; Suzanne Quillen

Administration present

Chaouki Abdallah, Interim President; David Harris, EVP for Administration, COO, CFO; Paul Roth, Chancellor for Health Sciences; Richard Wood, Interim Provost and EVP for Academic Affairs; Michael Richards, Vice Chancellor for Clinical Affairs, UNM HSC; Lawrence Roybal, Interim VP for Equity and Inclusion; Eddie Nuñez, Athletics Director; Elsa Cole, University Counsel; Dorothy Anderson, VP HR; Ava Lovell, HSC Sr. Exec. Officer of Finance and Administration; Gabriel Lopez, VP Research and Economic Development; Dana Allen, VP Alumni Relations; Eliseo 'Cheo' Torres, VP Student Affairs; Elizabeth 'Libby' Washburn, President's Chief of Staff; Liz Metzger, Controller; Pamina Deutsch, Director, Policy Office

Regents' Advisors present

Pamela Pyle, Faculty Senate; Noah Brooks, ASUNM

Presenters in attendance

Lisa Todd, Partner, Moss Adams; John Kennedy, Partner, KPMG; Michael Richards, Vice Chancellor for Clinical Affairs, UNM HSC; ; Pamina Deutsch, Director Policy Office; Chris Vallejos, AVP, ISS; James Malm, CEO, UNM Gallup; Ralph Richards, Chair, Local Advisory Board, UNM Gallup; Dorothy Anderson, VP HR; Eric Weinstein, AON; Mark Tyndall, AON

Others in attendance

Members of administration, faculty, staff, students, the media and others.

CALL TO ORDER, CONFIRMATION OF A QUORUM, ADOPTION OF THE AGENDA

Regent President Rob Doughty called the meeting to order at 9:11 AM, confirmed a quorum, and asked for a motion to approve the agenda.

The motion to adopt the agenda passed unanimously (1st Lee; 2nd Adcock).

APPROVAL OF MINUTES

The motion to approve the minutes of the December 12, 2017 regular meeting of the Board of Regents passed unanimously (1st Lee; 2nd Adcock).

PUBLIC COMMENT (No comments)

REGENT ADVISORS COMMENTS (No comments)

COMMENTS FROM REGENTS

Regent Lee commented on Erin's Place, a hospice for pediatric cancer patients, recently completed and opened at the NW corner of UNM Main Campus. The location for Erin's Place was approved by the Board of Regents in March 2016 and construction broke ground in November 2016. Erin's Place welcomed its first patient in July 2017. The Director of the Children's Cancer Fund of NM, Diana Trujeque, gave a picture book to the Board of Regents that documents the construction and first six months operations of the facility.

THE PRESIDENT'S ADMINISTRATIVE REPORT

President Abdallah opened his report noting the State Legislature in session and current revenue estimates include \$200 million in new funding. He informed the Regents of two recommendations from the legislative and executive branches regarding funds added into the higher education formula. While he acknowledged that 4-6.5% would only translate to \$300-\$500K for UNM, any increase in funds is a positive development. There is also discussion at the state level regarding state employee compensation increases. UNM receives approximately 60% of labor funds from the State, translating to 50% with benefits factored in. State funds cover an even lower portion of labor costs of the Health Sciences Center.

President Abdallah introduced the new Athletics Department CFO, Rob Robertson. Regent Doughty requested Mr. Robertson give a brief history of his background. Mr. Robertson has an undergraduate degree from the University of Tennessee, Chattanooga, and a JD from the University of Tennessee, College of Law, serving as a law-school intern to an

associate athletics director there. After passing the bar, he worked in the NCAA compliance office at the University of Oklahoma, then returned to the University of Tennessee compliance office, transitioning to the business office as CFO for the past 3.5 years, until beginning his work at the University of New Mexico in January.

President Abdallah stated that administration will present an Athletics financial plan in February to propose solutions regarding debt, the current deficit, and future plans. He cautioned that the February presentation will not contain specific details regarding reductions, but will give information about how much reduction will be necessary. Specifics will require more discussion. President Abdallah will circulate drafts of the plan to the Regents to solicit feedback before the February meeting.

He noted that later in the meeting, Pamina Deutsch, Director, UNM Policy Office, would be speaking about the Regents Policy Manual updates, for which the administration will seek approval in February and noted that hard copies have been circulated and the changes are also posted on the regents' website with a link for comments.

President Abdallah turned to updates from the Office of the Provost. After the last Higher Education Commission accreditation visit, two areas were flagged for attention: 1) the roles of governance and 2) advising/ financial issues. The administration is addressing these two areas, and has requested a self-study from the Regents to include in a 2018 spring report. President Abdallah stated a Faculty Senate Task Force on common core has issued a report to the Faculty Senate for discussion, with adoption of recommendations slated for next year. He noted that recommendations may affect which courses will be in the common core and how they align with the state core.

President Abdallah announced that the Office of the Provost & Academic Affairs has appointed Dr. Monica Kowal the Associate Dean of Community Engaged Learning & Research, in a focused effort to coordinate Community Engagement across Main Campus. Her duties will include coordinating an application to the Carnegie Foundation for Community Engagement Classification, a designation that UNM has applied for but not received. The advent of a coordinated community engagement effort addresses some of the concerns about fragmentation preventing UNM from receiving this designation. President Abdallah advised the Regents that in response to concerns regarding murals in Zimmerman Library, Kymerly Pinder, Dean of the College of Fine Arts, and Interim Associate Provost for Faculty Development, Alex Lubin, are teaching a course that examines the history of UNM and studies the murals. As is happening at UNM and other institutions around the country, community members are objecting to various symbols on campuses. The administration is proactively ensuring that this dialogue is educational and serves as a research opportunity.

In his update on research activities, President Abdallah conveyed that administration is developing annual reporting software to collect information regarding research productivity, removing some of the burden of collecting information from individual faculty and also allowing research administration to compare activities in specializations across multiple universities. He highlighted two recent research accomplishments, including a grant for \$2 million from ARPA-E for a project developing a sensor array to detect building occupancy to optimize heating, cooling and ventilation, awarded to Distinguished Professor Emeritus, Steven Brueck. UNM also received two federal grants totaling \$7.5 million to research "dark" genes and proteins. These grants help coordinate a multi-site investigation, highlighting UNM HSC leadership in cutting-edge scientific research.

