



**Board of Trustees  
Finance Committee Meeting**

**Thursday, January 21, 2016  
4:00 pm - 6:00 pm (or until business concludes)  
DeBoer Room, Hannon Library**

**MINUTES**

**Call to Order and Preliminary Business**

Chair Nicholson called the meeting to order at 4:01 pm.

The following committee members were present: Paul Nicholson, Les AuCoin, Lyn Hennion, April Sevcik, Dennis Slattery and Steve Vincent. The following member was not present: Jeremy Nootenboom.

Other meeting guests included: Craig Morris, Vice President for Finance and Administration; Dr. Susan Walsh, Provost and Vice President for Academic and Student Affairs; Chris Stanek, Director of Institutional Research; Fred Creek, Director of Campus Public Safety; Ryan Brown, Head of Community and Media Relations; Brad Christ, Chief Information Officer; Drew Gilliland, Director of Facilities Management and Planning; Torii Uyehara, ASSOU; Brian Sorensen, ASSOU; John Stevenson, IT User Support Manager; Don Hill, Classroom and Media Services Manager; Shane Hunter, Research and Reporting Analyst; Steve Larvick, Director of Business Services; Janet Fratella, Vice President for Development; Julie Raefield, Chief of Staff; Sabrina Prud'homme, Board Secretary; Kathy Park, Executive Assistant; Treasa Sprague, Administrative Services Coordinator; Mary Ann Neely, SOU; David Coburn, OSA; Olena Black, League of Women Voters; and Victor Bautista, Avista Utilities.

Chair Nicholson welcomed Rusty Williams from British Petroleum and Bill Carlson from Carlson Small Power Consultants, who attended to provide support for the Biomass/Cogeneration topic. Trustee Vincent recused himself from that discussion based on an actual conflict of interest and did not participate in the discussion.

A correction was previously noted on the November 19, 2015 minutes as distributed: on the second page, fourth paragraph, second line, after "reporting-out based," the word "on" was added. Trustee Slattery moved to approve the minutes, as amended. Trustee Sevcik seconded the motion; it passed unanimously.

**Public Comment**

There was no public comment.

**Vice President's Report**

Craig Morris informed the committee that the external auditor would be presenting the full audited financial statement at the next day's Executive and Audit Committee meeting

and an abridged version at the full board meeting.

Mr. Morris said the financial dashboard will be provided to the committee members each month before their meeting, noting there would not be a presentation but he will answer questions.

### **Science Building Update**

Drew Gilliland provided an update on the SOU Science Building. The building opened in the fall after a year of being completely gutted and remodeled. Due to noise issues with neighbors, SOU extended the hoods, added material inside the stacks, installed covers on motors, insulated in and outside, and put a wind band extension on the original sound dampener. A sound consultant will determine if the noise level now meets the city's 45-decibel standard and neighbors may attend that meeting.

Inside, it is still quite noisy in the classrooms. The sound consultant will take classroom readings so SOU can develop solutions to the interior noise issues. The university is experimenting with adding insulation in the ducts. Mr. Gilliland added that students love the building.

Responding to Trustee AuCoin's question about contractor liability, Mr. Gilliland said SOU is holding \$600,000 in contractor contingency and \$40,000 in architect contingency. Responding to Trustee Vincent's question about whether there were claims or threats of claims from neighbors, Mr. Morris said there were not. Mr. Morris added that science buildings are among the most difficult to design as well as construct within budget and still achieve the desired product. SOU's was probably three times more difficult than normal for a variety of reasons. He commended Mr. Gilliland and staff on their efforts to resolve problems as well as the faculty and staff for their dedication and patience. It is a great building and when the problems are resolved, it will be a huge improvement over what SOU had before. Chair Nicholson requested a future tour of the building for the committee.

### **HECC Update**

Mr. Morris updated the committee on SOU's report to the HECC. In December, he, President Saigo, Dr. Walsh and other staff presented an update on SOU's conditions report, which was well-received. Last week, Dr. Walsh and Dr. Karen Stone met with the HECC to review its draft response to SOU's report. Dr. Walsh said the HECC's report came with "warm fuzzies" and a few "cold pricklies." She added that SOU is in good stead with the HECC and knows its marching orders. The HECC asked for another in-person, comprehensive update in the fall of 2016, which is not part of the legislative charge. She offered to include a written update with the annual evaluation in the fall of 2016 and the HECC agreed. The HECC sees the good work that has been done at SOU and has been complimentary of President Saigo and the campus.

