

MINUTES OF A MEETING



November 17-18, 2016

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ARIZONA BOARD OF REGENTS
Minutes of a Regular Meeting
Thursday, November 17, and Friday, November 18, 2016

A meeting of the Arizona Board of Regents was held on Thursday, November 17, and Friday, November 18, 2016 at the University of Arizona, Student Union Memorial Center in Tucson, Arizona.

Present: Regent Patterson, Regent Heiler, Regent Myers, Regent Ridenour, Regent Shoopman, Regent Krishna, Regent Manson, Regent Penley, Regent Gorshe and Regent Careaga.

Absent: Governor Doug Ducey and Superintendent Douglas.

Also present were from the University of Arizona: President Ann Weaver Hart, Provost Andrew Comrie, Senior Associate Jon Dudas, Gregg Goldman, Dr. Kimberly Espy, Dr. Melissa Vito, and Dr. George Hammond; from Northern Arizona University: President Rita Cheng, Provost Daniel Kain, Senior Associate Christy Farley, and Bjorn Flugstad; from Arizona State University: President Michael Crow, Provost Mark Searle, Senior Associate Christine Wilkinson, Dr. Morgan Olsen, and Dr. Lee McPheters; from the board office: President Eileen Klein, Board Counsel Nancy Tribbensee, John Arnold, Ted Ferris, and Kate Linder; and Faculty Senate Representative Kathleen Puckett

All lists, reports, summaries, background materials and other documents referred to in the minutes can be found in the November 17-18, 2016 Document Files.

The meeting was called to order on November 17, 2016 at 8:30 a.m. The board immediately voted to go into executive session. Regent Patterson resumed the public meeting at 9:18 a.m. and Regent Shoopman led the Pledge of Allegiance.

Regent Patterson thanked President Hart and her staff for hosting, and welcomed Regent Manson to her first full board meeting. Regent Manson replaced Regent Leonard after several years of service on the board.

UNIVERSITY OF ARIZONA PRESIDENT'S WELCOME

President Hart provided her welcoming remarks and commented on the feeling of hope and excitement she and the university community felt regarding the appointment of a new UA president, and she expressed her gratitude for the search committee members working to appoint her successor.

ABOR PRESIDENT'S REPORT

ABOR President Report (Item 1)

President Klein provided her report to the board and began by referencing the recent U.S. presidential election and the goal of working together as a nation; a goal shared by the board with regard to Arizona's public universities and their potential as vehicles of opportunity in

Arizona and America. Focus from policymakers in Congress and at the Presidential level will be on jobs creation, but also using the capabilities of government to advance the skill of individuals so that businesses have the labor they need and individuals have the opportunity to be successful in the American economy. With focus on technical skills training, the role the universities play in preparing Americans for life-long learning must remain at the forefront of the agenda at the Federal level going forward. For Arizona's public universities, the goal is to produce more graduates who are capable of meeting workforce needs while delivering more affordable and cost effective education.

The change at the federal level provides an opportunity to impact policies through regulatory reforms at the federal level. Student loan reform and certain loan practices need continued, innovative effort to provide relief for students in an effort to keep debt burden low in Arizona. Work will continue with congress and the president to make sure Arizona students receive the certainty that they need in their immigration, residency, and citizenship status to provide access the institutions, as well as to be eligible to receive financial aid.

In an effort to increase educational attainment in Arizona, the Achieve60AZ movement was successfully launched. Achieve60AZ's goal over the next 14 years is to increase the number of people living in Arizona with a certificate, Associate's or Bachelor's degrees, increasing the educational attainment rate from 42.4% to 60.0%. Two major philanthropic partners recently demonstrated their support with generous contributions to the Achieve 60 AZ effort, with President Klein, Rich Nichol of College Success Arizona and Maria Harper Marinick of the Maricopa Community Colleges district as appointed fiduciaries of the fund. President Klein briefly discussed the High School Report Card, which saw an increase of 6.4% of Arizona high school graduates who enrolled in Arizona's public universities, with 87% of Arizona's high school students admitted without academic deficiencies. There has also been a shift in degree choices by incoming students, aligning more with workforce demands. Statistics show increases in business, management and marketing, health professions, engineering, biological and biomedical services and social sciences, with declines in education, history, and architecture.

An overview of the tuition setting process was discussed. Tuition at Arizona's universities remains competitive and debt remains lower than the national median but because there is evidence that financial aid is on the rise there is concern that student debt will also rise. It is the demographics of Arizona students and it creates additional challenges to resolve. It also means amplified effort in the quest for state funding.

President Klein responded to Regent Krishna's question regarding the 2030 projections of graduating students in relation to population growth. The 2030 figures take into account the growth of Arizona over the next 15 years with approximately 60% of Arizona residents attaining higher education degrees or certificates. Regent Myers commented on the board's goal to provide more higher education opportunities for Arizona residents, which also includes reaching the at-risk population of Arizona who frequently drop out during their freshman year. This is due in large part to high schools not preparing students to be successful for higher education. School boards across Arizona could utilize the High School Report Card to evaluate their school's achievements and make improvements where necessary. Regent Heiler commented that the High School Report Card is the most important academic performance data available as it reflects the end product of the K-12 system and collective readiness of Arizona's one million plus students. Regent Myers commented on the

obvious problems with high school students being taught math by people who are not certified to teach the subject, and proposed coming up with an action plan to address this and other problems.