In his updates on reaffirming a culture of trust and respect on campus, President Abdallah noted the Division of Equity and Inclusion (DEI) completed a study of its current structure and activities. The detailed report, prepared with representative information across campus and the Health Sciences, recommends excellence in equity as a strategic focus, with three clear changes: 1) DEI will be more focused on its core mission; 2) the mission will be clearer to all; and 3) the mission will draw on authority, expertise, and commitment from all levels of the institution, coupling excellence with equity always. President Abdallah noted that under the Department of Justice agreement, UNM submitted its seventh status report on 1/5/18, reporting that more than 22,000 students have undergone "The Gray Area" in-person, interactive sexual misconduct training, and 99.3% of staff and 92.4% of faculty completed the online training, "Intersections: Preventing Discrimination and Harassment" in 2017.

President Abdallah turned to the budget process with an updated schedule. In January and February, all units, colleges, departments, and divisions conduct mid-year projections and reviews. Members of the budget office and enrollment management update the Budget Leadership Team (BLT) as they develop recommendations for next year's budget and look at long-term scenarios. There is also a reporting process for requests and priorities management at this time, flowing through unit VP's and the EVP's office on the administrative side, and chairs', Deans' and the Provost's office on the academic side. The BLT hears presentations of new and ongoing requests to determine priorities. The unit-based budget evaluation process is continuous, monitoring budget-to-actuals and flagging concerns in order to update projections. Final budget adjustments are reviewed by the Budget Office. Financial Services then prepares monthly reports for the Regents. President Abdallah stated administration will distribute information to the Regents and present further on any specifics that Regents request.

Regent Tom Clifford commented that the Regents still do not review budget information until March, which is too late in the process. He requested the timeframe be adjusted so that Regents may review and discuss any concerns ahead of voting.

Regent Quillen requested a copy of the last self-study that regents performed for the accreditation process. President Abdallah obtained confirmation from others that a self-study was not performed previously. Regent Quillen inquired about an existing template; President Abdallah indicated administration can develop a template or ask the Higher Education Commission for an existing template or example of what other institutions have provided. Regent Quillen suggested, under terms established when probation was lifted by the commission, that Regent Doughty might seek engagement with The Association of Governing Boards of Universities and Colleges (AGB).

POSSIBLE ACTION ON A UNM PRESS FINANCIAL MATTER

President Abdallah's final update was a request for one-time support to UNM Press in the amount of \$350K. The UNM Press Interim Director presented information at the December 2017 Board of Regents regarding major adjustments UNM Press has made to reduce their expenses. The FY19 budget will reflect \$600-\$700K cuts toward solvency, but currently, UNM Press has a FY18 deficit of \$350K that needs to be addressed through the use of one-time funds. He noted that administration is also working directly with legislators to get direct allocations for UNM Press, since it is truly a state service rather than just a UNM service.

President Abdallah stood for questions. Regent Doughty requested that EVP Harris explain where the \$350K would come from. EVP Harris stated that within the cash management program, interest rates have increased, earning more money than projected, so the \$350K will come from interest earnings that have not been budgeted.

Regent Clifford expressed that, given that there was not information before him beside the \$350K figure, he was not prepared to cast an informed vote on this item. President Abdallah stated the December 2017 presentation did include complete UNM budget information, including the \$350K deficit. However, Regent Clifford noted the request was not indicated in December, and having the full budget information with the request would have been helpful.

Regent Suzanne Quillen noted she felt comfortable seconding the motion to vote due to the fact that the Press had given an in-depth presentation at the ASAR subcommittee meeting, and showed great progress in reducing expenses along with an impressive trajectory. Regent Doughty concurred.

The Board of Regents voted on the UNM Press action item.

The motion to approve the allocation of \$350,000 of funds to UNM Press for this year's budget passed with a vote of 6 to 1; Regents Adcock, Doughty, Hosmer, Lee, Romero, and Quillen voted in favor; Regent Clifford voted opposed; motion passed (1st Hosmer; 2nd Quillen).

Regent Clifford reiterated his concern that there is no Regent involvement in the budgeting process until the time a vote is necessary. He noted that every time the budget process schedule has been presented, he has requested additional involvement of the Regents well before March, so they are versed before voting, yet the schedule again does not involve the Regents until it is time to vote. EVP Harris noted that three of the Regents standing subcommittees (ASAR, F&F and HSC) are part of budget development process and recommended that the administration bring reports to these committees in February. He also noted that if Regent Clifford envisioned a different role for Regents, the administration would be amenable to that as well. Regent Clifford stated reports presented in F&F do not track unit budgets which is the information he is requesting. Regent Doughty inquired how that could be addressed, and President Abdallah conveyed that administration can present unit budgets in detail, whether in hardcopy form or in live presentations. Regent Clifford thanked President Abdallah. He also inquired why there is a 0% increase for higher education in the legislation appropriation recommendations considering there is 3% additional revenue. EVP Harris responded that when the budgets were formulated, the LFC and DFA were working from existing revenue estimates at the time. Revenues began to improve significantly in the three-month period following. Current UNM administration discussions with legislative leaders indicate that appropriations for higher education will be improved over the next two weeks.

Regent Clifford noted that an LFC report accompanying the recommendations favorably cited changes made at NMSU, but did not mention changes at UNM, to his disappointment. He felt that the report raised concerns that were not responded to adequately, such as governance and cost-containment. The report indicated costs have not decreased proportionately with enrollment, and Regent Clifford stated that UNM must address these issues proactively with the legislature. President Abdallah replied that the report actually cites UNM in a number of places, particularly in regard to improvements UNM has accomplished in graduation rates and other areas, if not in the cost-containment comments. Regent Clifford conveyed that, regardless, a 0% increase recommendation despite a 3% increase in additional revenue translates to a statement by

the legislature. He indicated that as a matter of improvement, UNM administration needs to find out more about legislative concerns regarding higher education and UNM in particular.

Regent Hosmer concurred that Regent involvement earlier in the process would be a more productive process to ensure Regents are not faced with priorities they may fundamentally disagree with too late. He endorsed the idea of beginning as early as next December to bring forth priority and trade-off issues, regardless of how effective the administration is at cost-containment.