Trustee Vincent asked for clarification on the HECC's authority and whether there would be any consequences if the HECC found SOU's report not satisfactory. He thought the HECC was overreaching and that the legislative intent was to give the universities autonomy. He wondered if the issue should be elevated to the Governor's office. Mr. Morris said those concerns are echoed by the other six campuses and have been addressed at numerous high-level meetings. President Saigo and Trustee Slattery cautioned that

SOU does not want to offend the HECC because it advises the legislature and the Governor, makes recommendations and holds purse strings.

### **JPR Foundation Board Meeting Information**

In December, Mr. Morris attended the JPR Foundation Board meeting to discuss their proposed addition to SOU's theater project and to request a resolution from JPR to pay debt service on any bonds SOU borrows to help fund the theater project. The resolution passed and JPR will pay the debt service up to \$1.5 million.

Since SOU would be approving debt service, Trustee Vincent inquired into JPR's revenue stream for repayment. Mr. Morris said JPR's revenue stream is its ongoing fundraising and memberships. SOU partnered with JPR on the purchase of the Redding Theater and JPR never missed a payment. It is a very solvent foundation and SOU does not have much risk.

The project's budget is \$2.5 - 3 million. SOU is asking for \$1.5 million in bonds but JPR plans to borrow only \$1 million. SOU will fund down to whatever level is needed, as JPR already has raised \$1.3 million. There is great cooperation between JPR and SOU.

In response to Trustee Sevcik's question about the number of students who participate in JPR programs, Dr. Walsh added information on JPR's educational mission. SOU has about 20 internships with JPR and JPR offers a scholarship for a year-long internship. There are other quarter-by-quarter, term-by-term and long-term investments in SOU students. Several students have pursued careers in public radio, including NPR and stations in larger markets. JPR employees do not have faculty status but do participate in instructional activities. Other great aspects of the SOU-JPR relationship are the ability to bring live music on campus and have shared performances with students.

### **McNeal Project Update**

Mr. Morris provided an update on the McNeal project, saying it is a \$3 million challenge to be on budget. The plan is to ask the legislature for \$2 million in state-paid debt service—Q bonds—and fundraise the balance of \$1 million. Liz Shelby has done a lot of ground work with the legislature. Janet Fratella and Matt Sayre developed a fundraising plan, which will launch soon. The project is underway; demolition has started and asbestos has been abated. The whole building will be knocked down by the end of February. Bidding for the project should start in about a month.

### **Bond Funding for McNeal Pavilion (\$2 million XI-Q bonds) and Theater-JPR Building (\$1.5 million XI-F(1) bonds)**

Chair Nicholson advised the committee members that they need to make a recommendation to the board about authorizing Mr. Morris to move forward on funding for the McNeal Pavilion and the theater-JPR building projects.

Trustee Sevcik moved that the Finance Committee recommend to the Board of Trustees that the board authorize the Vice President for Finance and Administration, in consultation with the university president and the Chair of the Finance Committee, to pursue bond funding in the 2016 legislative session to fund the following capital projects: McNeal Pavilion project: \$2 million in the form of XI-Q bonds; and theater-JPR building project: \$1.5 million in the form of XI-F(1) bonds. This motion would not signify the

board's or committee's request or authorization to sell or issue the bonds. She further moved that, upon approval by the legislature of such bonds, the Vice President for Finance and Administration shall submit to the board such additional resolutions and other considerations necessary for issuance of such legislatively authorized bonds.

Trustee AuCoin seconded the motion and it passed unanimously. Trustee Hennion abstained, citing a potential conflict of interest.

Responding to Trustee Sevcik's question regarding the theater-JPR building costs, Mr. Morris commented that JPR will fundraise until it feels all potential donors have been exhausted. The high end of the objective is to raise \$1.5 million. Depending on final costs, they will use either the full \$1.5 million in bonds or will draw down the actual amount needed to balance the budget. He does not anticipate changes as we are not having the construction cost problems we did with McNeal.

