



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

**Thursday, October 20, 2016
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 4:03 p.m. The committee welcomed Trustee Danny Santos to the meeting. Chair Nicholson also introduced and welcomed SOU's new Director of Community and Media Relations, Joe Mosely. Chair Nicholson announced that, following the conclusion of the meeting, members of the board and the retreat facilitator would meet for dinner at Callahan's Mountain Lodge.

The following committee members were present: Paul Nicholson, Lyn Hennion, Jeremy Nootenboom, April Sevcik, Dennis Slattery and Steve Vincent. Les AuCoin was 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; Dr. Susan Walsh, Provost and Vice President for Academic and Student Affairs; Janet Fratella, Vice President for Development; Dr. Matt Stillman, University Registrar, Co-Executive Director of Student Enrollment; Partha Chatterjee, Senior Budget Analyst; Shane Hunter, Senior Financial Management Analyst; Joe Mosley, Director of Community and Media Relations; Steve Larvick, Director of Business Services; Treasa Sprague, Administrative Services Coordinator; John Stevenson, User Support Manager; and Sabrina Prud'homme, Board Secretary.

Trustee Vincent moved to approve the September 15, 2016 meeting minutes as drafted. Trustee Sevcik seconded the motion and it passed unanimously.

Public Comment

There was no public comment.

Vice President's Report

Reviewing the financial dashboard, Craig Morris described a change in the processing of federal financial aid loans that impacts operating cash in a way that has SOU below the target for this indicator; disbursements were in October instead of September. Other indicators on the dashboard were on target, with labor a bit ahead on education and general (E&G).

Regarding enrollment, Dr. Matt Stillman said it has picked up significantly, with the vast majority being Advanced Southern Credit (ASC). At the end of the third week, enrollment

was down 2.5 percent in FTE and 2 percent in SCH. SOU is ahead of the 4,282 FTE target and has eclipsed the 6,000 mark on headcount, both ahead of retrenchment metrics. Trustees will start to see preliminary numbers for the fall 2017 cycle. Responding to a question from Trustee Vincent, Dr. Stillman indicated the population from Klamath Community College enrollees is close to identical to last fall, as the university is still in the implementation phase of the staff rates program; he expects to see an uptick in the winter term.

Responding to Trustee Santos' questions regarding transfers, Dr. Stillman said transfers come from Rogue Community College primarily and Portland Community College second. He added that the enrollment numbers are essentially "in the books."

Responding to Board Chair Thorndike's inquiry about students who were unable to get free community college, Dr. Stillman said that everything is anecdotal right now but the HECC and provosts are looking at that. The expectation was that resident freshmen enrollment would increase sharply at community colleges but it is not playing out that way. Generally, the entire state seems relatively flat or down.

Mr. Morris updated the committee on four recent items. SOU invests its operating cash in the Public University Fund (PUF). Six of the seven universities bank their funds in the PUF and the Oregon State University (OSU) Board of Trustees is the fund administrator. That board sets policy on investment and is expected to vote on the issue of divesting fossil fuels from the PUF. Mr. Morris believed OSU presented the fossil fuel investment issue to that board's finance committee, which forwarded the matter to its board without recommendation. He added that SOU's board does not have a legal role to play as the OSU board has the fiduciary duty on this issue. Mr. Morris did not have any further information but said he would keep the committee informed.

Second, Mr. Morris mentioned that SOU held a campus budget forum the day before the meeting and would hold another on the following day. As is done with the board, the pro forma is used to discuss scenarios for the university's and the state's budget forecasts, including modeling the impact of the projected \$1.3 billion shortfall.

Third, Mr. Morris mentioned his attendance at the Association for Advancement of Sustainability in Higher Education (AASHE) conference. He added that SOU's students gave an excellent presentation to a national audience on sustainable wellness and he commended the students. At the same conference, SOU staff presented on last year's Arbor Day accomplishment of having 500 volunteers to replant the arboretum.

Lastly, Mr. Morris invited Dr. Walsh to provide a HECC update. Dr. Walsh said the HECC asked SOU and the other universities to complete the framework, which is their evaluation document. The "bigs" did this in the past and received no feedback, so she is unsure how or if the information will be used. The framework comes prepopulated with data and Chris Stanek coordinates SOU's response, reaching out to content owners as relevant, such as the board secretary. There will be some back-and-forth between the university and the HECC until the framework is due in December.

First Quarter Forecast

Chair Nicholson introduced the item, saying budget transfers have been confusing in the

past, partly due to nomenclature. He has asked staff to call transfers “subsidiaries” to describe more accurately how financial transfers between accounts actually function.

Steve Larvick discussed projected subsidies between the various fund types with a focus on athletics, explaining the support coming from other fund groups to athletics. He also discussed subsidies going to JPR and RVTV. Responding to a question on how support for those entities is determined, Mr. Morris indicated that, following a thorough process, RVTV’s support has been set at \$90,000 for several years and is for support to academic programs. Mark Denney added that the JPR support is for the executive and program directors’ salaries and benefits. Regarding the housing subsidy, he explained it goes to the general fund in support of the service center, building maintenance and repair reserves. Mr. Morris added that subsidies will be a regular part of the periodic management report.

