Board of Trustees
Finance and Administration Committee Meeting

Thursday, October 19, 2017
4:00 p.m. – 6:00 p.m. (or until business concludes)
DeBoer Room, Hannon Library

MINUTES

Call to Order/Roll/Declaration of a Quorum

In Chair Paul Nicholson's absence, Trustee Slattery called the meeting to order at 4:02 p.m. and welcomed everyone to the committee's first meeting of the academic year.

The following committee members were present: Dennis Slattery, Sheila Clough, Lyn Hennion and April Sevcik. Trustee Les AuCoin was absent due to an illness. Trustee Paul Nicholson was also absent. Trustees Bill Thorndike and Linda Schott (ex officio) also attended the meeting.

Other meeting guests included: Craig Morris, Vice President for Finance and Administration; Jason Catz, General Counsel; Dr. Susan Walsh, Provost and Vice President for Academic and Student Affairs; Mark Denney, Associate Vice President for Budget and Planning; Devon Backstrom, ASSOU; Kendall Meador, ASSOU; Joe Mosley, Director of Community and Media Relations; Treasa Sprague, Administrative Services Coordinator; Kemble Yates, APSOU; 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.

Consent Agenda

Trustee Hennion moved to approve the minutes from the June 15, 2017 and July 19, 2017 meetings, as presented. Trustee Sevcik seconded the motion, which passed unanimously among members who voted. Trustee Clough abstained due to absence from the June meeting.

Public Comment

There was no public comment.

Vice President's Report

Craig Morris reviewed the financial dashboard, noting that operating cash is above the target but down slightly from last year. The ending fund balance also is a little better than last year and at target. All the burn rates and revenues are running better than last year. Student FTE is up over last year by 2.5 percent and student credit hours are up 2.7 percent.

The primary reserves (the unrestricted net position over operating and interest expenses) is at 10.46 percent; the retrenchment goal was 10.51 percent. The national standard is 40 percent and includes the endowment. The current ratio is 1.8:1 and the standard, where SOU consistently has been, is 1:1; the difference is due to construction funds on the balance sheet. The debt burden ratio is 3.9 percent, compared to the standard of 7 percent.

Mr. Morris explained that the boiler replacement project will be presented as an emergency project in the upcoming short session, with support from Representative Pam Marsh. Responding to Trustee Clough, Mr. Morris said trustee assistance may be needed. President Schott added that the Legislative Affairs Council is assembling a list of prioritized projects and the Oregon Council of Presidents hopes to have a unified message around such projects.

Turning to multi-year capital planning, Mr. Morris said Sitelines came to campus about two years ago and provided a report to the committee on SOU's deferred maintenance backlog. SOU then developed a short list of projects to move forward over the next several biennia, including the boiler project and Central Hall. This winter, the new Vice President for Finance and Administration will again have that conversation to decide what projects SOU will put forward in the 2019 session.

Mr. Morris then discussed current service level (CSL), the formula the Department of Administrative Services uses each biennium to calculate how much additional funding state agencies require to meet their personnel and benefit cost needs. The CSL was at a 4.7 percent increase and the PUSF received a 10.8 percent increase ($72 million) over the last biennium. That $72 million runs through the funding model. Looking at the allocation of the PUSF among the seven public universities, Mr. Morris stressed that SOU received only a 2.4 percent increase, by far the lowest increase of all the institutions, and about half of the CSL. He has been voicing concerns that there is something wrong with the funding model and that all institutions should be guaranteed the CSL and any funding beyond that should be split in accordance with the funding model. Returning to Trustee Clough's earlier inquiry, Mr. Morris said this is the big item that could use trustee support. Responding to inquiries from Trustees Sevcik and Clough, Mr. Morris said the funding model treats SOU poorly. It funds institutions in two ways: a base funding level and then funding based on degrees awarded and on enrollment for resident students only. Discussion ensued on a variety of related topics.

Mr. Morris then mentioned the report SOU will deliver to the HECC in December. SOU will cover its evaluation report, conditions report, mission statement review and strategic planning. Dr. Walsh said the team will work together to provide President Schott the best possible presentation. At the HECC's January meeting, it will comment on SOU's conditions report and evaluation. Mr. Morris was confident SOU would meet the established metrics. In accordance with the amended legislation, the HECC would provide the governor and legislature its opinion on SOU's financial position and that recommendation would come to the board to determine what action to take, if any.

Information and Discussion Items

Update on the Vice President for Finance and Administration Search

Dr. Walsh said four candidates for the Vice President for Finance and Administration position came to campus. Surveys were administered after the visits and feedback was gathered. The search committee will check references then provide to the president the pros and cons of each candidate as well as summaries of feedback.