President Crow commented that ASU noticed the deficit of math teachers several years ago and restructured its teachers college to change that. ASU also certifies as many math majors, engineering majors, architecture majors as teachers during their four years at ASU. President Cheng provided information on NAU's movement to combat math and workforce deficiencies listing the STEM program and summer boot camps for teachers. President Hart stated the teacher workforce shortage is a national crisis. The realization is that the problems needing to be solved cannot be done solely by school districts or solely by universities. Collaboration by superintendents, community colleges and universities is the first step in combatting the problems seen in workforce and education.

Regent Myers commented that we have the data and the schools that are not performing need to be made aware of the data.

CALL TO THE AUDIENCE

Per Board Policy 1-114, time has been set aside for the Call to the Audience, an opportunity for people to express their views or concerns on matters of board governance to the entire board in a public setting.

Tom Belshi, The League of Arizona Cities and Towns, spoke about the shared revenue legislative proposal

Emily Lauber, ASU student, spoke about DACA students

Vanessa Pomeroy, ASNAU, provided updates on student activities

Michael Finnegan, ASUA, provided updates on student activities

ACADEMIC AND STUDENT AFFAIRS COMMITTEE

Report on the Academic and Student Affairs Committee Meeting (Item 2)

Regent Ridenour reported on the outcomes of the November 16, 2016 Academic and Student Affairs Committee meeting. The committee received an update from Kelly Robles of Arizona Transfer on transfer students from community colleges. The universities presented information on their financial aid proposals and metrics, with a discussion on the graduate and undergraduate degree programs. The committee reviewed additional items including various ABOR policies revisions, appointment of Regents' Professors, revisions to universities' Academic Strategic Plans, and several reports including the student financial aid report.

BUSINESS AND FINANCE COMMITTEE MEETING

Report on the Business and Finance Committee Meeting (Item 3)

Regent Myers reported on the outcomes of the November 16, 2016 Business and Finance Committee meeting. The committee received a quarterly financial status update as compared to the full-year 2017 budget. ASU and UA are projecting a shortfall in tuition revenues from

what was budgeted. ASU's shortfall is due to fewer international students than predicted. UA experienced an increase in headcount but a decrease in full-time enrollment, and delayed transitions of staff from UA to Banner. NAU's student enrollment was not as projected, but an increase is expected in tuition revenue due to an increase of non-resident student enrollment. The committee also reviewed debt capacity and lines of credit guidelines, capital improvement and capital related items.

FY 2018 State Budget Request Update (Item 4)

The universities and the board office asked the board to approve the update to the 2017-18 State Budget Requests. This item was tabled to allow for more discussion on how to fund deferred maintenance and capital projects.

President Hart explained that the universities finances are 85% tuition driven, and any sales tax paid by the university is a tax on tuition. Costs incurred by any educational institution are a cost that eventually will be paid by citizens. President Crow added that Arizona will be the only state in the union that does not support financial aid for students who attend state universities. Both President Crow and President Cheng agreed on the need to raise awareness even further for infrastructure support and relief from the ongoing deferred maintenance.

Per Regent Patterson's request, President Klein will work with the university presidents to create a plan for capital needs funding that can be approved and added to the list of requests for the state legislature. Regent Heiler commented that he supports the state tax retention idea and pointed out that the information provided in the committee review showed the universities are a \$4.5 billion enterprise which has continued to grow and generate more revenue return through sales tax activity to the state.

LEGISLATIVE AFFAIRS COMMITTEE

Report on the Legislative Affairs Committee Meeting (Item 5)

Regent Shoopman reported on the November 16, 2016 Legislative Affairs Committee meeting. The committee received updates from university lobbyists, and an analysis of the incoming Trump administration at the federal level. They discussed the changing character of the upcoming legislature. The board plans to continue to seek state support equaling half of an in-state student's tuition.

AUDIT COMMITTEE

Report on the Audit Committee Meeting (Item 6)

Regent Penley reported on the November 16, 2016 Audit Committee meeting. The committee reviewed annualized financial audits performed on the state's universities. The committee was also briefed on performance audits that the Office of the Auditor General plans to conduct. In addition, the Auditor General is also doing a performance audit of the Foster Care Tuition Waiver Program. The committee met with the CFOs of each campus to discuss the Internal Audit Review Board and met with the chief auditors of each campus to cover the audits that have been performed at this point.

RECESS

The meeting recessed at 11:30 a.m. and resumed at 2:00 p.m.

REGENTS EXECUTIVE COMMITTEE MEETING**Report on the Regents Executive Committee Meeting (Item 7)**

Regent Patterson reported on the November 2, 2016 Regents Executive Committee meeting. The committee reviewed amendments to the Arizona Board of Regents Cash Balance Pension Plan as well as to the Optional Retirement Plan, and it discussed the appointment of the NAU provost and vice president for Academic Affairs, the appointment of the NAU chief financial officer, coaching contract extensions and presidential contracts.