Regent Romero agreed with Regents Clifford and Hosmer, and noted there is opportunity before the March budget presentation to have individual conversations with university leadership in order to clearly understand issues before a vote. EVP Harris suggested the administration give a preview of budget work at the February F&F meeting, and where more detail is requested, to subsequently supply information.

Regent Romero commented on the administration update slide entitled, "Reaffirming a Culture of Trust and Respect," indicating that it should extend to Regents as well. He noted that he had had an uncomfortable situation the previous week, and wanted to express that everyone in the community has a voice and that his voice will not be quieted. He indicated he will speak about the situation at a later date.

REGENT COMMITTEE REPORTS

CONSENT DOCKET

Regent Doughty addressed the following consent docket and asked for a motion to approve.

1. Finance and Facilities Committee (F&F) Consent Items
 - a. Approval of Disposition of Surplus Property for Main Campus for December 2017

The motion to approve the consent docket item as presented pass by a unanimous vote (1st Romero; 2nd Quillen).

AUDIT AND COMPLIANCE COMMITTEE

Approval of the FY17 University Consolidated Financial Statements External Audit Report by Moss Adams and KPMG

Regent Clifford introduced Lisa Todd, Partner at Moss Adams, and John Kennedy, Partner at KPMG, to present the item. Ms. Todd noted that she was the partner in charge of the Main Campus and Branches financial statement audit, which includes the single audit of federal award expenditures encompassing the non-clinical component units for departments. The financial statement audit document includes Moss Adams reports with consolidated information from the KPMG audit of clinical areas. She noted KPMG is responsible for audits for UNMH, Behavioral Health operations, the UNM Medical Group and the Sandoval Regional Medical Center in stand-alone reports. The financial statement audits were prepared in accordance with generally accepted auditing standards and governmental auditing standards, as well as according to specific audit procedures that Moss Adams is required to report under the New Mexico State Audit Rule. In addition to the financial statement audits, due to federal expenditures and federal monies received by UNM, Moss Adams is required to perform federal grant compliance under the uniform guidance of a single audit. This year, as part of the University audit, Moss Adams performed an audit on the student financial aid cluster. They were also required to follow up on major program findings made in the prior year's audit on the R&D cluster.

Ms. Todd reported the unmodified audit opinion stating the financial statements of UNM as a whole are fairly presented in accordance with GAP. In addition, Moss Adams issued two other audit reports. The first relates to the governmental auditing standard report over internal control and compliance in other matters; issuance is required if there are significant findings related to internal control or compliance matters, and the report is also an unmodified opinion within the consolidated report. Moss Adams issued a specific report regarding the federal compliance work performed on compliance of a major federal program under uniform guidance, and this is also an unmodified opinion in the consolidated report. The report also includes a summary of prior year audit findings (FY2016) on which Moss Adams performed follow-up to ascertain the status. All ten prior-year findings were reported as resolved in this Financial Statements Audit Report.

Regent Clifford inquired about the finding related to STC being repeated in the list of findings. Ms. Todd responded that appears to be repeated but was modified slightly as a different finding and also a material weakness at the individual component unit. Last year's finding pertained to specific issues with account reconciliation; this year's report includes more information, and is actually a modified finding. Ms. Todd indicated there were no findings to report related to UNM's basic financial statements or the student financial aid cluster. Moss Adams did have findings required to be reported under the New Mexico state rule, and also performed test work related both to the University and various component units.

Mr. Kennedy presented the first finding, related to UNMH and SRMC. In test work examining the process for terminating access to computer systems when employees leave employment, KPMG identified six instances (three at each location)

where individuals left employment but continued to have access to the system beyond seven days (UNM's policy). One instance showed access up to 42 days post termination, although no individual actually accessed the system after termination. KPMG typically tests charity care, but modified requirements this year in accordance with the state audit rule, pulling specific examples from all four institutions. They found one instance where an individual whose previous qualification for charity care had expired, but continued to receive charity care under the previous arrangement.

Finding 3 pertained to a non-core activity related to the UNM Medical Group's meaningful use revenue, which was recognized by UNMMG on a cash basis. They actually follow the accrual basis of accounting, so KPMG made adjustments in conjunction with the medical group to move some revenue as an adjustment of period of recognition. However, it resulted in a finding of material weakness at the medical group and required a restatement of financial statements.

Ms. Todd presented Finding 4, a material weakness finding related to construction costs at Innovate ABQ that were expensed and not capitalized. As a small component unit dollar-wise, any large adjustment becomes material. A large audit adjustment took place to move costs from expense into a capitalized asset. In connection with that construction, there was also building demolition and those assets had not yet been removed from the books. Moss Adams made a significant audit adjustment to correct those balances.

There was a finding of control deficiency at Anderson School of Management (ASM). The Foundation at ASM had client adjustments that were not ready at the time of audit. There was a significant amount of client adjustments made subsequent to Moss Adams' arrival, causing a significant impact in receiving audit material and the conduction of the audit, resulting in a finding of control deficiency to clean up the process of how they close their books.

Regent Quillen inquired about the meaning of a client adjustment. Ms. Todd responded that "client adjustments" are made by the client rather than the auditor. An "audit adjustment" means Moss Adams made an adjustment on an error found during the process. ASM was clearly aware that adjustments needed to be made, and they were making adjustments as Moss Adams was auditing. Regent Clifford inquired about the nature of the client adjustments. Ms. Todd replied the transactions were mainly related to deferred student revenue in the MBA program. She noted there were many transactions to determine what adjustments needed to be made for the accrual basis of accounting. She reiterated there were no issues with the adjustments themselves, which were accurate and correct. ASM Associate Dean Berman clarified that it was eMBA program revenues and that it was a matter of getting them reported into the central Anderson accounting system.