Year-End Financials and Periodic Management Report

For FY17, Mr. Morris said SOU budgeted to end with a fund balance of 13.7 percent. The last forecast provided to the committee in the spring was 11.7 percent. The actual ending fund balance was 12.9 percent; from that figure, an adjustment will be made. He then talked about the accounting for the fraud. CliftonLarsonAllen (CLA) said that, unless SOU has something in writing from the insurance company that it will cover the loss, SOU has to write it off. If SOU receives an insurance payment, it can be recorded as revenue. Since SOU does not have that written guarantee from the insurance carrier, SOU is writing off $1.3 million from the 12.9 percent. This will bring the fund balance down to 10.1 percent, which is.1 percent better than the goal set in the retrenchment plan, but administration is not comfortable with that level.

Mr. Morris said the surplus from the North Campus Village (NCV) goes into an agency account, which is off SOU's balance sheet. After a final audit of the NCV, SOU is allowed to move the surplus from the agency fund to SOU's books and apply it as desired. Responding to Trustee Hennion's inquiry, Mr. Morris said housing would like to receive the money but has enough in its reserves to accommodate this and would not have to raise room and board rates.

Steve Larvick then reviewed the periodic management report as detailed in the meeting materials. In the Education & General category, he highlighted the tuition revenue, revenue from the NCV land use, labor costs, savings in employment, recognition of the fraud loss as a fund deduction and the ending fund balance of 11.6 percent. For Auxiliary Enterprises, he highlighted the lower revenue from enrollment fees, housing occupancy, athletic events and food service sales; labor costs; savings from bond refinancing; the land lease expense for the NCV; and the negative ending fund balance of about $1 million. In the Designated Operations category, he highlighted the Sales & Services revenue and pass through money from the JPR Foundation; sale of the Cascade Theater; labor costs; and the ending fund balance of $1.5 million. The All Current Unrestricted Funds are at an 8.6 percent ending fund balance.

Mr. Morris said CLA is almost done with its audited financial statements and commended Mr. Larvick and his team on their efforts. The CLA report will be presented in the January meetings.

Review of Pro Forma

Mark Denney reviewed the pro forma, focusing primarily on what had been budgeted, what is currently projected, and variances between the two. The 2017-18 budget had a 10.1 ending fund balance. SOU set its budget based on the governor's recommended budget of $665 million but the PUSF received $737 million. At $737 million, SOU's increase was based on the funding model allocation and SOU received an additional 1 percent (about $900,000) over last year. That $900,000 offset the $800,000 reduction in tuition that SOU previously agreed to make. Mr. Denney said enrollment and labor are better than projected. Supplies & Services and Net Transfers are tracking close to the budgeted amount. In summary, Mr. Denney said there was a projected deficit budget of about $700,000 but a surplus budget of about $400,000 now is forecasted.

Mr. Denney described how the student success and completion model (SSCM) calculated funding for the institutions, saying SOU should receive additional money in future years based on its improvement in degrees awarded, if that improvement is a trend. Mr. Morris added that SOU's conscious work to improve degrees awarded is starting to pay off.

Mr. Morris noted the decreases in the fund balance over the next few years using current assumptions but reiterated that increased enrollment and state allocations would help. Mr. Denney said the current budget projections do not take into account the Academic Partnerships programs and then reviewed the pro forma with those programs included. Using a very conservative model and not including any state revenue, Mr. Denney said the Academic Partnerships programs quickly become profitable and impact the ending fund balance positively, limiting the projected decline to about 1 percent per year. Mr. Denney and Mr. Morris said this does not fix the problem but is a good step in the right direction.

Budget Calendar and Process

Mark Denney said that, with each element of the budget, he will update the pro forma to reflect projections and decisions made during the process, giving the committee situational awareness each time it is asked for guidance. The budget calendar is unchanged from last year except for having tuition and mandatory fees first reviewed by the committee and approved by the board in March, rather than April. Mr. Denney mentioned the change in the student fee process from three committees to a one-committee model.

Committee Meeting Schedule and Future Meetings

Trustee Slattery reviewed the future meeting schedule with the committee. Trustee Slattery thought the meeting schedule worked well, as did Trustee Hennion. The full board will be asked to adopt the meeting schedule at its meeting the following day.

In closing, Trustee Slattery said this was Mr. Morris' last Finance and Administration Committee meeting before he retires. Trustee Slattery then provided some highlights from Mr. Morris' career at SOU and in the community. Trustees Slattery, Sevcik and Hennion, Dr. Walsh, Jason Catz and President Schott highly praised Mr. Morris for his leadership, honesty, judgment, hard work and courage. President Schott mentioned Mr. Morris' retirement party on December 7.

Adjournment

Trustee Slattery adjourned the meeting at 5:38 p.m.

Date: January 18, 2018

Respectfully submitted by,

Sabrina Prud'homme

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University Board Secretary