Turning to the periodic management report, starting with E&G, Mr. Larvick explained that enrollment was projected to be flat. The budgeted 3 percent increase in tuition and fees is offset by the 2.2 percent decrease in enrollment; revenues are projected to be in-line with the prior year. “Other” E&G revenue typically is going to come in at roughly \$2 million annually. The prior year was higher due to land lease revenue from the North Campus Village that accumulated for a couple of years. SOU is now receiving these funds on a more consistent annualized basis. Overall, revenue is projected to come in slightly higher than the prior year, but under budget due to enrollment decreases. The E&G ending fund balance is projected to be about 13 percent.

Covering auxiliaries, Mr. Larvick explained that revenues primarily are up due to an increase in the student recreation center and incidental fees. However, lower enrollment resulted in decreases in housing occupancy by about 50 students, largely in Greensprings due to lower freshman enrollment, which negatively impacted revenues in housing, Supplies and Services (S&S), labor and “other.” The ending fund balance for auxiliaries remains negative at -4.6 percent as a result of the ongoing deficit with athletic programs and internal loan balances to address the BOLI obligation.

Regarding designated operations, revenue and expenses are in-line with budget, with some shifting of budgets between labor and S&S for subsidies coming in to support JPR and RVTV. Overall, SOU is expected to utilize about \$100,000 of the fund balance by the end of the year, still leaving roughly \$1.2 million.

The ending fund balance across the all-current unrestricted fund is averaging about 9 percent when compared to total revenues of about \$85 million.

Chair Nicholson asked if SOU has a mechanism to look at the E&G ending fund balance and take any corrective action. Mr. Morris indicated that SOU currently is focused on having conversations about the projected \$1.3 billion shortfall in the state budget and what the future looks like. Trustee Slattery commented that the auxiliaries’ deficit is fairly material and asked if SOU is able to figure out where that turns the other direction. Mr. Morris said there are balance sheet explanations and it is future trends are projectable.

Pro Forma Review

Mr. Morris introduced the topic by explaining that the public university support fund

(PUSF) is funded by the legislature at \$665 million. Last spring, the budget request to the HECC was for \$765 million, which is a break-even scenario for the seven public universities. The HECC put forth a \$943 million request. However, when the seven university presidents were informed of the \$1.3 billion projected shortfall, they agreed to model the impact of funding at a \$616 million level, which represents the amount of PUSF funding to the universities in the shortfall scenario. Trustee Slattery asked if the shortfall scenario is the universities' position if Measure 97 does not pass. Mr. Morris said that he believes it is. He added that SOU will advocate for support at the \$765 million level if the projected shortfall indeed happens, but the scenario SOU will end up in is unclear at this time. So, Mark Denney will model all of these scenarios for the board, as they were done for the campus in the previous day's budget forum.

Mr. Denney explained that each decision point for the campus, committee or state can be modeled. He gave a detailed explanation of assumptions populating the worksheet, including enrollment trends and how the model works. He then changed various assumptions using the various levels of state funding between \$943 million and \$616 million, the latter of which showed a negative fund balance as early as the second year of the next biennium. The prospect of raising tuition was discussed; it was noted that increasing tuition would be challenging for current students, possibly less so for new students unaccustomed to the current rates, and that in comparison to other Oregon Public Universities (OPUs), SOU would still be less expensive than most. Responding to a question from Trustee Hennion, Mr. Denney affirmed that it is quite likely the other OPUs would also need to raise tuition.

Trustee Slattery questioned whether the \$765 million "break-even" scenario is truly a break-even scenario for SOU. Mr. Denney said it does not represent a break-even scenario for SOU individually but, instead, for the seven institutions. Mr. Morris further explained that he understands the governor's office is considering putting forward its budget at the \$1.3 billion deficit level with a restriction that the universities could raise tuition no more than 5 percent. As a result, he underscored that SOU will have serious challenges if current ballot measure #97 fails. Trustee Hennion asked to revisit the disparity of the break-even scenario. She wished to understand the formula because she thought it seemed unfair to SOU and asked if trustees could support SOU in its efforts to lobby for changes. Mr. Morris said SOU gets the worst treatment from the model than any of the OPUs. Portland State comes out on top and that benefit, which is set in a bill, would require new legislation to effectuate change. Conversations are happening to change that, potentially, but each university also is looking out for itself. Further, in the formula for completions, Eastern Oregon University received a subsidy, whereas SOU did not.

Mr. Morris explained that due to already lean and efficient operations as a result of retrenchment, SOU does not have anywhere to cut and the real answer is enrollment growth, which must be at the core of SOU's planning. SOU could improve completion metrics by 10 percent but if the other OPUs did so by 11 percent, SOU would underperform in that scenario. SOU must focus on how it will grow enrollment to help "manage our own backyard."

