

MINUTES
UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS
FINANCE AND ADMINISTRATION COMMITTEE

Thursday, November 14, 2019 – The members of the Finance and Administration Committee of the University of Houston System convened at 1:45 p.m. on Thursday, November 14, 2019 at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, Houston, Texas 77201, with the following members participating:

ATTENDANCE

Members Present

Gerald W. McElvy, Chair
Doug H. Brooks, Vice Chair
Steve I. Chazen, Regent
Alonzo Cantu, Regent
John A. McCall, Jr., Regent
John D. Fields, Student Regent, Non-voting
Tilman J. Fertitta, Ex Officio

Non-Members Present

Durga D. Agrawal, Regent
Beth Madison, Regent
Jack B. Moore, Regent

In accordance with a notice being timely posted with the Secretary of State and there being a quorum of the board present, Chair of the Committee, Gerald W. McElvy called the meeting to order.

AGENDA ITEMS

Action Items:

The first item requiring committee approval were the minutes from the following Finance and Administration Committee meeting:

1. August 22, 2019, Finance and Administration Committee Meeting

On motion of Regent Brooks, seconded by Regent Chazen, and by unanimous vote of the regents in attendance, the minutes from the Finance and Administration Committee meeting listed above was approved.

Regent McElvy stated the committee would be presented four (4) action items at this meeting, all requiring committee and board approval and one (1) information item.

Regent McElvy moved to the first action item listed on the agenda, Item C, the Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts exceeding \$1 million for the purchase of goods or services, excluding construction contracts, at the University of Houston System, was the next item presented to the committee and Regent McElvy asked Mr. McShan, to present this item.

Mr. McShan stated there were two (2) items that would be addressed under this item – both of them leases which would expire at the end of the next calendar year, December 31, 2020. Both leases require a one-year advance notice for an extension and were over \$1.0 million.

The first lease was for the Lone Star College space project. Currently, UH-Downtown (“UHD”) leases 79,852 square feet of space; and the purpose of this project was for the extension of the existing lease at Lone Star College for UHD classrooms, administrative and faculty areas, and conference rooms. Over the next few months, the university will be negotiating terms for the extension of this lease and determine exactly how much space will be needed. The new term will be consistent with current market rates in the City of Houston and Northwest Houston area. Originally, the University of Houston (“UH”) taught courses at this location, but after a few years, it was determined that it was not an effective, efficient use of resources. Therefore, UHD has been occupying this space previously held by UH; and they will make an assessment of their needs in order to continue their program at this location.

The second lease presented by Mr. McShan was for the Texas Medical Center (“TMC”). The University of Houston-Clear Lake (“UHCL”) has approximately 12,888 square feet of space in the Texas Medical Center. UHCL currently teaches a number of courses in this facility, primarily related to their Healthcare Administration Program. They teach approximately 6,000 student Semester Credit Hours (“SCHs”) per year for about 465 students. This lease will be extended for another year beyond December 2020. The University is currently in the process of getting the renovation of our property in the TMC; and there is such that we may have space that may be appropriate for them. If so, UHCL would become part of this facility, but not until 2021 when all renovations have been completed.

On motion of Regent Chazen, seconded by Regent McCall, Jr., and by unanimous vote of the committee members in attendance, the request to delegate authority to the Chancellor to negotiate and execute contracts exceeding \$1 million for the purchase of goods or services, excluding construction contracts, at the University of Houston System was approved.

Regent McElvy moved to the next agenda item for the committee’s consideration, Item D, the Approval is requested to delegate authority to the Chancellor to negotiate and execute construction contracts exceeding \$1 million for projects at the University of Houston System. Mr. McShan presented this item and below is a brief summary of his remarks.

Mr. McShan stated there was one (1) project listed under this item for the committee’s consideration, Houston Public Media. At various meetings over the past year, the committee has heard about the purchase of the tower and the transmitter. This item was requesting the approval for \$1.8 million for the actual control room for the transmission tower. This will be the final piece of the project. It will allow more broadcasting areas, cover more efficiently the resources, and compared to earlier, will save money. As a reminder, Mr. McShan wanted to give Ms. Lisa Shumate and her team credit for everything they have done over the past several years. To the best of our knowledge, while the station has been running in the black for the life of the station, for the third year in a row, under Ms. Shumate’s leadership, this project was accomplished with donations that were specifically solicited for this reason so there is no loan involved. This is a great move, as well as great growth and financial position, for the station.