ECONOMIC AND STATE REVENUE OUTLOOK UPDATE**Economic and State Revenue Outlook Update (Item 8)**

The board received an update from the board office and university economists on the economic and state revenue outlook. Dr. Lee McPheters, Research Professor of Economics in ASU's W.P. Carey School of Business presented information on current and future economic conditions. Key points included:

- The national GDP is in its 12th year below 3% growth; a rate that has become the new norm.
- The projected GDP for 2017 is 2.2%. The minimum wage increase and other factors will drive up inflation to 2.3% according to Blue Chip resources and W.P. Carey School of Business.
- The U.S. Economic recovery is a result of increased employment of skilled and educated workers, and the national jobs and unemployment rate will decrease slightly from 2016.
- Arizona ranked 5th in the nation in private job creation, 6th in the national in start-up businesses, and is in the top ten in population increase including strong domestic migration. This has contributed to many large companies expanding their businesses to Arizona.
- Arizona is traditionally below the national average for economic prosperity due to the ratio of employment to population, 12% below the national average, and earnings of the work force are almost 15% below the national average.
- Arizona is 4th in the nation as a destination for people relocating independently. A major point of concern is Arizona's per pupil instruction spending ranked 49th in the nation. Per capita income ranked at 42nd and Arizona is 45th in poverty rate.

Dr. George Hammond, Associate Director of the Economic and Business Research Center in UA's Eller College of Management presented on Arizona's long-term economic outlook and root causes for the state's widening gap in per capita income compared to national figures. An overview was presented on the national projections for the next thirty years on which Arizona's outlook is based. Key points included:

- The population growth is expected to grow at a rate of 0.6%; however, the retirement of baby boomers will cause slower work force growth which will drive down GDP growth.
- Productivity growth determines GDP growth, and the growth has not changed over the past five years.
- Arizona's job growth is expected to be higher than the national average but will be relatively slow. The greatest job gains are likely to be in the service professions, especially education and health care, with slightly lower gains in transportation, trade and utilities and professional and business services.
- Arizona's wages are lower than the national average in all occupations except protective services and healthcare support.
- The key to wages is productivity growth; long-run risks revolve around productivity growth, resource constraints and funding long-term obligations. Education drives productivity growth.

Dr. Hammond commented that Arizona lost over 100,000 construction jobs during the down turn. Population growth was much larger before the recession and construction continued for several years after the population growth ceased, producing an overage of new construction without tenants. Regent Penley provided additional information referring to the real estate industry's business understanding of the problem centering on labor, lots, and lending. There is a shortage of workers in construction, and low wages compared to neighboring states plays a large role. Municipalities, under pressure to increase revenue have increased fees and regulations on lot development, slowing down new construction. Lending restrictions affected many people who experienced bankruptcy and foreclosure during the recession, slowing down or inhibiting their ability to buy homes.

President Crow identified three fatal errors in society's understanding of economic success. One, that education is not a factor in economic success. Two, that you can build a stable long-term economy on real estate. The third is related to Latino educational success. Maricopa County has a 9% college attainment rate for people of Hispanic descent. The economy will not be competitive until that number is optimally above 25%. Arizona needs an economic development policy. Utah and Texas were used as examples of states that created economic development policies, along with many strategic steps to advance their economy. Regent Heiler commented on the dual level point about education, not only the connection between economic growth and educational attainment that exists everywhere, but also Arizona's position as an industry and driver in its own right.

Board Consultant Ted Ferris reported on compared inflation and population to Arizona's personal income numbers and Arizona's general fund, which has been decreasing since 2006. Decreasing corporate taxes and decreased state taxes, which in theory are reduced to increase the economy, decreases the General Fund revenue growth. Income tax growth, corporate income taxes, and insurance premium tax growth are all well below the long-term average indicating general fund revenue will remain subpar. The goal is to have a tax structure that extracts sufficient revenues from the economy to fund essential functions of state and local government at the same time, hopefully supporting a vibrant economy. This would suggest that one of the challenges we are facing is whether the general fund can keep up. In recent years, that has not happened.

President Klein inquired about Arizona residents' financial ability to supplement education. Mr. Ferris explained that business and property tax reductions were made so Arizona was competitive. A major factor affecting business relocation and expansion decisions is quality of the workforce and personal income, in which Arizona falls short. Regent Myers expressed concern that after serving as regent for seven years, state support for higher education continues to be a point of conversation with no improvement. Regent Myers suggested showing these economic reports and conclusions as the President's report to the state legislature as opposed to recent years' reports. Regent Patterson suggested in future meetings the previous year's presentations be made available to compare and to study the trends to see what the predictors got correct.

STUDENT REGENT REPORT

Regent Gorshe reported that the University of Arizona student government continues to engage with students and administration to solve the issue of food insecurity at state universities. UA has created a Campus Pantry to provide meals for students who can't afford to eat. Student government has initiated a conversation regarding student fees and the review of fees. ASU student government is in the process of selecting a new student regent and final selection is expected to be sent to the Governor's office by year end. All three student governments are planning a Day at the Capital.

REPORT FROM THE ARIZONA FACULTIES COUNCIL

Dr. Kathleen Puckett reported that the Arizona Faculties Council requested the following considerations by the board:

- A recommitment to provide a safe environment, optimal for learning for all students.
- A recommitment to the Student Code of Conduct to ensure learning is free from negative influences.
- Support of peaceful protest as a right and oppose violence with zero tolerance.
- Support the role of educator as not only education based on fact and data but also good citizenship; prosperity is tied to both outcomes.
- Set-up an IT access infrastructure for rural areas.
- Faculty supports conversations on quality and wants to ensure these conversations are taking place on all campuses. Quality indicators are linked to student success, which is paramount.
- The AFC supports the board's interests in K-12 education and the achievement of the Achieve 60 goals.
- The AFC values the role of engaged citizenship, respectful dialogue, and development of critical thinking.

Dr. Puckett expressed appreciation for the opportunity to express faculty goals and ideas and for the example board members set.