Trustee Hennion commented that if the 2017-19 biennium is impacted in the shortfall scenario, there may still be changes in the 2019-21 biennium. Mr. Morris said for the next

two-year period, SOU has opportunity because it has built up its fund balance through strong planning in anticipation of certain budget impacts. President Schott added that even if SOU starts new recruitment and retention initiatives, it takes years for those to payoff. So, SOU may have to plan for three to four years of uncertainty in that scenario. Trustee Slattery said it seems like the 6 percent budget increase modeled for the committee can be some combination of enrollment and tuition; President Schott responded that she would feel better about building enrollment.

Chair Nicholson thanked Mr. Denney and Partha Chatterjee for continuing to develop the pro forma as a tool and said the pro forma, while useful, was less sophisticated before and was ancillary to the process. SOU will now use it as the driver of the process to use immediately as decisions are considered and will change the way SOU is able to make decisions. President Schott added that the pro forma is groundbreaking and none of the institutions where she has worked had anything like it. Mr. Denney thanked the committee and said there is more to come, as people will be able to “play” with it, understand scenarios and create their own “what ifs.”

2016-17 Budget Process Debrief

Chair Nicholson said the purpose of this item was to review and reflect on how the committee worked on the budget last year. The committee can assess what did and did not work, adjust and identify topics the members feel they need to know more about. Chair Nicholson noted that when the board adopted its first budget, it had just been constituted as a board and was dependent on a process already in place. The trustees tweaked tiny parts of the budget process, had to learn a lot about it, and as a result, over the past year, had a much more in-depth understanding and greater involvement in the process. As trustees recounted the learning process, it was noted that some felt uncomfortable approving a large chunk of the budget before getting a sense of costs and other personnel expenses because information had to be provided earlier to the student aid office for financial aid packages. Mr. Denney added that tuition and fees timing cannot be pushed later because the registrar’s office needs them.

The timing has been adjusted to talk about labor in May since a big chunk of the budget is labor and a big driver of that is the faculty workbook, which cannot be prepared earlier than April. It takes roughly a month to see how faculty labor fully impacts the labor budget. Mr. Morris clarified that SOU does not know what the bargaining process and state allocation will look like in future biennia.

Fiscal Year 2017 Budget Calendar and Role of the Committee in the Budgeting Process

Chair Nicholson said the purpose of the agenda item is to discuss the committee’s role in the process and understand the informational needs so the staff can plan accordingly. He recalled there was some discomfort when the trustees discussed the possibility of enrollment being at least one percent higher than budgeted and feeling they should have a hand in deciding the priorities of the extra money generated. He acknowledged the board may not be in that situation this time and asked trustees, “What do we see as the board’s role?” Trustee Vincent asked if there is or could be a percent and dollar variance threshold that could trigger board action. Trustee Hennion said it would be undesirable to be lobbied by everyone who has an opinion and felt it is incumbent upon the trustees to trust the

staff, adding that when a strategic plan is in place, determining such priorities would be guided. Trustee Slattery suggested that having a budget debrief would be better situated in a month like July, as the time lapse is too long ago to recall. Chair Nicholson agreed and maintained that the question remains about how trustees might participate in developing creative ideas. Mr. Morris reminded the committee that the pro forma now can be a tool to use in this way and to follow the budget development. The model will be even more sophisticated and will be available to use. However, for the committee to get more involved than at its current level is a proposition involving much more than an hour or two per month; it would take days, as the budget is complex. His recommendation is to leave that level of detail to the president and staff, continue to have these conversations with the pro forma and jointly commit to not having any surprises.

Mr. Denney then walked the committee through the proposed monthly budget items as presented in the materials.

Discussion Regarding Committee Priorities and Interests

Chair Nicholson said this item relates to the prior conversation and the purpose was to get a sense of what the committee thought the top priorities were or should be this year. Trustee Hennion questioned whether the committee needed a student liaison to answer questions about the student fee process. Mr. Morris thought Trustee Nootenboom, as the ASSOU [Director of] Finance and Administration, could serve as that person. Trustee Slattery noted the distinction that, as a trustee, he is not a student representative.

Trustee Slattery commented that the board's Academic and Student Affairs and Finance and Administration Committees operate separately, but come together at board meetings and have shared interests. He asked if there is a good handle on implications of decisions being made in both committees and if the committees feel they know enough about the joint recommendations.

Trustee Santos expressed interest in retention, specifically related to budget and the funding formula.

Future Meetings

Chair Nicholson informed the committee that the following agenda items were slated for the next committee meeting: pension overview and pension liability; an investment report; the endowment investment policy, all with Penny Burgess; as well as budget development and the pro forma. He also noted that Trustee AuCoin asked for future exploration on the role of the development department in financially supporting the institution as a whole. Chair Nicholson informed the committee that he is unable to attend the committee meetings scheduled for November and December and that Trustee Slattery will chair the meetings in his stead.

Adjourn

Chair Nicholson adjourned the meeting at approximately 5:35 p.m.

Date: November 17, 2016

Respectfully submitted by,

A handwritten signature in cursive script, reading "Sabrina Prud'homme". The signature is written in black ink and is positioned above the printed name.

Sabrina Prud'homme
University Board Secretary