

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

Thursday, November 16, 2017 – The members of the Finance and Administration Committee of the University of Houston System convened at 2:14 p.m. on Thursday, November, 16, 2017 at the University of Houston-Downtown, Girard Street Building, Third Floor, Milam and Travis Room, Welcome Center, One Main Street, Houston, Texas 77002 with the following members participating:

ATTENDANCE –

Present

Spencer D. Armour, III, Chair
Welcome W. Wilson, Jr., Vice Chair
Gerald W. McElvy, Member
Peter K. Taaffe, Member
Tilman J. Fertitta, Ex Officio

Non-Members Present

Durga D. Agrawal, Regent
Beth Madison, Regent
Paula M. Mendoza, Regent
Roger F. Welder, Regent
Neelesh C. Mutyala, Student 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, Spencer D. Armour, III 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 24, 2017, Finance and Administration Committee Meeting

On motion of Regent Wilson, Jr., seconded by Regent Taaffe, and by unanimous vote of the regents in attendance, the minutes from the Finance and Administration Committee meetings listed above was approved.

Regent Armour stated the committee would be presented nine (9) agenda items: eight (8) action items for the board's consideration and approval and one (1) item presented for information only at this meeting.

Regent Armour stated the first action item for discussion was Item C, the Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts exceeding \$1 million for the

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purchase of goods or services, excluding construction contracts, at the University of Houston System, F&A-C. Regent Armour asked Mr. Jim McShan, Senior Vice Chancellor of Administration and Finance, to present this item.

Mr. McShan stated that this item was a 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. The list presented to the committee included a total of six (6) contracts.

The first contract was for a Telecommunications Billing Audit. The current contract began in 2015 and expired in April 2017. Mr. McShan stated that Southwestern Tariff Analysts (STA) was a company who has the expertise in going into telecommunications buildings. This company has done work for the university; and as a result of an audit they had completed, the university received a refund of \$2.1 million and identified total savings of \$4.6 million for the university. The group primarily focuses on taxes and tariffs that the university is exempt from which ended up being mistakenly charged to the university. As a result, pending committee approval, the total amount due to this vendor for their services will total \$1.1 million.

The second contract presented was for shuttle bus services in the amount of approximately \$43.0 million. The current contract expires on December 31, 2018. A Request for Proposals (RFP) will be completed in the near future. The new contract would be for seven (7) years, with a potential for three (3) years of renewal. The selected vendor will be required to make a large capital investment in new shuttle buses. The UH System spends approximately \$6 million annually in shuttle bus services for all campuses. Mr. McShan provided a few facts as examples of this important service; e.g., at the University of Houston, the shuttle service transports an average of 850,000 passengers; at UH-Downtown there was an estimated 145,000 riders; and at the University of Houston-Sugar Land campus, approximately 43,000 passengers every year. It was noted that there were students who were members on the Parking and Transportation Advisory Committee.

The next contract listed for approval was for custody services in the amount of \$1.4 million. Mr. McShan introduced Mr. Raymond Bartlett, Senior Associate Vice Chancellor for Finance, who presented this item. Mr. Bartlett explained that this contract would be with a large bank with global reach, to provide gate-keeping services of the securities and cash within the endowed and non-endowed portfolios, including record-keeping and security during any related financial transactions.

Mr. McShan moved to the next contract listed which was to provide solutions for maintenance, repairs, and operations inventory supplies and services for the Facilities Services Department at the University of Houston. This contract would be for approximately \$22.0 million; and the average spend on this area has been approximately \$4 million annually. The current contract began in December 2013 for a three (3) year term, and was amended for an additional two (2) years with a current end date of November 30, 2018. However, with it coming up for renewal, it would be re-advertised for a three-year base term and two (2) one-year options. Mr. McShan stated that this has been the most efficient way to manage the university's inventory as well as receive discounts on a large number of items.