On motion of Regent Moore, seconded by Regent Chazen, and by unanimous vote of the committee members in attendance, the request to delegate authority to the Chancellor to negotiate and execute construction contracts exceeding \$1 million for projects at the University of Houston System was approved.

Regent McElvy stated Item E, the Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for design and construction for the Auxiliary Retail Center located in the Central District at the University of Houston – University of Houston, was the next item listed on the agenda and he asked Mr. McShan to present this item.

Mr. McShan stated this item was requesting approval to delegate authority to the Chancellor to negotiate and execute contracts, not to exceed \$35.0 million, for the design and construction for the new Auxiliary Retail Center located in the Central District. The \$35.0 million project includes approximately \$30.0 million in construction cost (which includes contingencies, FF&E and AV); and \$4.0 million in A/E, professional service and testing fees and miscellaneous. The design phase of the project should be completed in Fall 2020 and construction should begin in the summer of 2020, with the anticipated completion of the project in the summer of 2022.

On motion of Regent Brooks, seconded by Regent Chazen, and by unanimous vote of the committee members in attendance, the request to delegate authority to the Chancellor to negotiate and execute contracts for design and construction for the Auxiliary Retail Center located in the Central District at the University of Houston was approved.

Regent McElvy said the last approval item for the committee's consideration would be Item F, the Approval is requested to the Twenty-Ninth Supplemental Resolution to the Master Resolution, the Preliminary Official Statement, and the Notices of Sale authorizing the issuance of Board of Regents of the University of Houston System Consolidated Revenue and Refunding Bonds, Series 2020A and Consolidated Revenue and Refunding Bonds, Series 2020B (Taxable) – University of Houston System, and asked Mr. McShan to introduce this item.

Mr. McShan thanked Regent McElvy and stated he would like to ask Mr. Raymond Bartlett, Senior Associate Vice Chancellor for Finance to present this item for the committee's consideration. He also mentioned Mr. Bartlett does a great job in working with the University's Financial Advisors to time our bond issues and such that we maximize the benefit of our commercial paper while at the same time paying off existing bonds in such a way that we protect our current bond rating.

Mr. Bartlett stated that with the Board's approval today, the University would be positioned to issue up to \$550 million worth of bonds both on a tax exempt and taxable basis in January of 2020. Of the \$550 million, \$330 million of this amount will finance 11 projects which have been presented to and previously approved by the Board. The remaining \$200+ million will be for a refunding of various series of bonds that we have outstanding. Mr. Bartlett stated he was pleased to announce that through this refunding, the University will save on a net present value basis nearly \$27 million in debt service.

On motion of Regent Chazen, seconded by Regent Brooks, and by unanimous vote of the committee members in attendance, the request to the Twenty-Ninth Supplemental Resolution to the Master Resolution, the Preliminary Official Statement, and the Notices of Sale authorizing the issuance of Board of Regents of the University of Houston System Consolidated Revenue and

Refunding Bonds, Series 2020A and Consolidated Revenue and Refunding Bonds, Series 2020B (Taxable) – University of Houston System was approved.

At the conclusion of the approval of the last action item, Regent McElvy called for a motion to place all action items, presented and unanimously approved by the committee, on the Board of Regents' Consent Docket Agenda for final Board approval.

On motion of Regent Moore, seconded by Regent Brooks, and by unanimous vote of the committee members present, the following four (4) action items were placed on the Board of Regents' Consent Docket Agenda for final board approval at the November 14, 2019, Board of Regents meeting held later in the day as follows:

1. Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts exceeding \$1 million for the purchase of goods or services, excluding construction contracts at the UH System – UH System;
2. Approval is requested to delegate authority to the Chancellor to negotiate and execute construction contracts exceeding \$1 million for projects at the University of Houston System – UH System;
3. Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for design and construction for the Auxiliary Retail Center located in the Central District at the University of Houston – University of Houston; and
4. Approval is requested of the Twenty-Ninth Supplemental Resolution to the Master Resolution, the Preliminary Official Statement, and the Notices of Sale authorizing the issuance of Board of Regents of the University of Houston System Consolidated Revenue and Refunding Bonds, Series 2020A and Consolidated Revenue and Refunding Bonds, Series 2020B (Taxable) – University of Houston System

Regent McElvy then moved to the next item listed on the agenda, Item G, a Presentation of the Fiscal Year 2019 University of Houston System Annual Financial Report Summary – University of Houston System. Regent McElvy asked Mr. McShan to introduce this item.

