



**Board of Trustees
Finance and Administration Committee Meeting**

**Thursday, June 15, 2017
4:00 p.m. – 6:00 p.m. (or until business concludes)
DeBoer Room, Hannon Library**

MINUTES

Call to Order and Preliminary Business

Chair Nicholson called the meeting to order at 4:04 p.m. He congratulated students, Trustee Nootenboom in particular, on the upcoming graduation. Craig Morris praised Trustee Nootenboom's leadership in establishing a solar panel project at SOU.

The following committee members were present: Paul Nicholson, Lyn Hennion, Jeremy Nootenboom and Dennis Slattery. Trustee April Sevcik participated via teleconference. Trustees Les AuCoin and Sheila Clough were absent. Trustees Bill Thorndike and President Linda Schott (ex officio) also attended the meeting.

Other meeting guests included: Craig Morris, Vice President for Finance and Administration; Dr. Susan Walsh, Provost and Vice President for Academic Affairs; Jason Catz, General Counsel; Joe Lynch, Academic Partnerships Executive Vice President; Janet Fratella, Vice President for Development; Mark Denney, Associate Vice President for Budget and Planning; Greg Jones, Director of Business, Communication and the Environment; Treasa Sprague, Administrative Services Coordinator; Roxane Beigel-Coryell, Sustainability and Recycling Coordinator; Olena Black, League of Women Voters; Ryan Schnobrich, Internal Auditor; Shane Hunter, Senior Financial Management Analyst; Steve Larvick, Director of Business Services; John Stevenson, User Support Manager; Don Hill, Classroom and Media Services Manager; Sabrina Prud'homme, Board Secretary; and Kathy Park, Executive Assistant.

Reviewing the agenda, Chair Nicholson announced he would take items out of order to allow the president to be present for the action items and attend a campus graduation.

Trustee Slattery moved to approve the minutes from the May 18, 2017 meeting as presented. Trustee Nootenboom seconded the motion and it passed unanimously.

Public Comment

There was no public comment.

Recommendation for Approval of Contract with Academic Partnerships (Action)

Providing background information on this item, President Schott discussed the potential relationship with Academic Partnerships regarding online programs. At this

time, SOU is looking at pursuing one fully-online program with Academic Partnerships, the Masters of Business Administration, which would be marketed to a different group of students. Dr. Susan Walsh said faculty, the registrar, admissions and financial aid personnel have been involved in discussions with Academic Partnerships representatives. SOU personnel also have contacted partner references at other universities. Chair Nicholson said the matter is before the committee because the amount of the contract exceeds the \$500,000 threshold, requiring board approval.

Joe Lynch provided some information about the company, its services, business model and track record. The company is about 11 years old and is dedicated to helping provide the infrastructure at public universities for online programs. Regarding academic services, Academic Partnerships helps faculty convert courses to an online format. The persistence and graduation rates in the online program will meet or exceed the rates of those on campus. Regarding marketing, Academic Partnerships invests very heavily in ensuring that a student looking for SOU's program will find it because of the investment the company makes on behalf of the university. Everything that goes to market has the SOU brand and is blessed by SOU. After marketing, Academic Partnerships then provides enrollment, recruitment and retention services and partner support.

Turning to the financial aspects of the relationship, Mr. Lynch said the company enters into a 50-50 revenue share with all of its partners and SOU's investment is how it pays its faculty. After about two years, a majority of the universities have a couple of hundred students in each program. It takes about 6 months from the time a contract is executed until the day of the first enrollment. During that period, Academic Partnerships is marketing, helping convert courses and providing partner support.

Responding to Jason Catz's inquiry, Mr. Lynch explained why Academic Partnerships chose SOU and its MBA program. First, the market shift and growth in online MBA programs. Second, SOU already has four of the top five specialized MBA programs. Third is the lack of similar, competitive programs across the state and the unmet need for prospective students.

Responding to Trustee Slattery's inquiry, Mr. Lynch said Academic Partnerships does not provide exclusivity to any partners. However, it does not make a lot of sense to go after other programs in close proximity to SOU because the company would double its expenses but split the market. Mr. Lynch added that Academic Partnerships is not in discussion with any other Oregon universities.

Responding to Trustee Hennion's inquiry regarding the local market for an online program, Mr. Lynch said students look for programs in their home states. It also comes down to where Academic Partnerships will market SOU's programs, which will be heavily in the western part of the country. Trustee Slattery, speaking as a business professor, added that he loved the concept. Further responding to Trustee Hennion, Mr. Lynch said the program is not self-paced, and although it is asynchronous, there are modules with daily and weekly requirements.

Mr. Catz reviewed the material terms of the contract. This is an exempt procurement for educational services. The term of the contract is ten years for each program and, unless notice of termination is provided, there are automatic five-year renewals. If additional programs are added later, the terms for those programs are also ten years. The revenue split is 50-50.

Mark Denney added that about ten students per cohort are needed to meet the threshold to make this a financially positive program for SOU. There is a financial risk to SOU if the minimum threshold is not met but Academic Partnerships has a greater risk. SOU's up-front costs include the \$3,000 stipend paid to faculty who convert their courses. Chair Nicholson and Craig Morris clarified that SOU's up-front costs under the contract are about \$50,000 but the shared revenue paid to Academic Partnerships could exceed \$500,000 over the ten-year term of the contract.

Mr. Catz reviewed the remaining terms of the contract, including Academic Partnerships' right of first offer for new online programs and the prospect of executing a related agreement with Instructional Connections for academic coaches.