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The next contract addressed by Mr. McShan was the Microsoft site license for use by students, faculty and staff which helps ensure campus-wide software licensing compliance. Mr. McShan stated that it was determined through the RFP process that Dell would be the best source to obtain this license; however, the university would purchase from Dell via HiEd which is a HUB representative of Dell, and this would in turn help achieve 100% of the HUB goal. The original agreement was for approximately \$2.8 million for three (3) years, and the amendment for this contract would be in the amount of \$765,174 for a new total of approximately \$3.6 million.

The last contract listed for this item was the Student Success Collaborative with the Education Advisory Board. This contract includes the cost of the four (4) UH System campuses to participate in the Houston Guided Pathways to Success (GPS) program, along with several other two-year institutions, in order to track academic progress and provide a pathway for students transferring from Houston-area community colleges to Houston-area universities. This contract will be for approximately \$3.3 million and the vendor will self-perform all services.

On motion of Regent Wilson, Jr., seconded by Regent McElvy, and by a unanimous vote of the regents in attendance, Item C, 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.

The next action item listed on the agenda was Item D, 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 – University of Houston System, F&A-D.

Mr. McShan stated that there were a total of nine (9) construction contracts on the list for approval. The first four (4) contracts were for the University of Houston and were related to the Hurricane Harvey disaster restoration and emergency recovery service agreements. Mr. McShan stated that with these agreements already in place, the university was able to get them started on the restoration/recovery efforts. Approval was being requested for the following four (4) vendors:

- A Status Construction LLC – up to \$5.0 million (100% HUB);
- Brown & Root Industrial Services LLC – up to \$5.0 million;
- P2MG LLC – up to \$5.0 million (100% HUB); and
- Blackmon Mooring of Texas, Inc. – up to \$2.0 million.

The next contract addressed by Mr. McShan involved the UH Athletics Academic Remodel. He stated that a donor will be covering the cost of the construction of the academic advising space for Athletic students within the Athletics/Alumni Building. The total cost of the remodel would be \$1.5 million.

The next two (2) contracts for discussion were for UH-Downtown and were related to disaster restoration and remediation due to flood-damaged buildings and materials from Hurricane Harvey.

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- Action Restoration – up to \$2.5 million
- Alpha Building Corporation – up to \$2.06 million (100% HUB)

The next item addressed was for the demolition and replacement of the roof at the UH-Downtown One Main building. The approximate cost for this project will be \$1.5 million and will be funded by HEAF.

The last contract listed was for furnishings for the STEM Building at the University of Houston-Clear Lake. This building had been previously approved by the Board, including the cost of furniture, fixtures and equipment, which at the time, was not to exceed \$1 million. Mr. Bartlett explained that after further review of the project, the cost for furnishings had increased to \$1.75 million; therefore, it was necessary to request Board approval for this specific component of the project.

On motion of Regent Taaffe, seconded by Regent McElvy, and by a unanimous vote of the regents in attendance, Item D, 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

Next on the agenda was Item E, Approval is requested to delegate authority to the Chancellor to negotiate and execute a lease for Houston Forensic Science Center, Inc. at the University of Houston Energy Research Park; and approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the design and construction of the Houston Forensic Science Center Project at the University of Houston – University of Houston.

Mr. McShan explained that the proposal for Houston Forensic Science Center, Inc. involved the buildout of approximately 82,608 square feet of space at the UH Energy Research Park Building 14. The estimated cost of this project was \$25 million and an additional \$4.1 million was included as cost contingency due to potential damages from Hurricane Harvey. It was also noted that UH would incur an estimated \$2.5 million in improvements, such as a new roof and a parking lot which would surround the building. Mr. McShan stated that the Houston Forensic Science Center, Inc. would enter into a 30-year lease. Basically, UH would do the investing of the funds to build the capital and the University would turnaround and lease the property back to them over the 30-year term to recoup our investment as well as the normal cost of leasing the facility. Interim financing will be through our commercial paper program until the next issue of bonds.

A brief discussion followed.