ADOPTION OF CONSENT AGENDA ACTION ITEMS AND ACCEPTANCE OF CONSENT INFORMATION ITEMS

Regent Patterson announced his intention to remove items from the consent agenda to provide more details to items of interest to the public and in some cases, celebrate outstanding individuals.

Minutes

The June 8-10, 2016 Regular Meeting, June 22, 2016 Special Executive Session, August 19, 2016 Special Executive Session, August 31, 2016 Special Meeting, and the October 12, 2016 Special Meeting minutes were not approved at this meeting. These minutes were subsequently approved at the February 2017 Regular Board Meeting.

BUSINESS AND FINANCE COMMITTEE MEETING**Proposed Revisions to ABOR Policies 3-411 “Annual Report on Debt Capacity,” 3-501 “Board Action Required,” and 7-102 “Overview of the Capital Development Process and Phases” (Second Reading) (Item 10)**

The board office asked the board to approve proposed revisions to ABOR Policies 3-411 “Annual Report on Debt Capacity,” 3-501 “Board Action Required,” and 7-102 “Overview of the Capital Development Process and Phases” to implement new statutory authority to use commercial paper and lines of credit.

Upon motion by Regent Patterson, second by Regent Krishna, the board approved the proposed revisions to ABOR Policies 3-411 “Annual Report on Debt Capacity,” 3-501 “Board Action Required,” and 7-102 “Overview of the Capital Development Process and Phases.”

Guidelines for Lines of Credit (Item 11)

The board office asked the board to approve the proposed guidelines for the use of lines of credit for liquidity or cash management purposes.

Upon motion by Regent Patterson, second by Regent Krishna, the board approved the proposed guidelines for the use of lines of credit for liquidity or cash management purposes.

Proposed New ABOR Policy 8-208 “Fees for Services” Regarding the Arizona State Museum (Second Reading) (Item 12)

The board office asked the board to approve proposed new ABOR Policy 8-208 “Fees for Services” regarding the Arizona State Museum.

Upon motion by Regent Patterson, second by Regent Krishna, the board approved new ABOR Policy 8-208 “Fees for Services” regarding the Arizona State Museum.

Proposed Revisions to ABOR Policy Chapter III, Article H-University Procurement Code (Second Reading) (Item 13)

The board office asked the board to approve proposed revisions to ABOR Policy Chapter III, Article H – the University Procurement Code.

Upon motion by Regent Patterson, second by Regent Krishna, the board approved the proposed revisions to ABOR Policy Chapter III, Article H – the University Procurement Code.

Supplement to Prior Board Approval of Sale of Approximately 9.29 Acres of Land Located at SEC of Rio Salado and Price Road, Tempe, Arizona (ASU) (Item 14)

Arizona State University asked the board to supplement its prior approval for the sale of approximately 9.29 acres of real property located at the southeast corner of Rio Salado Parkway and Price Road, Tempe, Arizona.

Upon motion by Regent Patterson, second by Regent Krishna, the board approved the supplement to its prior approval to ASU for the sale of approximately 9.29 acres of real property located at the southeast corner of Rio Salado Parkway and Price Road, Tempe, Arizona.

FY 2017 Revised Capital Development Plan (ASU) (Item 15)

Arizona State University asked the board to approve its FY 2017 Revised Capital Development Plan, which included one new project and one previously approved project. The CDP totaled \$45.5 million. President Crow commented that this is a collateral investment resulting from the move of the law school to downtown Phoenix campus. The existing facilities of both the library and law school headquarters will be renovated rather than torn down.

Upon motion by Regent Patterson, second by Regent Krishna, the board approved Arizona State University's FY 2017 Revised Capital Development Plan.

Property Acquisition 1700 E. Broadway Blvd., in Tucson, AZ (UA) (Item 16)

The University of Arizona asked the board to approve the purchase of the real property located at 1700 E. Broadway Blvd., Tucson, Arizona from Henry Chung & Company.

Upon motion by Regent Patterson, second by Regent Myers, the board approved the University of Arizona's purchase of the real property located at 1700 E. Broadway Blvd., Tucson, Arizona from Henry Chung & Company.

South Stadium Parking Structure Project Approval (UA) (Item 17)

The University of Arizona asked the board for Project Approval for the South Stadium Parking Structure. The 282,000 gross square foot, \$22 million capital project will be funded through a combination of Parking and Transportation funds and the University's cash reserves.

Upon motion by Regent Patterson, second by Regent Myers, the board approved the University of Arizona's Project Approval for the South Stadium Parking Structure.

Ground Lease, with Option to Acquire, and Related Agreements for Development of Hotel/Conference Center with Omni Hotels Corporation (ASU) (Item 18)

Arizona State University asked the board for authorization to enter into agreements to ground lease and develop approximately 1.6 acres of real property located at the southeast corner of Mill and University Drive on the Tempe Campus, to Omni Hotels Corporation, a Delaware corporation, or affiliate, for development of a privately-operated hotel, and a \$19.5 million, together with an option to permit Omni to acquire the land and improvements at the end of the ground lease term.

Upon motion by Regent Patterson, second by Regent Krishna, the board approved to authorize Arizona State University to enter into agreements to ground lease and develop approximately 1.6 acres of real property located at the southeast corner of Mill and University Drive on the Tempe Campus, to Omni Hotels Corporation, a Delaware corporation, or affiliate, for development of a privately-operated hotel, and a \$19.5 million, together with an option to permit Omni to acquire the land and improvements at the end of the ground lease term.