Mr. McShan stated this would be a presentation of the FY2019 UH System Annual Financial Report Summary and introduced Ms. Karin Livingston, Assistant Vice President and Controller. Below is a brief summary of Ms. Livingston's remarks.

Ms. Livingston presented the UH System Annual Financial Report (AFR) for 2019 and the results of 2019 Operations. She began her presentation by stating the AFR represented a Statement of Activities for the fiscal year and inventory of System assets and claims against those assets and the net worth of the System. This report focuses on operational activities and it excludes construction spending. The AFR is due to the state on November 20, 2019 and it will be published on the UH Financial Reporting website at http://www.uh.edu/finance/pages/Annual_Fin_Reports.htm by November 30, 2019.

At the end of the fiscal year (August 31, 2019), preparation of the AFR begins. After August 31st, numerous timelines must be met, with the financial results for all UHS presented to the Board; the

AFR is submitted to the State Controller and State Auditor; with the Statewide comprehensive audit being completed by February 28, 2020. Texas Public Universities are included in the Audited Financial Statements for the State of Texas. This report is scheduled to be released on March 1, 2020. Universities do not have individually certified or audited statements. The Texas State Auditor's Office will conduct an examination of the Texas Comprehensive Annual Financial Report and this process will include a limited audit of significant UH System financial transactions and balances. The AFR presentation uses modified accounting standards for comparison with the System budget format and it was prepared using the Oracle (Hyperion) data warehouse tools. This is a budget to actual comparison that uses classification categories consistent with those previously presented in the budget.

Ms. Livingston presented the Board with the UH System Combined FY2019 Results of Operations - Actual Revenues / Actual Expenses were summarized as noted below:

Actual Revenues

- Actual Total - \$1,805.0 million (Total Budget - \$1,669.6 million)
- Tuition and Fees – 39%
- State Appropriations – 18%
- Contracts and Grants – 17%
- Other Operating – 15%
- Endowment / Gifts – 6%
- HEAF / NRUF – 5%

Actual Expenses

- Actual Total - \$1,701.1 million (Total Budget - \$1,669.6 million)
- Note: Expenses exclude construction spending.
- Student Access and Success - 67%
- Infrastructure and Administration – 18%
- National Competitiveness – 12%
- Community Advancement – 3%

• UHS Combined Analysis of Revenues – FY2016 – FY2019 (\$ Million):

	<u>History Years</u>			AFR Year	FY Budget*
	2016	2017	2018	2019	2019
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>
1. State Appropriations	\$ 301.7	\$ 305.8	\$ 324.0	\$ 326.8	\$ 325.4
2. HEAF / NRUF	60.2	86.5	84.5	84.7	82.2
3. Tuition and Fees	642.0	664.5	684.6	710.8	697.5
4. Other Operating	182.0	191.7	219.1	272.9	248.1
5. Contracts and Grants	286.1	261.2	268.0	306.5	255.3
6. Endowment / Gifts	89.3	92.8	99.1	103.3	61.1
7. Total	\$ 1,561.3	\$ 1,602.5	\$ 1,679.3	\$ 1,805.0	\$ 1,669.6

*FY 2020 Budget as adopted on 8/22/2019

• UHS Combined Analysis of Operating Expenses – FY2016 – FY2019 (\$ Million):

	<u>History Years</u>			AFR Year	FY Budget*
	2016	2017	2018	2019	2019
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>
1. Student Access & Success	\$ 1,019.2	\$ 1,043.2	\$ 1,082.3	\$ 1,146.3	\$ 1,098.5
2. National Competitiveness	173.9	193.1	192.8	210.3	209.2
3. Infrastructure & Admin.	218.4	295.0	298.3	297.6	322.4
4. Community Advancement	50.4	44.1	46.8	46.9	39.5

- UHS Combined Analysis of Operating Expenses – FY2016 – FY2019 (\$ Million): (cont'd)

	<u>History Years</u>			AFR Year	FY Budget*
	2016 <u>Actual</u>	2017 <u>Actual</u>	2018 <u>Actual</u>	2019 <u>Actual</u>	2019 <u>Actual</u>
5. Total	\$ 1,461.9	\$ 1,575.4	\$ 1,620.2	\$ 1,701.1	\$ 1,669.6

*FY 2020 Budget as adopted on 8/22/2019

- UHS Combined Analysis of Asset Balances – FY2016 – FY2019 - On August 31, 2019 (\$ Millions)