On motion of Regent Wilson, Jr., seconded by Regent Taaffe, and by a unanimous vote of the regents in attendance, Item E, Approval is requested to delegate authority to the Chancellor to negotiate and execute a lease for Houston Forensic Science Center, Inc. at the University of Houston Energy Research Park; and approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the design and construction of the Houston Forensic Science Center Project at the University of Houston was approved.

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Regent Armour moved to Item F, Approval is requested to delegate authority to the Chancellor to negotiate and execute a lease amendment for Wharton County Junior College at the University of Houston-Sugar Land – University of Houston.

Mr. McShan explained that Wharton County Junior College was leasing an entire building at UH Sugar Land. The lease was effective May 1, 2009 and expires on April 30, 2029 with the potential of two (2), 10-year renewals if agreed upon. The lease provides for a rental increase every three (3) years. The current fee for 2015-2018 was approximately \$1.16 million/year. The new fee was expected to be slightly higher due to the market and would cover the period 2018-2021 making this the fourth rent review of this lease.

On motion of Regent McElvy, seconded by Regent Taaffe, and by a unanimous vote of the regents in attendance, Item F, Approval is requested to delegate authority to the Chancellor to negotiate and execute a lease amendment for Wharton County Junior College at the University of Houston-Sugar Land was approved.

The next item on the agenda was Item G, Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the construction of the University of Houston-Victoria Sophomore Housing Project – University of Houston-Victoria.

Mr. McShan presented the housing project for the University of Houston-Victoria. He stated that this project had been delayed over time due to technical difficulties. The estimated cost of this project had increased, so in order to stay within funding, UH-Victoria decided to move forward with construction of only 272 beds instead of the estimated 380 beds as originally planned. This move was necessary for UH-Victoria to support their downward expansion. The total estimated cost of this project would be \$22.8 million, and construction was expected to begin in May 2018.

On motion of Regent Taaffe, seconded by Regent McElvy, and by a unanimous vote of the regents in attendance, Item G, Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the construction of the University of Houston-Victoria Sophomore Housing Project was approved.

Item H, Approval is requested for a 2% merit pool in Fiscal Year 2018 for the University of Houston – University of Houston, was the next item addressed on the agenda.

Mr. McShan stated that the University of Houston was requesting approval to implement a mid-year 2% merit increase effective January 1, 2018 for faculty and staff. The cost from January through the end of FY 2018 would be approximately \$4.8 million and in FY2019, the cost would be approximately \$7.2 million. Funding for the merit pool will come from the contingency reserve the University of Houston had established during the FY2018 budget process.

Dr. Khator stated that the University of Houston had performed very well in meeting and exceeding their goals which included enrollment, retention, graduation, and fundraising. Dr.

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Khator also added that faculty and staff displayed incredible resilience and leadership, not only in their academic functions but during difficult times, e.g., when Hurricane Harvey hit our area, they were excellent stewards of the resources available to make certain that students were being served.

On motion of Regent McElvy, seconded by Regent Taaffe, and by a unanimous vote of the regents in attendance, Item H, Approval is requested for a 2% merit pool in Fiscal Year 2018 for the University of Houston was approved.

The next action item on the agenda was Item I, Approval is requested of the Twenty-Eight Supplemental Resolution to the Master Resolution, the Preliminary Official Statement, and the Notice of Sale authorizing the issuance of Board of Regents of the University of Houston System Consolidated Revenue and Refunding Bonds, Series 2018 – University of Houston System.

Mr. McShan stated this request was for approval for the issuance of up to \$325 million in bonds. This bond issue would consist of \$152 million of bond refundings which would generate approximately \$12 million in gross savings and the net present value savings of \$8.8 million on the refundings. Mr. McShan explained that this would also include \$172 million of new money projects which would primarily address the \$84 million Quad Replacement project and the \$61 million Parking Garage #5 project, both at UH; approximately \$21.4 million Freshman Housing at UHCL; approximately \$2.5 million of land and facility acquisition for the UHV campus. Mr. Bartlett also mentioned that the target date for the sale of these bonds was January 2018.