Ms. Todd continued, citing a controlled deficiency finding at STC that rose to a level of a material weakness finding. The finding pertained to controls in place for accrual entries and account reconciliations. They made an excessive amount of audit adjustments specifically related to licensing agreements and contracts. She noted that there is a great deal of activity at STC and it took many adjustments to get the books up-to-date, which escalated the finding to a material weakness. EVP Harris explained that STC had changed its CFO during the year and he felt the CFO was not briefed appropriately as to the full magnitude of his job. He noted that the fact that STC runs two different systems that relate to their general ledger, one involving patents and one involving general expenditures, which highly complicates their accounting. The administration provided a team to train the CFO. They are currently up-to-date on reconciliations. Because of concern regarding any finding repeated in audits, Liz Metzger, UNM Controller, and her staff have offered to consult with any component units. EVP Harris felt the units had been too independent in their judgments. Regent Clifford added the Regents discussed this in the previous year, and the solution was a new CFO at that unit. Ms. Metzger added that her team plans to stay heavily involved between now and the end of the fiscal year to ensure reconciliations remain up-to-date, and will also evaluate processes to ensure efficiency and thoroughness. Ms. Todd stated it is important to note that there is a high volume of complex transactions at STC requiring attention. Regent Romero stated that as the Regent Representative on the STC Board, he will communicate this information at their upcoming meeting. EVP Harris offered to have Lisa Kuuttila, President and CEO of STC, present a report to the Regent F&F or audit subcommittee meetings.

Ms. Todd presented another control finding deemed a significant deficiency that was also related to STC. Moss Adams found there were no specific policies and procedures related to in-kind expenses. STC has a lot of receivables and are required under current policy to expense finance charges. Those policies for actual practice as well as write-off and allowance policies related to those receivables, royalties, etc., need to be updated. Regent Clifford noted that the report indicated the policies might be completed by the end of December 2017. Regent Clifford requested that a copy of those policies be sent to the audit committee, accompanied by a presentation by Ms. Kuuttila and the CFO. Regent Romero stated he will pursue issuance of a report to be copied to the Board of Regents.

The monitoring of contract compliance is at the control deficiency level at the university level. Specifically, the Athletic Department entered into contracts with a third-party vendor related to multimedia rights, sponsorship and licensing agreements, and Moss Adams found a difference in what was paid versus what was agreed to. It was also noted that although it was a draft contract in place that was agreed to, the actual amount that was paid on the contract had not been

finalized. This is a finding that arose in connection with the State Auditor athletics review finding. Regent Clifford requested that the new Director and CFO for athletics address this finding and return to the Board with information.

There was a control deficiency reported at the UNM Alumni Association individual component unit, relating to the construction of the courtyard project. The Alumni Association did not specifically follow the Regents policy to obtain Regent permission prior to breaking ground on construction.

The final finding was also at the control deficiency level at the university level, relating to the state audit rule. The state of New Mexico requires the auditor to review cash balances to ensure they are properly collateralized over the FDIC limit. Moss Adams found one a bank account that was slightly over the limit at the end of the year. Moss Adams performed a significant amount of test work related to the state audit rule, and other than this finding and finding 2, no other deficiencies were noted specific to the state audit rule.

Moss Adams also performed additional supplemental testing as part of risk assessment and stemming from conversations with management and stakeholders. They performed P-Card control testing under the state audit rule, but also performed an additional in-depth examination due to volume of transactions as well as management concern. Extensive testing did not reveal any specific findings in that area. They also reviewed all intercompany eliminations. UNM maintains many MOUs and agreements within various entities, and Moss Adams and KPMG collaborated to review all transactions crossing entities to ensure proper accounting as well as proper elimination in the combined financial statements. Again, no deficiencies were noted.

Mr. Kennedy presented the final two items. The UNM Medical Group entered into a joint venture agreement with Lovelace for rehabilitation facilities. KPMG reviewed the agreement to ensure correct accounting, with no finding. KPMG also performed testing for compliance with debt covenants, and found three instances of noncompliance, one at UNMH and two at SRMC. HUD waived all three debt covenants issues, and UNM is considered in full compliance with debt agreements, but KPMG wanted to make management aware of the identification of these issues as part of the review process. Regent Clifford inquired about the nature of the waivers, how they will be addressed going forward, and the likelihood of any recurring issue. Mr. Kennedy explained that one finding related to transactions between UNMH and the HSC that are allowable per the debt agreement, but with a requirement that if certain criteria is met, HUD is notified in advance. The upfront certification was not filed; subsequently, UNM has filed and HUD has acknowledged receipt. There is now a system in place to catch these transactions on a go-forward basis. There were two issues at SRMC. One was a requirement to file budget documents on an annual basis and the filing was eight days late, so that is a technical compliance issue, but not a significant compliant issue. Some schedules required with that filing that were not included. UNM has since submitted them. There is now an understanding that the required schedules will be submitted in the future. The second issue was a debt covenant compliance letter required to be issued on an annual basis by the auditors had not been issued in the past four years. UNM received a waiver for the previous four years, KPMG issued the letter for this year, and will issue it annually on a go-forward basis.

Regent Clifford inquired about a negative entry of \$17.6 million for the net investment in capital assets in information regarding the net position at the SRMC. There was a similar entry in FY16 and he requested clarification. Mr. Kennedy stated it is a mechanical calculation. The requirement for that line item is to subtract from the balance of your capital assets the debt that was utilized to acquire those fixed assets. Assets are depreciating faster than the debt is being amortized, so the calculation results in a negative number. The depreciation expense has exceed debt amortization at this point. It is not an indication of anything wrong or concerns about the valuation of the assets. Regent Clifford noted it stands out because the SRMC is a relatively new facility. Mr. Kennedy noted that the debt is early in its amortization period and the debt has not been reduced much, but the assets are new and are being depreciated, so they are having a higher depreciation rate. Regent Clifford also inquired about the funds entered on the restricted expendable line. Mr. Kennedy replied that they are bond reserve funds.

Ms. Todd pointed out a significant change in accounting policy stemming from the State Controller's office regarding the land grant permanent fund, impacting state higher education institutions. Historically the University has recorded these land grant assets on financial statements, but the state controller's office decided those assets would no longer be reported within stand-alone financial statements, but rather included in the state investment fund. Because of that, Moss Adams made an adjustment to the beginning net position removing those assets from the University books avoid double-counting when the state comprehensive annual financial report is performed. The \$202 million adjustment is reflected in a financial statement footnote. EVP Harris noted that the bond rating agencies had already done research into this change and expressed absolutely no problem with UNM's balance sheet. Regent Clifford inquired if a one-time notice was published and President Abdallah confirmed it was. Ms. Todd also relayed that Moss Adams did not have to restate financial statements due to this change as it was state mandated. She noted that they ensured the footnote disclosure was very detailed so that if a bond holder were reviewing it, they would have all the relevant information. EVP Harris added this change impacted three institutions, UNM, NMSU and NMMI. He stated that NMMI relies more heavily on the

permanent rather than the general fund and is driving an effort to try to move a bill through the legislature sometime in the future to reassert a claim to it.