Trustee Sevcik pointed out that fundraising has been done before on the Foundation side, without success, and they had to borrow money. She asked what will make it different this time. Chair Nicholson said Janet Fratella and Matt Sayre could give a fundraising presentation at the next committee meeting. For the McNeal project, Mr. Morris added that the board has already authorized him to get financing for the full \$3 million, which he has not done yet, if the bond funding or fundraising fail.

### **Biomass/Cogeneration Capital Request - Information**

On May 1, the seven institutions must supply the HECC with the capital project lists they want the legislature to consider in the 2017 session. That leaves January, February and March for conversations regarding what capital projects SOU will put forward, with a decision being made in April on a recommendation. One of SOU's potential projects is the replacement of boilers, whether by replacing with natural gas boilers, installing biomass boilers with natural gas backup or installing biomass boilers with a cogeneration option.

Sitelines has been hired to complete a comprehensive deferred maintenance analysis for SOU. Sitelines will present its analysis to the Finance Committee in February.

Mr. Gilliland discussed the three options then two consultants presented information. SOU has four boilers; two have been replaced and two are overdue. Evergreen Engineering assessed SOU's numbers and needs and provided an updated estimate for the three options. The estimate to replace the two boilers with natural gas boilers with heating oil as a backup is \$1.5 million. The second option is using biomass boilers with natural gas backup, at an estimated cost of \$5.5 million. The third option is to install biomass boilers that would have a cogeneration option to offset SOU's electricity use, at an estimated cost of \$6.8 million.

Mr. Morris stressed the need for new boilers. The current ones have been nursed along for several years and any further delay would be a mistake. If the legislature approved SOU's request, it would still be three years before the boilers were replaced. Mr. Morris then explained why the third option includes an option for possible cogeneration later rather than a full biomass boiler with cogeneration. The market has changed in terms of SOU's cost to generate electricity and, at the moment, it is not feasible economically to generate the electricity, as it is cheaper to buy it.

Trustee Slattery wondered about the strategy for asking the legislature for \$1.5 million versus \$6.8 million. Mr. Morris clarified that SOU would submit only one option to the legislature, not all three options. Many in the state are very supportive of cogeneration and biomass. It would help SOU in eliminating its carbon footprint and he thinks it would resonate well with some people in the state. Although \$1.5 million would be easier to get than \$6.8 million, Mr. Morris believed the committee should discuss the options and go forward with the one they think is the right choice.

Bill Carlson, from Carlson Small Power Consultants, provided support for the biomass option. When he was given the assignment to look at biomass for the campus, the main driver was to lower the carbon footprint to achieve carbon neutral status by 2050. If SOU generated both heat and electricity for the campus, it could offset about 70 percent of the total carbon footprint of the campus. However, due to a recent decline in the price of natural gas and electricity, having cogeneration is not as favorable. So they looked at it as a biomass boiler to heat and cool the campus. The boiler could power the campus when the economics of the market dictate it would make sense to do so. But, initially, the boiler would only operate at about one-third of its capacity, except in winter when it would be at its full capacity. Biomass is a renewable fuel source, which takes away the volatility of depending on the cost of natural gas. SOU would use residues from local logging operations, chipping and hauling it instead of slashing and burning. Biomass is more labor intensive and would require adding three people to Mr. Gilliland's staff. One to two trucks would bring biomass matter to SOU each weekday at the outset; at full capacity, there would be five trucks each weekday. It is great for students to see the closed cycle, where the use of renewable fuel changes practices in the woods. Mr. Carlson stressed that biomass projects are successful and accepted by communities very similar to Ashland. It takes an educational program and takes people looking at the environment from a holistic standpoint. He believed it to be a superior way to go long-term rather than relying on fossil fuel from a distant location.

Rusty Williams, from British Petroleum, then provided information supporting the natural gas option. The company has been providing natural gas to SOU for about 18 years. Natural gas has been volatile in the past but the dynamics are changing now. There is a 14-year low on the price of natural gas, wells are not drilled as much and supply is abundant. For various reasons, some companies who used only wood for their boilers are switching to natural gas. The growing demand for natural gas is the flip-side of low prices and the decrease in coal production. He has a few customers that use biomass and they are struggling to find enough to continue to produce the power they are currently producing; they are having to use natural gas to level out production.

Trustees AuCoin, Slattery and Sevcik strongly expressed serious concerns about the biomass option. They pointed to lack of community support, sustainability of biomass availability, collection and delivery of the biomass matter, true costs of biomass, whether biomass reduces carbon footprints and the political culture of Ashland.