A brief discussion followed.

On motion of Regent Wilson, Jr., seconded by Regent Taaffe, and by a unanimous vote of the regents in attendance, Item I, Approval is requested of the Twenty-Eight Supplemental Resolution to the Master Resolution, the Preliminary Official Statement, and the Notice of Sale authorizing the issuance of Board of Regents of the University of Houston System Consolidated Revenue and Refunding Bonds, Series 2018 was approved.

The final action item on the agenda was Item J, Approval is requested of banking resolutions governing the establishment of new bank accounts to be maintained for the benefit of the University of Houston System – University of Houston System.

Mr. McShan explained that this request was seeking approval to establish six (6) new bank accounts at Bank of America. Mr. McShan stated that the process of reconciliation had become a challenge due to the increase of deposits to the current account; these new accounts would allow the UH System to better identify and reconcile transactions as well as the source of the funds for reconciliation purposes.

On motion of Regent Taaffe, seconded by Regent Wilson, Jr., and by a unanimous vote of the regents in attendance, Item J, Approval is requested of banking resolutions governing the establishment of new bank accounts to be maintained for the benefit of the University of Houston System was approved.

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Following the above of this item, Regent Armour called for a vote to place all eight (8) action items, unanimously approved by the committee on the Board's Consent Docket Agenda.

On motion of Regent Taaffe, seconded by Regent McElvy, and by a unanimous vote of the committee members present, the following eight (8) action items were placed on the Board of Regents' Consent Docket Agenda for final approval at the November 16, 2017, Board of Regents meeting held later that 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 University of Houston 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 a lease for Houston Forensic Science Center, Inc. at the University of Houston Energy Research Park; and approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the design and construction of the Houston Forensic Science Center Project at the University of Houston – UH;
4. Approval is requested to delegate authority to the Chancellor to negotiate and execute a lease amendment for Wharton County Junior College at the University of Houston Sugar Land – UH;
5. Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the construction of the University of Houston-Victoria Sophomore Housing Project – UHV;
6. Approval is requested for a 2% merit pool in Fiscal Year 2018 for the University of Houston – UH;
7. Approval is requested of the Twenty-Eight Supplemental Resolution to the Master Resolution, the Preliminary Official Statement, and the Notice of Sale authorizing the issuance of Board of Regents of the University of Houston System Consolidated Revenue and Refunding Bonds, Series 2018 – UH System; and
8. Approval is requested of banking resolutions governing the establishment of new bank accounts to be maintained for the benefit of the University of Houston System – UH System.

Next item listed on the agenda was Item K, the Presentation of the Fiscal Year 2017 University of Houston System Annual Financial Report Summary - University of Houston System.

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Mr. McShan introduced Mr. David Ellis, Executive Director for Annual Reporting, who provided an overview of the results of the operations for Fiscal Year 2017.

Mr. Ellis provided a few important dates regarding the timeline of the Annual Financial Report (AFR) as listed below.

- August 31 – Fiscal Year End
- September 20 – Departmental accounting activity completed
- October 20 – Ledger closed and preliminary management review completed
- November 2 – Mid-level management review completed
- November 11 – Senior management review completed
- November 16 – Financial results for all UHS presented to Board of Regents
- November 20 – AFR submitted to State Comptroller and State Auditor
- February 28 – Statewide comprehensive audit completed

Mr. Ellis stated that the UH System had met all target dates throughout the process. He also noted that this was the first time that the Board had received this report before it was submitted to the State Comptroller's and State Auditor's Offices. The team worked hard to make sure this information was provided to the Board at this November meeting.

With regards to actual revenues and expenses, Mr. Ellis stated that this report showed that revenues had increased and expenses decreased, and overall good planning and good and worked well. Provided below is the UH System Combined FY2017 Results of Operations – Actual Revenues versus Actual Expenses..