Ms. Todd relayed that the adoption of a new accounting pronouncement requiring blending of certain component units, significantly changed the presentation of UNM financial statements. It included STC, Innovate ABQ, Lobo Energy, Lobo Development, the UNM Medical Group and SRMC, which are now presented as blended component units, both for the prior year and for 2017 financials. Moss Adams obtained state auditor approval to comply with this GASB standard. There are still combining statements, detailing component units so that individual reporting is still present at that level.

Enhanced disclosures were added to the post-employment retirement benefits/VEBA trust, and additional disclosures were added on the individual stand-alone financial statements for the hospital regarding tax abatement.

Regent Clifford thanked the auditors and inquired about a disclosure related to the cooperation of staff. Ms. Todd stated that Moss Adams did report to the audit committee that there was a situation where resources were very constrained during the year because of a multitude of concurrent audits. She stated the entire team was very cooperative in providing everything requested by Moss Adams, were very forthcoming and worked well to meet deadlines without issue. Regent Clifford expressed appreciation to HSC and Main staff for excellent work. He noted that the report provided an excellent roadmap moving forward for items to improve, but importantly showed there are not serious deficiencies in UNM's finances. Mr. Kennedy noted the great support KPMG received from the Health Sciences staff.

The motion to approve the FY17 University Consolidated Financial Statements External Audit Report passed with a unanimous vote (1st Romero; 2nd Adcock).

HEALTH SCIENCES CENTER COMMITTEE

UNMH Capacity Status (information item)

Michael Richards, Vice Chancellor for Clinical Affairs, presented UNM Hospital operational metrics, covering three topics: 1) transfers; 2) hospital capacity; and 3) emergency department (E.D.) metrics. Dr. Richards referred to slides that were not included in the agenda eBook. UNM Hospital receives about 8,000 patient transfers per year, with typically 25,000 hospital admissions. A big portion of volume is attributable to the transfers, which are related to the high level of care, namely tertiary and quaternary care. There is some transfer variability throughout the year, primarily related to seasonality. Items that effect the ability to accept transfers are internal capacity and what is happening in the State with the rest of the delivery system. Transfers from SRMC (Sandoval Regional Medical Center) are about 350 patients per year. SRMC's projected occupancy is now nearing rates of greater than 85%. UNM has created a program with Lovelace to be able to hand off patients from the call transfer center. The warm hand-off program has been an initiative for the past 2 years, with current numbers at about 750 patients per year, typically patients of the appropriate acuity level to be treated at Lovelace Medical Center when there is not the appropriate capacity at UNM or at SRMC. The most important issue in the transfer data is related to diverts, those patients UNM cannot accept into the system. When looking at data that includes all of the transfers in that UNM is no longer able to accept, it is about 1250 to 1300 patients per year. When this data was initially collected about 2 years ago, the numbers of diverts were at about 700 per year. Through these collaborations, when looking at the ability to move about 750 patients to Lovelace and about 350 to SRMC, the demand for transfers has actually gone up and diverts have actually gone up. This can be interpreted as there being pent up volume in the State. As lower acuity patients are moved into other delivery systems, UNM has been getting more calls, as can be seen in the rise in numbers over the past two years.

On hospital capacity; there are two main indicators that are reviewed at the HSC Committee: 1) occupancy rate, and 2) impact of occupancy rate on emergency room volume. For UNM Hospital, the optimal occupancy rate to get to maximal efficiency in the facility is about 85%. Anything over 85% and the facility would be considered over-utilized. The hospital is typically run in the high 90's occupancy rate. The rate is measured at midnight, which is the lowest point of census in the facility. Now, entering into the busiest time of the year with flu season, during the day occupancy can reach 100%. A 3-4% decline in occupancy can have a profound impact on UNM transfers and diverts.

Dr. Richards addressed emergency department (E.D) metrics, starting with the Emergency Room Census with over 20 patients with Admit Status (patients admitted into a hospital bed but awaiting placement). These are tracked and a threshold of 20 is set which is a relatively high threshold. In January and February, there are typically more than 20 patients in the emergency department awaiting placement. With regard to the average wait-time for a bed, there are two different kinds of experiences in the E.D.: those critical-most patients with no wait-times and patients of low-acuities experiencing very long wait-times which exceed the reported average. So there is a bi-modal distribution in the data that is then averaged. UNM Hospital is a level-one trauma center, and so receives a substantial number of patients by EMS into the trauma or critical care area. Those patients generally have zero wait-time once the decision is made to admit them. When occupancy is down 2-3%, there is a significant impact on the ability to place patients. This can be seen in the November timeframe, when wait-times in the E.D. were starting to come back down.

Dr. Richards addressed the CMS (Centers for Medicare and Medicaid Services) hospital compare. This is not typically reviewed on a monthly basis at the HSC Committee, but presented at the request of Regent Lee. Dr. Richards said that with regard to CMS compare, there are lots of statistics, and he would focus on E.D. performance measures. The website, medicare.gov/hospitalcompare, allows anyone to look up performance measures, by city and zip code. If the hospital takes care of Medicare patients, there is a requirement to report data into this website. Dr. Richards noted the data reflects Medicare patients only, which is a subset of UNM Hospital patient population, so there may be differences between Medicare-only reported data and total patient population reported data.

Regent Quillen thanked Dr. Richards for the informative presentation and inquired with respect to some of the new practices in place to gain efficiencies, of notable trends in length-of-stay and the CMI (Case Mix Index). Dr. Richards responded there has been change in both indicators: on 1) the complexity of the patients seen, and 2) on the amount of time patients spend in the hospital. There is a 3-year trend of a 7% increase in the CMI which is the measure of the complexity of the patients UNM is taking care of. Seven percent is a very large change, and does in fact have a financial consequence shown to positively correlate to increased in-patient revenue. About 50% of total health system revenue is associated with hospital admissions. Increase in complexity of patients also can correlate to longer hospital stays, so there is not a dramatic change in overall length of stay. There is a new measure that now takes into account the complexity, called a Case Mix Index Adjusted Length of Stay, which will help to analyze whether efficiencies are being introduced into the system. UNM has seen decreases in this index.