Ground Lease and Related Agreements for Development of New Student Housing at the Tempe Campus (ASU) (Item 19)

Arizona State University asked the board for authorization to enter into agreements to ground lease approximately 5 acres of real property located at the southeast corner of South Rural Rod and South Terrace Road on the Tempe Campus to American Campus Communities or affiliates for development of third-party student housing, and the right to lease all or a portion of the facility at an annual cost exceeding \$500,000.

Upon motion by Regent Patterson, second by Regent Ridenour, the board approved authorization for Arizona State University to enter into agreements to ground lease approximately 5 acres of real property located at the southeast corner of South Rural Rod and South Terrace Road on the Tempe Campus to American Campus Communities or affiliates for development of third-party student housing, and the right to lease all or a portion of the facility at an annual cost exceeding \$500,000, with a "no" vote by Regent Heiler.

ACADEMIC AND STUDENT AFFAIRS COMMITTEE

Proposed Revisions to ABOR Policy 4-323 "Tuition Waiver Scholarships and Institutionally Supported Financial Aid Programs – Student Financial Aid" (Second Reading) (Item 20)

The board office asked the board to approve proposed revisions to ABOR Policy 4-323 regarding waivers of graduate tuition for Purple Heart recipients and medically discharged Arizona National Guard members.

Upon motion by Regent Patterson, second by Regent Ridenour, the board approved the proposed revisions to ABOR Policy 4-323 regarding waivers of graduate tuition for Purple Heart recipients and medically discharged Arizona National Guard members.

FY 2016 Financial Aid Report and FY 2017 and FY 2018 Financial Aid Plans (ASU, NAU, UA) (Item 21)

The board office asked the board to approve the universities' FY 2016 Student Financial Aid Report and FY 2017 and FY 2018 Financial Aid Plans.

Upon motion by Regent Patterson, second by Regent Ridenour, the board approved the universities' FY 2016 Student Financial Aid Report and FY 2017 and FY 2018 Financial Aid Plans.

2016 Progress Report on Articulation and Transfer for Arizona Postsecondary Education (Item 22)

The board office asked the board to approve the annual progress report on articulation and transfer to be submitted to the Joint Legislative Budget Committee by December 15, 2016.

Upon motion by Regent Patterson, second by Regent Ridenour, the board approved the annual progress report on articulation and transfer to be submitted to the Joint Legislative Budget Committee by December 15, 2016.

2016 Enrollment Report (Item 23)

The board office asked the board to approve the 2016 Fall Enrollment Report of headcount and full-time equivalent enrollment for universities in the Arizona University System.

Upon motion by Regent Patterson, second by Regent Myers, the board approved the 2016 Fall Enrollment Report.

2015-2016 High School Report Card (Item 24)

The board office asked the board to approve the 2015-2016 High School Report Card.

Upon motion by Regent Patterson, second by Regent Krishna, the board approved the 2015-2016 High School Report Card.

High School Students Taking University Courses in 2015-2016 (Under 18 Report) (Item 25)

The board office asked the board to approve the report on High School Students Taking University Courses in 2015-2016.

Upon motion by Regent Patterson, second by Regent Krishna, the board approved the report on High School Students Taking University Courses in 2015-2016.

Proposed Revisions to ABOR Policy 2-121 “Undergraduate Admissions” (Second Reading) (Item 26)

The board office and the universities asked the board to approve the proposed revisions to ABOR Policy 2-121 “Undergraduate Admissions.”

Upon motion by Regent Patterson, second by Regent Krishna, the board approved the proposed revisions to ABOR Policy 2-121 “Undergraduate Admissions.”

Appointment of Regents’ Professors (Item 27)

Arizona State University asked the board to approve the appointment of three Regents’ Professors effective December 31, 2016: Robert Nemanich (Department of Physics), Anne Stone (School of Human Evolution and Social Change, and Paul Westerhoff (School of Sustainable Engineering and the Built Environment).

Upon motion by Regent Patterson, second by Regent Myers, the board approved the appointment of three Regents’ Professors effective December 31, 2016: Robert Nemanich (Department of Physics), Anne Stone (School of Human Evolution and Social Change, and Paul Westerhoff (School of Sustainable Engineering and the Built Environment).

Proposed Revisions to ABOR Policy 2-321 “WICHE Professional Student Exchange Program” (First Reading) (Item 28)

The board reviewed on first reading the proposed revisions to ABOR Policy 2-321 “WICHE Professional Student Exchange Program.” The proposed revisions will enable the director of Western Interstate Commission for Higher Education (WICHE) Student Exchange Programs, in addition to the board president, to certify eligible participants, approve new and continuing students to be supported each year, and set the interest rate in effect for the following fiscal year for the WICHE Professional Student Exchange Program.

Addendum to the 2016-2017 Academic Strategic Plan for Arizona State University (ASU) (Item 29)

Arizona State University asked the board to approve the addendum for its 2016-2017 Academic Strategic Plan.

Upon motion by Regent Patterson, second by Regent Gorshe, the board approved Arizona State University’s addendum to its 2016-2017 Academic Strategic Plan, with abstention from Regent Penley.

Addendum to 2016-2017 Academic Strategic Plan for Northern Arizona University (NAU) (Item 30)

Northern Arizona University asked the board to approve the addendum to its 2016-2017 Academic Strategic Plan.