Trustee Hennion moved that the Finance and Administration Committee recommend that the Board of Trustees approve the president's request to enter into a contractual agreement with Academic Partnerships for online delivery of SOU programs, including the following material terms: 1) That the term of the contract be ten years from the date of the launch of any program implemented under the agreement; 2) That, following any program's initial ten-year term, the university may agree to renew the contract for an additional term of five years; 3) That any five-year term of renewal shall also be renewable for additional five-year terms until such time that either party elects not to renew the agreement; and 4) That SOU and Academic Partnerships shall each receive 50 percent of the revenue generated by any online programs subject to the agreement. With that recommendation in mind, the committee further recommends that the Board of Trustees approve the execution of any further agreements necessary to implement the online programs, subject to the board's authority requiring approval of agreements where the anticipated cost or value to the university exceeds \$500,000.

Trustee Nootenboom seconded the motion and it passed unanimously.

Fiscal Year 2017-18 Budget (Action)

Mark Denney said there were no significant changes from the draft budget previously presented to the committee. He reminded trustees that forming the budget was a nine-month process, during which the committee and the board provided guidance; there was significant engagement across campus (fourteen presentations plus videos); various decisions were made that built the assumptions which then built the budget; and the retrenchment requires a 10 percent ending fund balance.

Mr. Denney then addressed the budget assumptions. This year's ending fund balance is 11.8 percent, which becomes next year's beginning fund balance. Revenue is based on the tuition rate, enrollment projections and state funding at the level of the

governor's recommended budget (GRB). Labor includes approved positions to be funded for a full year, with a 2.7 percent vacancy factor included. Supplies and services were kept flat. Capital is limited to the library, which is consistent with the retrenchment plan. Transfers out are primarily from budgeted operations to designated operations or auxiliaries; transfers in to budgeted operations are from the administrative surcharge to auxiliary operations for centralized administrative services.

Regarding revenue assumptions, Mr. Morris commented that they are conservative and assuming an enrollment decline around 2.5 percent. Mr. Denney said the draft budget at the GRB funding level is what is before the committee for approval. The university still does not know how the legislators will fund the public university support fund, but the board committed to decreasing the tuition rate if the allocation increases. In the differing funding and tuition rate scenarios, the fund balance stays above 10 percent.

Mr. Denney said the budgets to be adopted are budgeted operations, designated operations, and auxiliary operations. He then reviewed each budget included in the meeting materials. The spending authority that adoption of the proposed budget would grant is \$82,229,067. Mr. Morris clarified that the spending authority on the budget is not what is being passed because SOU may spend more than that amount as long as it can match the budgeted bottom line.

Addressing budgeted operations, Mr. Denney pointed out the nearly \$13 million figure for Academic and Student Affairs, which represents the tuition revenue the academic divisions generate. Addressing designated operations, Mr. Denney said JPR has a projected deficit budget but it transfers in money as necessary to cover its costs and should not be operating at a deficit. RVTV is also at a deficit but it has a sufficient fund balance to cover some expenses. Addressing auxiliary operations, Mr. Denney said the Schneider Children's Center presents budget challenges. Mr. Morris clarified that the students' management of the student incidental fees is sound; the Schneider Children's Center is driving the deficit in the Student Life portion of the auxiliary operations budget. Mr. Denney said athletics continues to be a challenge but is improving. The health center is intentionally operating at a deficit because health center personnel wanted to limit the increase in the health center fee. Parking is running at a slight surplus to build a fund balance for parking lot repairs and other expenses. The big piece of the "Other" category is the student recreation center.

Trustee Nootenboom moved that the Finance and Administration Committee recommend to the SOU Board of Trustees adoption of the fiscal year 2017-18 budget, inclusive of budgeted operations, auxiliaries and designated operations, as presented. The proposed budget is in the sum of \$82,229,067, which includes budgeted operations in the sum of \$61,318,743, auxiliary operations in the sum of \$16,718,790 and designated operations in the sum of \$4,191,536.

Trustee Sevcik seconded the motion. Trustees Nicholson, Hennion and Nootenboom voted aye. Trustee Sevcik voted nay. Trustee Slattery was not present for the vote. The motion passed.

Chair Nicholson thanked all those across campus involved in the budget preparation.

Vice President's Report

Reviewing the financial dashboard, Mr. Morris said all the targets are pretty much in the same place as last month. They are still forecasting an 11.8 percent ending fund balance, possibly better. Approximately \$740,000 was added to the allowance for doubtful accounts, there was \$610,000 in net write offs and the allowance stands at \$3.8 million.

Mr. Morris said students have asked him to sign a five-year contract for exactly \$500,000. Although it does not require board approval since it is not over that amount, for transparency, he brought it to the committee. As part of the student incidental fee, students collect a green tag fee and invest the proceeds in sustainable projects. The contract to purchase water restoration certificates increased from \$350,000 to \$500,000, which completely offsets SOU's water usage. Roxane Beigel-Coryell added that the students switched to water restoration certificates five years ago, partly because they wanted to invest their money more regionally. SOU is the first university in the world to balance 100 percent of its water footprint through water offsets, for which it has received many accolades. The students chose this project over several other options. The contract includes an annual trip to the project for 20 students.

Future Meetings

Chair Nicholson said the next committee meeting will be in October but he will not be able to attend. The Schneider Children's Center was requested as a future agenda item. He encouraged committee members to let him or the board secretary know of any other topics they would like included.

Adjourn

Chair Nicholson adjourned the meeting at 5:46 p.m.

Date: October 19, 2017

Respectfully submitted by,



Sabrina Prud'homme
University Board Secretary