Regent Quillen inquired of a Plan B for transfers now that SRMC is reaching 85% capacity. Dr. Richards said there is a need for a new replacement facility that will allow for management of patients in a more contemporary way and introduce efficiencies that are currently not possible, and this remains a primary objective. More immediate activities will be continued efforts to work on internal efficiencies and focus on partnerships in the areas of post-acute care and pre-acute care in order to put patients in the right facility in the right time in Albuquerque.

Regent Hosmer inquired the explanation for the data indicating unsatisfied demand and asked if there is any way to assess the potential demand for care. Dr. Richards responded that Dr. Roth had requested about three years ago this be studied. It's a very difficult question to answer. A survey of hospital CEOs in the State was done, with the question, "if UNM could say 'yes', how much more often do you think you would you call?" Clearly not a scientific survey, but it was a way to get some indication of potential demand. At the time, the number came out to be at least twice, if not three times, what was being seen at the time in calls. Since then, the New Mexico healthcare landscape has changed, one of the factors being that rural hospitals are beginning to change the level of care they are providing.

ACADEMIC/STUDENT AFFAIRS AND RESEARCH COMMITTEE

Consideration of proposed revisions to the Regents' Policy Manual (information item)

Interim Provost Richard Wood introduced the item. This is a brief but important informational item coming through ASAR committee with the request for an action item in a future meeting. Since the Regents' Policy Manual was issued in 1996, a lot of changes have accumulated in areas such as practices and job titles. To address this, University leadership and the Policy Office appointed a committee in February 2016, composed of faculty, administrators and staff from both sides of Lomas, to conduct a comprehensive review of the Regents' Policy Manual. The proposed revisions are fairly technical corrections and not substantive policy changes.

Dr. Wood asked the Regents to consider the proposed revisions in light of the upcoming Higher Learning Committee accreditation visit, and crucial to that is a clean accreditation. These technical revision proposals are part of that effort. Dr. Wood urged the Regents to treat these as a pretty routine matter, and urged to not try to fold in substantive changes. Of course Regents are free to change Regents Policies anytime they want, but Dr. Wood urged the Regents to not let these revisions get bound up with more substantial changes.

Pamina Deutsch, Director of the Policy Office, continued the presentation. The policies in the Regents' Policy Manual authorizes other types of policies, such as those in the University Administrative Policies and Procedures Manual, the Faculty Handbook, and the Pathfinder, all of which implement the Regents' policies. Most of the 106 policies currently in the Regents' Policy Manual have not been revised since 1996, when the manual was first issued. The Regents' Policy Review Committee made technical edits to reflect current practices and titles, update other information, and streamline policies whenever possible. Ms. Deutsch highlighted three areas where updated and accurate policies are critical: 1) for the upcoming accreditation, 2) for the incoming new President who will be learning all aspects of the University and, 3) as tools and resources for the Regents to govern the University and to fulfill their obligations. When the Regents' Policy Manual was issued in 1996, it was with the understanding the policies would be updated periodically and kept current. During the intervening 20+ years, there were many attempts to update the manual in a comprehensive way. Certain Regents tried to undertake the task on their own; the Regents at one point created an ad-hoc policy committee but found

that they were too busy to continue to attend meetings; the Office of University Counsel tried to work on a set of revisions; and none of these attempts were successful until now.

For the comprehensive review, Ms. Deutsch tried to create a similar process as that which occurred in 1996. The committee was a small dedicated group that met 22 times in 2016 and 17 times in 2017. As appropriate, the committee asked subject matter experts to comment on the policy drafts. The Office of University Counsel attorneys conducted a legal review of the policy drafts in June and July 2017 and provided comments and suggested revisions, which were then considered by the committee. Ms. Deutsch discussed a process for other revision proposals and a proposed timeline toward approval, requesting 30 days.

Regent Clifford thanked Ms. Deutsch for the excellent work and the good product, and added he had recommendations and also questions about particular language that is being struck. One general, over-arching question is there are often standards of behavior that are set in policy, and it is not clear what happens if that policy is not adhered to. Is there a manual of staff behavior or student behavior that cross-references this manual? Ms. Deutsch responded the other policy manuals mentioned earlier implement the Regents' Policies and do address for example what would happen if a policy is not followed. There was discussion and Regent Clifford said he would provide specific follow-up questions.

Regent Doughty urged the regents to take the next month to review the proposed revisions. This will be on the agenda for the next meeting for Regents to vote on. He recognized the importance of the proposal and the committee's hard work.

Regent Hosmer confirmed this is long overdue and emphasized the importance of this with the upcoming accreditation.

Dr. Wood requested an agreement on a deadline for additional revisions submitted to Ms. Deutsch's office. Regent Doughty asked if one week before the February meeting would be a reasonable deadline. Ms. Deutsch confirmed.

FINANCE AND FACILITIES COMMITTEE

Approval of UNM Gallup Physical Plant Facility

Chris Vallejos opened the presentation and introduced Dr. James Malm, CEO of the UNM-Gallup Branch. Regent Lee noted this was Dr. Malm's first presentation to the board as the new CEO of UNM-Gallup. Dr. Malm introduced elected official, Ralph Richards, Chair of the Gallup Local Advisory Board, also present. Dr. Malm presented the item and requested project approval for the University of New Mexico Gallup Physical Plant Facility. In 2010, the case was built that a new facility was needed, mostly for health and safety reasons. There is loading on the walkways, open fleet storage, no vehicle maintenance areas, no loading areas, and pedestrian conflicts with vehicles coming in and out. In 2015, administration went to the HED with this project as the number two project request which was behind the library rehabilitation at the time. In 2016, the GO Bond was approved and the Lobo Match of 2020 McKinley County Bonds. It is the hope that now with Board of Regents approval, the project can be completed in 2018. This facility will take care of 315,000 square feet of facilities over 87 acres of campus with ten major buildings.

Regent Lee commented the bond was supported by voters, and it was confirmed state voters.