Upon motion by Regent Patterson, second by Regent Ridenour, the board approved Northern Arizona University's addendum to its 2016-2017 Academic Strategic Plan, with abstention from Regent Penley.

Addendum to 2016-2017 Academic Strategic Plan for the University of Arizona (UA)
(Item 31)

The University of Arizona asked the board to approve the addendum to its 2016-2017 Academic Strategic Plan.

Upon motion by Regent Patterson, second by Regent Ridenour, the board approved the University of Arizona's addendum to its 2016-2017 Academic Strategic Plan, with abstention from Regent Penley.

Proposed Continuation of Exception to ABOR Policy 6-201 "Conditions of Faculty Service – Types of Faculty Appointments" (NAU) (Item 32)

Northern Arizona University asks the board to continue its exemption from ABOR Policy 6-201(E)(11) through June 30, 2019.

Upon motion by Regent Patterson, second by Regent Ridenour, the board approved Northern Arizona University's request to continue its exemption from ABOR Policy 6-201(E)(11) through June 30, 2019.

REGENTS EXECUTIVE COMMITTEE

Appointment of Provost and Vice President for Academic Affairs for Northern Arizona University (NAU) (Item 33)

Northern Arizona University asked the board to approve the appointment of Dr. Daniel Kain to serve as Provost and Vice President for Academic Affairs at Northern Arizona University.

Upon motion by Regent Patterson, second by Regent Ridenour, the board approved the appointment of Dr. Daniel Kain to serve as Provost and Vice President for Academic Affairs at Northern Arizona University.

Appointment of Chief Financial Officer (NAU) (Item 34)

Northern Arizona University asked the board to approve the appointment of Bjorn Flugstad to serve as the Chief Financial Officer at Northern Arizona University.

Upon motion by Regent Patterson, second by Regent Ridenour, the board approved the appointment of Bjorn Flugstad to serve as the Chief Financial Officer at Northern Arizona University.

Amendment to the Arizona Board of Regents Cash Balance Pension Plan (Item 35)

The board office asked the board to approve the First Amendment to the Second Amendment and Restatement of the Arizona Board of Regents Cash Balance Pension Plan.

Upon motion by Regent Patterson, second by Regent Gorshe, the board approved the First Amendment to the Second Amendment and Restatement of the Arizona Board of Regents Cash Balance Pension Plan.

Amendment to the Arizona Board of Regents Optional Retirement Plan (Item 36)

The board office asked the board to approve the First Amendment to the Fifth Amendment and Restatement of the Arizona Board of Regents Optional Retirement Plan.

Upon motion by Regent Patterson, second by Regent Gorshe, the board approved the First Amendment to the Fifth Amendment and Restatement of the Arizona Board of Regents Optional Retirement Plan.

Multiple-Year Employment Contract for Head Coach of the Men's Basketball Team (NAU) (Item 37)

Northern Arizona University asked the board to approve a one-year extension of the multiple-year employment contract for Jack Murphy as Head Men's Basketball Coach at Northern Arizona University.

Upon motion by Regent Patterson, second by Regent Gorshe, the board approved the one-year extension of the multiple-year employment contract for Jack Murphy as Head Men's Basketball Coach at Northern Arizona University.

Amendments to Presidents' Contracts (Item 38)

The board office asked the board to approve proposed amendments to the presidents' contracts.

Upon motion by Regent Patterson, second by Regent Shoopman, the board approved the proposed amendments to the presidents' contracts.

ADMINISTRATIVE

Regents' Awards for Outstanding Service to Higher Education (Item 39)

The board office asked the board to approve the recommendations of the Regents' Award Selection Committee to present the 2017 Regents' Awards to Rufus Glasper, Frank Besnette and Jerry Hirsch.

Upon motion by Regent Patterson, second by Regent Krishna, the board approved the recommendations of the Regents' Award Selection Committee to present the 2017 Regents' Awards to Rufus Glasper, Frank Besnette and Jerry Hirsch.

Non-Access Resolution for the Department of Defense National Industrial Security Program (UA) (Item 40)

The University of Arizona asked the board to approve the Non-Access Resolution.

Upon motion by Regent Patterson, second by Regent Gorshe, the board approved the University of Arizona's Non-Access Resolution.

INQUIRIES, REQUESTS, REPORTS, AND COMMENTS FROM REGENTS AND MEMBERS OF THE ENTERPRISE EXECUTIVE COUNCIL

Regent Patterson reminded everyone that the board will meet in the Environment and Natural Resources Building for the November 18, 2016 Faculty Breakfast, followed by the University of Arizona's presentation of its Operational and Financial Review.

RECESS

The meeting recessed at 4:30 p.m. and resumed on November 18, 2016 at 9:15 a.m.

UNIVERSITY OF ARIZONA'S FY 2016-2017 OPERATIONAL AND FINANCIAL REVIEW

University of Arizona's FY 2016-2017 Operational and Financial Review (UA) (Item 9)

The University of Arizona presented its FY 2016-2017 Operational and Financial Review to the board. President Hart described the session as a seminar of discussion, thought and interaction with the university's four senior executives.

UA's Senior Vice President for Business Affairs and CEO, Gregg Goldman presented the university's financial status and goals. Mr. Goldman presented information on financial viability and stressed the importance of driving the idea that 50% of in-state tuition needs to be funded by the state. Information was provided on cash balance differences, some of which are restricted except for emergency situations; cash flow for on-going expenses such as \$1.5 million a week in payroll; and risk mitigation, which encompasses guaranteed tuition, state lottery reduction, state appropriation, future commitments and TRIF. The current condition of UA's cash flow was up from 86 days cash on hand to 170 days. This excess liquidity was planned and set aside to assist with the transition of the new UA president. The university's debt portfolio was explained, with UA's total debt amounting to 71% academic and research use and 29% auxiliary. Funding sources include 35% tuition and general purpose funds, 29% auxiliary and 36% state appropriation and state lottery.