	<u>History Years</u>			AFR Year
	2016 <u>Actual</u>	2017 <u>Actual</u>	2018 <u>Actual</u>	2019 <u>Actual</u>
Assets				
1. Cash, Appropriations & Investments	\$ 1,508.3	\$ 1,824.0	\$ 1,922.0	\$ 1,764.9
Consisting of:				
2. Cash & Appropriation Balances	206.6	234.6	251.7	279.5
3. Investments (includes Endowment)	1,301.7	1,589.4	1,670.3	1,485.4
4. Capital Assets, Net of Depreciation	\$ 1,425.2	\$ 1,535.0	\$ 1,718.2	\$ 1,955.0
Consisting of:				
5. Land	\$ 126.6	141.8	142.2	146.0
6. Construction in progress	147.6	181.7	301.3	326.4
7. Buildings, Facilities, Infrastructure	1,024.4	1,082.6	1,145.7	1,352.7
8. Equipment, Software, Art, Books	132.6	128.9	129.0	129.9
9. Other Assets	\$ 1,318.8	\$ 1,547.0	\$ 1,697.4	\$ 2,355.4
Consisting of:				
10. Receivables (student, loans, & gifts)	224.4	258.3	310.7	335.0
11. Prepaid expenses	43.5	43.2	49.9	56.6
12. Assets held by other UHS components	1,012.9	1,201.0	1,323.1	1,172.7
13. Inventories, deferred charges	5.4	4.1	0.3	0.1
14. Def resources (TRS pensions/OPEB)	32.6	40.4	13.4	791.0
15. Total Assets	\$ 4,252.3	\$ 4,906.0	\$ 5,337.6	\$ 6,075.3

- UHS Combined Analysis of Liability Balances & Equity Balances – FY2016 – FY2019 On August 31, 2016 (\$ Million)

	<u>History Years</u>			AFR Year
	2016 <u>Actual</u>	2017 <u>Actual</u>	2018 <u>Actual</u>	2019 <u>Actual</u>
Liabilities				
1. Payables & Accrued Liabilities	\$ 130.5	\$ 136.3	\$ 164.6	\$ 132.6
Consisting of:				
2. Accounts Payable & Accruals	38.5	33.6	43.6	43.9
3. Payroll Payable	92.0	102.7	121.0	88.7
4. Bonds & Long Term Obligations	\$ 1,117.1	\$ 1,394.8	\$ 1,541.7	\$ 1,478.3

- UHS Combined Analysis of Liability Balances & Equity Balances – FY2016 – FY2019
On August 31, 2016 (\$ Million) (cont'd)

	History Years			AFR Year
	2016	2017	2018	2019
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>
5. Other Liabilities	\$ 1,497.1	\$ 1,720.2	\$ 1,922.9	\$ 2,763.3
Consisting of:				
6. Deferred Revenue	\$ 239.2	\$ 260.7	\$ 282.5	\$ 296.7
7. Deposits held for others	26.6	26.3	26.4	22.8
8. Asset held for UHS components	1,012.9	1,201.0	1,323.1	1,172.7
9. Other Commitments & Defer charges	13.4	15.8	20.0	23.2
10. Pension Liabilities (TRS)	205.0	216.4	270.9	1,247.9
11. Total Liabilities	<u>\$ 2,744.7</u>	<u>\$ 3,251.3</u>	<u>\$ 3,629.2</u>	<u>\$ 4,374.2</u>
12. Total Equity Balance	\$ 1,507.6	\$ 1,654.7	\$ 1,708.4	\$ 1,701.1

- UHS Combined Revenues by UHS Component – FY2019 (Final) (\$ Millions)

	A	B	C	D	E	F	G
	State	HEAF /	Tuition	Other	Contracts	Endow	Actual
	Appropriations	NRUF	& Fees	Operating	& Grants	/ Gifts	2019 Total
1. Univ. of Houston	\$ 196.1	\$ 60.6	\$ 512.8	\$ 245.7	\$ 228.6	\$ 91.2	\$ 1,335.0
2. UH-Clear Lake	33.4	8.0	71.7	5.2	19.1	2.0	139.4
3. UH-Downtown	31.5	11.8	96.7	7.7	45.4	3.5	196.6
4. UH-Victoria	18.0	4.3	29.6	6.5	12.1	2.0	72.5
5. UH System Admin.	47.8	-	-	7.8	1.3	4.6	61.5
6. UH System Total	<u>\$ 326.8</u>	<u>\$ 84.7</u>	<u>\$ 710.8</u>	<u>\$ 272.9</u>	<u>\$ 306.5</u>	<u>\$ 103.3</u>	<u>\$ 1,805.0</u>