Regent Clifford commented his concern about the expansion of facilities on a campus that is losing a significant amount of enrollment. This was discussed in committee. Regent Clifford said he would like to see long-term planning with regard to our facilities and how we are right-sizing those, because we are receiving a lot of criticism in Santa Fe for not being cognizant of the big picture. Regent Clifford inquired the enrollment figures. Dr. Malm confirmed enrollment was 10% down in the Fall and there has been a downward trend in enrollment since 2010 and 2011. Regent Clifford reiterated this has to enter into the thinking about facilities. With regard to facilities there is a tendency, with regard to the General Obligation bond, to say ok, good, there's a big pie and everybody gets a slice. Regent Clifford said he was not comfortable approaching the legislature for that money without a clear idea and awareness about what is happening to enrollment and where the role of this campus is going to be five years from now. Regent Clifford reiterated that moving forward, he would like to see more cognizance about enrollment and the need for this space. It seemed to be a well-planned project, but we need to have that long-term view about where this campus is going and what is the need for additional facilities. Dr. Malm responded that with the enrollment fluctuations, there was an increase for five years before 2010/2011, and they have fallen for five years since, back to about the 2005 level. But with those enrollment changes, the square footage and acreage and what needs to be maintained does not change. Those are physical plant facilities that need to be maintained. The building in a sense is not instructional space. It is to support that static physical plant that does not change throughout what is being done in the classrooms and with students.

Regent Clifford responded that to a budget person, that was counter-intuitive and raises more questions than answers. The perception of the public is that more learning is going online, therefore there should be less of a brick and mortar footprint to our institutions as we go forward. So, the question we have to be prepared to answer is, are we trying to think

of more efficient ways to deliver these services? Those are concerns we need to address whenever we talk about our facility needs.

Regent Lee clarified this has to do with public safety and of protecting the University's investment out there. Dr. Malm responded now there is a conflict that there is pedestrian and leaning activities, and tractors and trucks, and chemical storage all in the same place; the master plan says to separate these.

Regent Lee asked Mr. Richards, Chair of the UNM-Gallup Local Advisory Board, to speak about the community support and involvement in this project. Mr. Richards responded the voters did approve this with the G.O. Bond, it is needed, and it is supported by the master plan that was submitted about five years ago. It's a point of safety issues and a point of physical issues, such as water pressure and sprinkler systems. The general space has not gone down. This is the original physical plant from 1967. To address Regent Clifford's concerns, work is being done on enrollment plans and looking at partnership opportunities for utilizing square footage.

The motion to approve the UNM Gallup Physical Plant Facility passed with a unanimous vote (1st Doughty; 2nd Adcock).

After the vote, Regent Doughty announced a request to the board to hold the February Board of Regents meeting on the Gallup Campus. Regent Doughty asked for the board's support for holding its next meeting in Gallup.

FY19 Health Plan Premium Projections

Dorothy Anderson, Vice President for Human Resources, introduced Eric Weinstein and Mark Tindall, consultants from Aon, who shared preliminary healthcare premium information proposed for FY19. Mr. Weinstein noted that Aon will present the final estimate and recommendations at the February Board of Regents meeting for approval in order to allow UNM Human Resources adequate time to conduct their annual enrollment activity.

UNM administers medical benefits for approximately 6,800 employees and pre-65 retirees (about 13,500 members), under the guiding principles of UNM's strategic plan to: offer health benefits to attract and retain UNM's diverse faculty and staff with meaningful choices for their medical plans; leverage and maximize HSC's capabilities; promote personal health responsibility; effectively educate and communicate these benefits; and continue to be good stewards of UNM's resources. UNM has self-insured since fiscal year 2010 and maintains an adequate reserve in accordance with regent policy 7.14.

Average annual cost increase for UNM since FY10 has been 2.3%; the national average is 4.7%. Plan enrollment has been relatively flat for the past four years. The medical plan is actively managed to exert downward pressure on cost in accordance with strategic plan principles, and Aon has performed a number of plan modifications to reduce cost and ensure UNM is competitive with benchmarks. They have also performed an eligibility audit to ensure plan members are eligible and to ensure that the plan is being administered in accordance with plan documents. Aon also actively works with UNM HSC and UNM Medical Group to exert additional downward pressure on claim costs over time.

The preliminary projected increase for FY19 is 2.7%. The total increase to plan premiums is \$1.9 million and the total dollar increase to I&G Main is \$358K. Public universities and the State of New Mexico were used as benchmarks. When compared to peers, the UNM plan design is competitive and in line. In terms of increased trends, the difference between UNM's 2.3% and the national average of 4.7% is significant over time. UNM has been able to put downward pressure on costs and maintain a competitive program.

Regent Clifford inquired if the national increase average was solely for universities, and Mr. Weinstein responded that it represents the average across all employers, not just universities.

Mr. Weinstein presented information relating to total premiums, portions paid UNM and by employees/pre-65 group, average enrollment, and yearly change in enrollment. UNM has continued to contribute 62% towards total premiums, while employees contribute 38%. Mr. Weinstein noted that the total premium is a combination of total claims plus approximately \$4-5 million in fixed administrative costs.

Regent Clifford inquired how that \$5 million administrative cost benchmarks to other plans. Mr. Weinstein replied that it benchmarks in line, noting that Aon has done some benchmarking analysis on administrative cost per employee per month and it benchmarks favorably. Regent Clifford inquired if the benchmarks were among self-insured entities, and Mr. Weinstein confirmed this. Regent Clifford inquired how much the State pays for management and if retiree health would be a logical comparator for that information. Mr. Tindall replied he agreed it would be and explained that while UNM is a sizable purchaser within the State of New Mexico, the State of NM as an employer is part of a much larger program, so they get a slightly lower rate in some fees. He noted UNM is still competitive, and Regent Clifford requested follow-up information regarding the comparison.

Regent Clifford commented on the almost 10% increase in claims per employee, while enrollment has decreased by 2%. He noted there was discussion in committee regarding certain high-cost claims driving the increase, but felt it was out of sequence with the prior trend and inquired why there was such a great increase. Mr. Weinstein noted the claims column is adjusted for number of employees, and that in FY17, there was a claims decrease of 1.8%, which was better than average. Aon is estimating a reversion to overall increases for FY18. He noted that comparison of FY16 to FY18 shows a continuation of the trend, and noted FY17 was a fortunate dip. Regent Clifford requested Aon do a comparison on claims per employee per year with benchmarks, and Mr. Weinstein confirmed they would, noting that when you examine New Mexico employer benchmark data, the average employer total premium cost is pretty close to 11,100/employee. UNM has estimated 9,700/employee for FY18, below benchmark data for all employers within New Mexico captured in Aon's database, including private entities, which represents close to a total of 50K employees. Regent Clifford requested information regarding State of New Mexico employees. Mr. Weinstein suggested also examining other factors, such as average age, average dependents which can have a large impact on administrative costs.