Mr. Goldman discussed the mission differentiation between the University of Arizona and its sister universities. The UA has various areas that make it unique including the land-grant mission being present in every Arizona county and the expenses that are incurred at each location, and the medical colleges in two different cities, which have personnel, laboratory and facility costs. Mr. Goldman defined the term Responsibility Centered Management (RCM) as a transparent way of budgeting where all revenue flows out of to the schools and colleges, providing for entrepreneurial freedoms. These are attributes that make the UA unique and the mechanism used for financial management works efficiently for the funding needs of the university.

Mr. Goldman responded to Regent Krishna's question regarding the average amount of money that should be in reserve by establishing the median of about 176 days at \$4M per

day. UA's mechanism of financing growth and building has stemmed from private donor commitments.

President Klein commented on the hard work and collaboration of former Regent Mariucci, President Hart and others whose time, discipline and rigorous execution of plans and programs like Never Settle have come to fruition. President Klein sought clarification on debt capacity and whether state universities have funds to meet the obligations of taking on additional debt. Debt is a financial tool for Arizona's state universities because of the investments being made in Arizona's future by the universities, and President Klein expressed gratitude for UA's ability to bring about a continuous positive outcome.

Mr. Goldman discussed the Phoenix Biomedical Campus crediting NAU, ASU, the City of Phoenix and many corporate contributors in partnership, and the impact all three universities have had in downtown Phoenix. The impact of UA's investment in the Biomedical footprint is nearly \$500M, and collaboration between the three state universities is working well. The current economic impact of UA-Phoenix on the community is over \$1 billion annually with future projections at \$3.1 billion annually in 10 years. Employment growth as a result of UA-Phoenix is over 8,000 jobs added to the community.

Mr. Goldman discussed deferred maintenance building renewal. Currently, deferred maintenance is at \$312,360,564 and is expected to rise to \$1,070,000,000 in the next ten years. Key concerns included the life cycle and periodic renewal costs of building systems; 77 of maintenance problems are behind the walls and hidden from view; structures built in 1915 and those in the 1950s and 1960s are becoming high-risk; system needs range from HVAC to plumbing, cooling and electrical; and statistics on indoor human health issues and decreased productivity related to buildings' decrepitating status. Mr. Goldman explained the negative impact that old and dilapidated campus buildings have on the student experience, research productivity, and faculty hiring and retention. The deferred maintenance issue will negatively affect future students, the city of Tucson and potentially put at risk the health and safety of our faculty, staff, students and community.

UA's Sr. Vice President for Student Affairs and Enrollment Management, Dr. Melissa Vito provided information and explanation of the purpose of leadership in her area and focused on two central motivations: cutting-edge work for students, and questioning what today's elementary-aged children will need in ten years. Dr. Vito presented information on goals of re-imagining engagement through a new national model, which is driving innovation in learning and teaching, and embedding corporate partners into the learning experience, with a deadline of three years.

Dr. Vito explained that engagement became a priority several years ago with the goal for every freshman student to have a significant engagement experience. There were already thousands of students doing research and involved in activities but not necessarily organized with specific learning outcome and commitments for every single student. UA is unique in that it is the only large university that notates on official transcripts that a student graduated with engagement experiences. UA offers both in-classroom and out-of-classroom experiences that meet academic criteria, are approved by faculty, and for which students must be able to demonstrate the skills they have acquired through the engagement experience.

Regent Careaga shared his experience of engagement, saying education should not be confined to only an institution itself but it occurs through learning the theory in the classroom and applying it in the real world.

Dr. Vito further explained that the university teaches the skills and places students in engagement environments outside the classroom. Regent Shoopman commented on the number one concern of the business leaders in southern Arizona was the ability to retain UA graduates. This program has been one of the most affective programs over the past 10 years where students work in the community and see that there are good jobs and opportunities in this region of southern Arizona.

Dr. Vito presented on enrollment and seamless access. She described various types of enrollment, specifically the integration of distance international and distance statewide. To efficiently employ resources, distance learning has been integrated and translated to provide education for students world-wide. Dr. Vito noted a decrease in freshman enrollment and retention due to lack of sufficient financial aid. Regent Myers commented on the conflict of goals where universities were charged with providing more at-risk students the opportunity to attend university, but less money was available because of other expenses and financial aid was compromised.

Regent Ridenour expressed concern regarding the projected high number of Hispanic students attending high school compared to those projected to attend college. Dr. Vito produced statistics that showed a 45% increase in Hispanic student attendance at UA from 2010-2016. Even with state aid, retention efforts were doubled for populations showing potential of at-risk students. Regent Penley commented on financial aid and the fact that each institution's needs are unique and a single model of financial aid is not effective.

The online program is ahead its goals. UA uses full-time faculty to teach online courses and is integrated with face-to-face classes. UA is developing the UA Online Science Academy to help science students complete classes before they arrive on campus, and many local affiliates have signed up for online programs offering courses to employees. The universities collaborate on efforts to grow and develop online courses; however, each school has different models that create a unique source of online education for each university.