- UHS Combined Expenses by UHS Component – FY2019 (Final) (\$ Millions)

	A	B	C	D	E
	Student Access	National	Infrastructure &	Community	Actual
	& Success	Competitiveness	Administration	Advancement	2019 Total
1. Univ. of Houston	\$ 832.6	\$ 204.9	\$ 173.3	\$ 42.3	\$ 1,253.1
2. UH-Clear Lake	101.3	1.7	27.2	0.1	130.3
3. UH-Downtown	151.4	2.4	33.9	3.7	191.4
4. UH-Victoria	59.5	0.3	8.7	0.8	69.3
5. UH System Admin.	1.5	1.0	54.5	-	57.0
6. UH System Total	<u>\$ 1,146.3</u>	<u>\$ 210.3</u>	<u>\$ 297.6</u>	<u>\$ 46.9</u>	<u>\$ 1,701.1</u>

- UHS Combined Analysis of Asset, Liability, & Equity Balances by UHS Component – FY2019 (Final) On August 31, 2019 (\$ Millions)

	Univ. of Houston	UHCL	UHD	UHV	UHS Admin.	UHS 2019 Total
Assets						
1. Cash, Appropriations & Investments	\$ 427.9	\$ 58.3	\$ 32.4	\$ 11.6	\$ 1,234.7	\$ 1,764.9
2. Capital Assets, Net of Depreciation	1,374.2	201.7	202.2	102.1	74.8	1,955.0
3. Other Assets	1,762.6	161.7	215.8	106.1	109.2	2,355.4
4. Total Assets	<u>\$ 3,564.7</u>	<u>\$ 421.7</u>	<u>\$ 450.4</u>	<u>\$ 219.8</u>	<u>\$ 1,418.7</u>	<u>\$ 6,075.3</u>
Liabilities						
5. Payables & Accrued Liabilities	\$ 87.0	\$ 16.6	\$ 11.2	\$ 3.0	\$ 14.8	\$ 132.6
6. Bonds & Long Term Obligations	938.5	157.5	116.0	115.2	151.1	1,478.3
7. Other Liabilities	1,185.0	170.9	219.9	77.1	1,110.4	2,763.3
8. Total Liabilities	<u>\$ 2,210.5</u>	<u>\$ 345.0</u>	<u>\$ 347.1</u>	<u>\$ 195.3</u>	<u>\$ 1,276.3</u>	<u>\$ 4,374.2</u>
9. Total Equity Balance	<u>\$ 1,354.2</u>	<u>\$ 76.7</u>	<u>\$ 103.3</u>	<u>\$ 24.5</u>	<u>\$ 142.4</u>	<u>\$ 1,701.1</u>

Note: Resources and obligations related to TRS pensions are not included in the above display.

Regent McElvy stated the next item listed on the agenda was Section II, the Executive Session. It was noted that an Executive Session would not be held.

There being no further business to come before the committee, the meeting adjourned at 2:05 p.m.

All documentation submitted to the Committee in support of the foregoing action items, including but not limited to “Passed” agenda items and supporting documentation presented to the Committee, is incorporated herein and made a part of these minutes for all purposes; however, this does not constitute a waiver of any privileges contained herein.

Others Present:

Renu Khator	Raymond Bartlett	David Oliver
Jim McShan	Emily Messa	Sabrina Hassumani
Paula Myrick Short	Eric Herrera	Ira Warshauser
Dona Cornell	Shannon Harrison	Raul Ramos
Eloise Dunn Brice	Karin Livingston	Jeronimo Cortina
Lisa Holdeman	Mike Rosen	Barbara Durante
Richard Walker	Kevin Draper	Mark Denney
Juan Sánchez Muñoz	Wayne Beran	Lisa Shumate
Don Guyton	Dan Maxwell	Jason Marquez
Stephen Berberich	David Bradley	Mark Yzaguirre
Chance Glenn	Mark Clarke	Eric Link
Leslie Skweres	Oscar Gutierrez	Jeff Palmer
Walter Lucas	Ryan Harrison	Matthew Castillo
Gaston Reinoso	Ed Castello	Caesar Moore
Jon Aldrich	Phil Aldrich	Joe Brueggman
Marquette Hobbs	Brenda Robles	Gerry Mathisen