Regent Clifford also requested to see a plan for reserves, including balance trends, contemplated usage, and projected balances at the end of FY19. Mr. Weinstein noted that at the end of FY17, reserves were close to \$17 million. Aon prepares a certified IBNR report with three components to UNM's reserves: 1) incurred but not reported claims, estimated to be \$6 million; 2) claim fluctuation, estimated to be close to \$8 million; and 3) general reserves, close to \$3 million. Claim fluctuation reserves are meant to provide budget certainty during the fiscal year. He noted that as a consultant, Aon has not contemplated how UNM might use its additional reserves.

Regent Clifford asked for clarification regarding the "incurred but not reported" reserves. Mr. Weinstein explained they are paid, mature claims, for which UNM would be responsible should it cease to be self-funded. Regent Clifford requested to see data.

Mark Tindall presented information on how UNM has applied downward pressure on costs. He noted some adjustments were inward facing with no negative impact on employees, such as joining a purchasing coalition for pharmacy benefit management services and changing stop-loss carriers, both of which were financially advantageous. He noted that they have also been aggressive in making sure BlueCross and Presbyterian are exercising fiduciary responsibilities. He also noted changes that impacted employees, such as raising the out-of-pocket maximum and pharmacy co-pays. All of these internal and external changes have contributed to keeping increases below the national average. He noted that in the coming year, Aon will put a focus on UNM Medical Group and its delivery system to ensure UNM is maximizing that relationship and using expertise associated with UNMMG.

The projected 2.7% increase is a blend of experience and trend. The trend Aon applied is 6.5%, consistent with what has been filed with the Superintendent of Insurance by Blue Cross & Presbyterian. Last year, Aon used a 7% trend, showing that nationally, as well as locally, trends are moderating a bit. Aon also built in a margin regarding some high-cost claims that have not hit the claims funding yet. Aon conservatively estimates a 2.7% increase will be close to what they will present in February and do not anticipate a material increase, but might return with a slightly lower figure. The total cost increase in FY19 is approximately \$1.9 million, and Aon is working with Human Resources to determine where labor distribution costs are. I & G Main is anticipated to go up \$357K. Mr. Tindall showed that UNM stacks up within benchmarks in terms of how much employees pay when they access healthcare within the plan. In terms of the plan design itself, benchmarks align. Mr. Tindall noted that even though a 2.7% increase is relatively modest, any increase is taken seriously, and Aon proposes alternatives to cover the increase. He showed options for possible plan design changes but noted that these were not recommendations. He noted it is difficult to make an impact on increases with plan design changes, without significant impact – for example, a more than 50% increase to the deductible only covers 1.5% of the increase. There are conversations to be had about possibly mitigating increases, but Aon is not recommending plan changes at this time.

Regent Quillen noted that costs will keep climbing at a high rate, while concurrently UNM has experienced rising employee claims. She inquired what UNM is doing to coordinate chronic care management. For instance, two years ago, there was discussion about a pre-65 pilot and incentives. Mr. Tindall noted that incentives exist for lower-cost care access, as well as other wellness programs. He noted Aon could provide more information at a later date, and also stated that part of Aon's dialogue with UNMMG is about utilizing their expertise in population health as a whole. Regent Quillen added that prevention is a huge component of the budget and requested to see program, outcome and financial information regarding prevention initiatives. She reiterated that focus on prevention could at least slow down rising costs. Mr. Tindall agreed that prevention programs have certainly contributed to lower-than-national-average trends for UNM.

Regent Clifford noted that the presentation was helpful for budget discussions, and Regent Lee inquired if the process was inclusive of impacted groups, to which Ms. Anderson replied that it was.

PUBLIC COMMENT

Lawrence Roybal, Interim VP for Equity and Inclusion, expressed gratitude to everyone in the NM community who took part in a variety of 50th anniversary commemorations to honor the legacy of Dr. Martin Luther King Jr. over the last several days. One of those activities commenced on UNM Campus on a Saturday with a march starting at UNM that proceeded west with several hundred individuals who convened at Civic Plaza. Mayor Tim Keller gave a welcome, and speakers from the UNM community were, Dr. Jennifer Gomez Chavez from the Division for Equity and Sonya Gipson Rankin, Professor and Associate Dean. Both delivered motivating addresses during the commemoration, and several students contributed their talents on stage. Additionally, Dr. Roybal had the opportunity to represent the University yesterday at Congregation Albert for the 28th annual commemoration by the Dr. Martin Luther King Jr. Multicultural Council. The highlight of the event was the awarding of 33 scholarships to outstanding high school scholars from throughout New Mexico, each receiving \$1,000. Several of those students will come to the University of New Mexico. Finally, as we begin the 30-day legislative session in Santa Fe, the Division for Equity and Inclusion is very pleased to collaborate with a variety of partners, including The NM Voices for Children organization to highlight Children in Youth Day today in Santa Fe at the Capitol. Dr. Roybal concluded by saying welcome back, he is looking forward to a variety of initiatives and ongoing collaboration this year.

ADVISORS' REPORTS

Pamela Pyle, Faculty Senate President: The Senate is holding its first meeting of the new semester next week, and faculty on the Governmental Relations Committee are looking forward to participating in UNM-Day on January 29, spreading the good works of UNM at the State's capitol, which is a privilege. Some are already reaching out to legislators, the exchanges remind us of just how important are our actions and interactions that can define us far more than spreadsheets alone can ever do. An upcoming event will take place in the SUB on February 5; the Faculty Senate will hold a panel discussion on Free Speech, specifically the inherent or perceived tension between free speech and civil discourse; esteemed and diverse faculty will be on the panel. The hope is to create an open space where we can all deliberate on this critical topic.

ADJOURN

The motion to adjourn passed unanimously. (1st Lee; 2nd Adcock).
The meeting adjourned at 11:48 PM.

Approved:

Attest:



Robert M. Doughty III, President



Tom Clifford, Secretary/Treasurer