From what he heard, Mr. Morris thought there was no further need for a study session on this matter and that they could adjust the timeline at the Chair's discretion. He recommended making a decision at the April Finance Committee meeting. Since coal is the backup to the natural gas boiler, Trustee Sevcik asked if it was possible to have a very

small biomass generator be the backup instead. Chair Nicholson thought that option was worth exploring. [Administrative Note: In the February 18, 2016 meeting, Trustee Vincent clarified for the record that the backup fuel source for the natural gas boiler is oil.]

### **Enrollment Update**

Mr. Stanek provided the updated winter enrollment at two weeks into the term, noting that fall end of term data has been certified.

Highlighting the significance of student credit hours (SCH), Mr. Stanek said 95 percent of SCH is undergraduate while graduate SCH is holding steady. He then pointed out the biggest losses and gains. The art program is down 848 SCH from last year, as SOU no longer has an art history program; the decrease is a direct correlation to the SCH of the former program. Biology had a large gain over last winter, with 558 more SCH, as it does a lot of service to the general education program.

From a division perspective, STEM was the biggest gainer with 1000 SCH more than last year. Undergraduate Studies had a gain of 530 SCH. Both of those gains resulted from this year's large freshman class. Additionally, enrollment is generally higher this winter than last.

There was a nearly three percent increase in full time equivalency (FTE). By the time winter ends, Mr. Stanek thought SOU would be closer to a 2 percent increase. The figures do not yet reflect the dual enrollment of the advanced southern credit program that SOU sees in both fall and winter, but will by the end of the term. It usually brings in an additional 320 FTE and 900-1000 headcount. Adding that FTE figure to the current FTE would bring the total FTE to 4,172, which is already higher than where SOU ended last year.

Mr. Stanek addressed other items of note. Compared to last winter, there are 140 more non-residents and 50 fewer resident students. SOU is making an effort to recruit more resident students to shift that enrollment mix because of the funding model. There was a 10.4 percent increase in students of color for both race and ethnicity, but this does not include international students.

### **Budget Information – Enrollment and Tuition Projection Process**

Mark Denney began his presentation by pointing out the difference between his process and Lisa Garcia-Hanson's process for recruitment and retention, as he uses hard numbers for his projections and she has targets for her programs to meet. In January and February, he will gather information, seek guidance and work with the Tuition Advisory Council to develop tuition and fee projections as well as recommendations, which he will present to President Saigo, campus and the committee in March. The final enrollment projection and tuition recommendation combine to make SOU's revenue dollars.

Mr. Denney addressed the figures in his slide presentation. He used .2 percent enrollment growth for his projections, saying he was conservative for the spring and summer projections to avoid risk. In recent years, SOU's tuition rate in all categories has increased every year. He discussed the student populations in each tuition category,

detailing which experienced growth, declined or remained flat over the past four academic years.

Mr. Morris said the committee seemed to want more information when it considered a tuition increase last year. There will be a lot of work on campus in the next two months so Mr. Denney can come back to the committee with a recommendation. So the committee will feel connected with conversations and feel comfortable making a decision on the tuition rate, Mr. Morris asked the committee how it wanted to be kept in the loop on campus conversations over the next two months. The consensus was to include the issue as a major agenda item for the February meeting and Mr. Denney can summarize the data the Tuition Advisory Council is reviewing. At that meeting, the committee can advise if there is more information it would like to have before making a decision in March on what to recommend to the full board.

Although the board's decision on tuition and fee rates in April will be acceptable, Mr. Morris stressed that the student affairs and housing offices need to have a good idea in March what those rates are going to be. The committee does not have to make a final decision in March but needs to have a sense of where it is going.

Trustee Sevcik said she was thinking of a tuition increase of about 3 percent and anything higher would require a lot of supporting data. Chair Nicholson said he would like to see what other universities are doing, both in Oregon and in other states. He would also like to see how enrollment compares when tuition increases and decreases.

Mr. Denney discussed the tuition band of all seven universities. Portland State and the four regionals are close together and University of Oregon and Oregon State are outliers. SOU is well within the lower portion of that band. It would be beneficial to stay within the band because it will not price students out of attending SOU. However, it does leave some money on the table that SOU could be receiving.