Actual Revenues

- HEAF/NRUF 5%
- Endowment Gifts 6%
- Other Operating 12%
- Contracts and Grants 17%
- State Appropriations 19%
- Tuition and Fees 41%

Actual Revenues Total - \$1,602.5 million
(Total Budget - \$1,591.6 million)

Actual Expenses

- Community Advancement 3%
- National Competitiveness 12%
- Infrastructure and Administration 19%
- Student Access and Success 66%

Actual Expenses Total - \$1,575.4 million
(Total Budget - \$1,591.6 million – excludes construction spending)

Mr. Ellis also noted during the presentation that the analysis of revenues showed that the two (2) areas with an increase were Contracts and Grants and Endowment/Gifts. In addition, the analysis of operating expenses displayed variations in every area.

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A brief overview of the balance sheets lists \$4,906 million in total assets, including cash, appropriations, investments, capital assets, net of depreciation and others; it also lists \$3,251.3 million total liabilities, including payables, accrued liabilities, bonds, long term obligations and others; however, the results of these balance sheets showed a healthy fund balance.

In closing, Mr. Ellis stated that the report demonstrated that the UH System was overall in good fiscal shape. The report was compiled and mailed to the State Comptroller and State Auditor and was now ready to be reviewed.

Mr. McShan thanked Mr. Ellis for his presentation and it was noted that Mr. Ellis would be retiring in February 2018 after 34 years of service at the University of Houston. Regent Armour, on behalf of the Board of Regents, also thanked Mr. Ellis for his hard work and dedication throughout his career at the University of Houston.

This item was presented for information only and no committee action was required

At 3:05 p.m., Regent Armour announced that pursuant to Subchapter D of Chapter 551 of the Texas Government Code which allows for governing boards to meet in closed session, the Finance and Administration Committee would convene in Executive Session.

Executive Session Report:

Regent Armour reconvened the Finance and Administration Committee meeting in open session at 3:18 p.m. and stated that the committee had met in Executive Session and discussed property issues with the General Counsel. No action was taken in Executive Session.

Following the various discussions by the committee, Regent Armour made one (1) recommendation for the committee's approval as follows:

Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the design and construction of the Quadrangle Replacement Housing Project at the University of Houston – University of Houston.

On motion of Regent Taaffe, seconded by Regent McElvy, and by a unanimous vote of the regents in attendance, the request to delegate authority to the Chancellor to negotiate and execute contracts for the design and construction of the Quadrangle Replacement Housing Project at the University of Houston – UH was approved.

On motion of Regent Wilson, Jr., seconded by Regent Taaffe, and by a unanimous vote of the regents in attendance, this request was added to the Board's Consent Docket Agenda for full board approval later that day, Thursday, November 16, 2017.

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There being no further business to come before the committee, the meeting adjourned at 3:23 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	Mark Clark
Paula Myrick Short	David Ellis	Mike Britt
Dona Cornell	Mike Rosen	Sabrina Hassumani
Eloise Dunn Brice	Ed Hugetz	Gordon Luce
Lisa Holdeman	Dan O’Connor	David Bradley
Jason Smith	Hassain Shabrakhi	Jim Wofford
Don Guyton	Christa Rick	Trevor Hale
Richard Walker	Lisa Barajas	Don Yackley
Ira K. Blake	Ashlee Ross	Nadar Shahim
Juan Sánchez Muñoz	Joe Brueggman	Wayne Baron
Raymond “Vic” Morgan	Mary Ann Ottinger	Tomikia LeGrande
Mike Johnson	Caesar Moore	Johanna Wolff
Hunter Yurachek	Michael Slatter	Catherine Horn
Stephen Spann	James Adams	Lisa Gossett
Amir Elnashai	Pam Muscarello	Karin Livingston
Brian Thomas	Iggy Harrison	Phil Booth
Jon Aldrich	Matt Castillo	Shannon Harrison
Gerry Mathisen	Marquette Hobbs	Brenda Robles