Provost Andrew Comrie presented information on shaping the academic future over the next 10-20 years. Key areas presented included creating a distinctive student experience, which involves re-envisioning the Honors college. A task force was created to brainstorm the most exciting Honors program experience for the 21st century. The task force delivered two reports with recommendations including creativity, group problem-solving and engagement. UA currently has Honors dorms, but plans are being developed to construct an integrated living and learning center.

Provost Comrie discussed the active learning classroom, which reverses the lecture in a classroom and promotes student problem solving. To implement this learning format, UA is incorporating voluntary faculty learning committees, in which groups of faculty meet to learn and practice more effective techniques in teaching, and Student Advocates for Improved Learning teaches students how to improve through peer mentoring.

Regent Careaga commented on his experience in collaborative learning spaces, and found it beneficial in collaborating with fellow students in course work.

Regent Myers expressed concern about the exposure of this program and the facilities and faculty needed to make it successful. The greatest challenge is the ability to teach and train faculty that lecture is not most effective teaching method. President Hart confirmed the commitment and the capacity is there, but funding will bring the plan to fruition more widely and quicker. Provost Comrie again reiterated that the most challenging item is not space but changing the methods of faculty from lecturer to collaborator and guide, which will take time and training.

Provost Comrie discussed how management is facilitated through the RCM model, a fundamental restructuring of budgets in the university. An element of RCM is performance based funding where a program's budget depends on its activity. Revenue and costs are illustrated on budget reports for departments to monitor and focus on revenue and performance while containing costs and incentivize entrepreneurship.

Regent Penley asked for details of a program where laboratory space was reallocated or funding was withdrawn. Provost Comrie explained that virtually every program experiences reduction or growth and space has either been given or taken away. When the current formula indicates a reduction in budget that year, the decision to reallocate space is made. As trends are revealed programs, are refocused and funds are diverted to new focuses and goals.

UA's Sr. Vice President for Research, Dr. Kimberly Espy discussed strategies, tactics, and opportunities in research and development with a focus on attracting new resources, growing economic opportunity to drive high tech jobs, and delivering impact to benefit the public. Strategies include foundational infrastructure, building visionary signature research, and partnering inside and outside the academy to bring a seamless flow of energy and ideas.

Regent Myers asked about the decline in UA's ranking for research institutions. President Hart and Dr. Espy described the lack of strategy and direction in previous years and listed some areas where change is necessary for funding resources and improvements in faculty numbers and quality. Regent Ridenour asked what new funding sources are being considered, naming several examples. Dr. Espy explained that the faculty funding assistance program is in place to search for new funding resources as well as provide tailored technical support to faculty. There has been a substantial increase in applications and 60% of all applicants receive the funding they have applied for. Dr. Espy commented on the upward trajectory of funding awards. President Hart explained the time-line on receiving the awards and expenditures which are on-going.

Regent Myers pointed out that UA is ranked 21st in the nation and slipping. While a positive spin has been put on progress, plans, and improvements, our state universities are falling behind the competition and we need to communicate this to the legislature.

Dr. Espy spoke on the strategies for opportunities for the Engineer Research Center and interdisciplinary centers. The systematic approach towards opportunities includes identifying faculty to lead the effort, using seed funding to develop the project, and submitting proposals in those areas.

President Klein commented that she and the university presidents are members of the Arizona Commerce Authority, which is using data to understand the mechanics of Arizona's economy. Additional work needs to be done with regional economic development groups to deepen relationships with chambers of commerce for today and the future. There is opportunity through Tech Transfer to help the business community better understand how universities work and streamline policies and contracting processes to accelerate opportunities and advertise what capabilities are available through the universities.

Regent Patterson discussed the issue of deferred maintenance as a result of unfunded state obligations. One option is to not approve any capital projects until the deferred maintenance issues have been resolved. Another option, using the RCM model, is to initiate an assessment for each program in health and deferred maintenance. Regent Patterson was explicit in requesting that health and safety issues in campus buildings be a priority, and further requested a list of issues and a plan of top priority maintenance items that need to be attended to immediately. President Hart and her staff will provide a plan, but also explained the cycle of needs of current projects that have been in planning and progress for years. Deferred maintenance is a problem with all three universities and the solution needs to be a team effort.

President Klein suggested this be an opportunity to improve the linkage between the strategic vision and the business plan of the university, which compliments the academic and research plans. The purpose of the OFR is for the regents to approve plans and proposals and the OFR becomes the predicator for all the transactions. Regent Penley gave additional insight to the position of a regent in that to better understand budgetary needs and university projects, a link must be made between all the aspects of the budget.

Regent Heiler commented that UA's marketing should be coupled with strategy and the securing of funds is integral to all strategy for the institution. The research enterprise may be less marketing sensitive, and more of a leading sub-brand. The UA needs to find its competitive strategy and integrate across key brands, such as athletics, research, and faculty as a whole.

Regent Penley stressed the importance of the OFR presentation is not only in hearing about success but in knowing the challenges and hearing what strategies are in place to address those challenges. He requested that ASU's OFR include the challenges and strategies. Regent Myers expressed gratitude for the effort of improvement over the past seven years. UA has executed and accomplished tremendous work while positioning itself for success.

Upon motion by Regent Patterson, second by Regent Krishna, the board accepted the University of Arizona's FY 2016-2017 Operational and Financial Review.

The meeting adjourned at 2:02 p.m.

Submitted by:

Katherine Linder
Secretary to the Board