Mr. Denney discussed OIT and its price elasticity. For undergraduate and graduate students, OIT offers residents and nonresidents the same tuition rate. Comparing OIT's enrollment trends with SOU's for those categories, Mr. Denney noted OIT's resident population has decreased while SOU's has increased. Although it is hard to draw conclusions from one element, he thought he could say it is not that elastic and giving a significant discount on tuition did not result in enrollment growth. Based on studies in general, Mr. Stanek concurred.

President Saigo recommended a conservative fiscal approach, even though SOU may miss some opportunities. He expressed concern over a catastrophic event he cannot control that would decrease enrollment. SOU has to increase 50-100 FTE to pay for the cost of running the institution every year. He would like to see the current reserve of 10 percent in the bank. Mr. Morris echoed President Saigo's comments and said that is why finance and administration use conservative numbers and want to keep tuition as low as possible.

### **Student Incidental Fee Process – Overview**

Torii Uyehara, ASSOU President, and Brian Sorensen, ASSOU Director of Finance and Administration, provided an overview on the student incidental fee process. Student fees provide funding to student organizations on campus, foster a marketplace of ideas,

increase recruitment and retention of underrepresented students and consolidate student resources to create student power.

Mr. Sorensen discussed the legal foundations. The landmark case on this issue is Board of Regents of the University of Wisconsin System v. Southworth, where the U.S. Supreme Court unanimously held that students can be required to pay a student activity fee to facilitate the free and open exchange of ideas as long as the program is viewpoint neutral. Oregon State Attorney General Opinion #8289 concluded student fees are not government funds and can be used to influence political campaigns or ballot measures. Viewpoint neutral funding means funding decisions may not be based on a group's point of view, no matter how unorthodox or distasteful the view may be.

Power is the ability to change one's environment and this can be expressed monetarily or through collective action. Fees are the most powerful mechanism in maintaining student power and this responsibility is not to be taken lightly. ASSOU and the students it represents have significant control over the student fee process through the Student Fee Committee and subcommittees. Student autonomy is maintained through a well-established fee policy and a means by which student fees stay student-controlled. Students on the Student Fee Committee pass on their institutional knowledge, advocate for the student body and maintain viewpoint neutrality.

Students are governed by the ASSOU constitution and bylaws and various other legal restrictions, such as non-discrimination, conflicts of interest, public meeting laws and pre-existing contractual obligations.

The flow chart in their presentation summarizes the student fee process before it comes to the board's Finance Committee. At each step, the approving body may reject the proposed budget and send it back to the recommending or requesting body. Mr. Morris corrected the step in the flow chart where the Board of Trustees is included; the Chair of the Finance Committee should be included rather than the Board Chair.

Mr. Sorensen described the winter timeline and Student Fee Committee duties for the 2015-2016 student fee approval process, as detailed on his slides. Responding to Chair Nicholson's question, Mr. Sorensen said there are about 40 students involved in the process. Mr. Denney added that all the ASSOU committees are comprised of students. There is one staff member who serves as an advisor and Mr. Denney serves as a support staff member. Ms. Uyehara added that she has a 10-member cabinet and they are appointed by her and the vice-president. The justice representative ensures ASSOU follows required procedures and adheres to bylaws and public meeting laws. Dr. Walsh praised ASSOU as the picture of good governance. Mr. Denney added they are a very dedicated group and are responsible for handling approximately \$3.6 million.

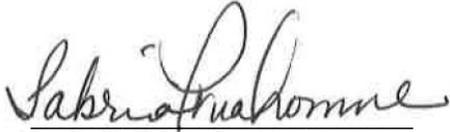
The presenters added that the SOU president and Board of Trustees may reject the budget only if the fee increased by more than five percent, if it is illegal or breaks preexisting contracts, or if they believe the fee request is not advantageous to the cultural or physical development of the students. Ms. Uyehara concluded by saying that student fees are the most powerful tool students have in shaping their campus. The process is transparent and requires significant student input.

**Adjournment**

Chair Nicholson adjourned the meeting at 6:02 pm.

Date: February 18, 2016

Respectfully submitted by,

A handwritten signature in cursive script that reads "Sabrina Prud'homme". The signature is written in black ink and is positioned above a horizontal line.

Sabrina Prud'homme  
University Board Secretary