

**Southern Oregon University Board of Trustees
Finance Committee Meeting**

Thursday, July 16, 2015

4:00 p.m. – 6:00 p.m. (or until business concludes)

DeBoer Boardroom, Hannon Library, 3rd Floor, #303

MINUTES

Finance Committee Chair, Paul Nicholson called the meeting to order at 4:01 p.m.

The following committee members were present and a quorum was established: Paul Nicholson, April Sevcik, Les AuCoin, Lyn Hennion, Dennis Slattery, and Steve Vincent.

The following committee member was absent: Jeremy Nootenboom.

The following trustees also were present: Bill Thorndike and Roy Saigo.

Other meeting guests included: Jason Catz, General Counsel; Mark Denney, Associate Vice President for Budget and Planning; Lisa Garcia-Hanson, Associate Vice President for Enrollment and Retention; Don Hill, Classroom and Media Services Manager; Steve Larvick, Director of Business Services; Deborah Lovern, Budget Officer for Academic and Student Affairs; Craig Morris, Vice President for Finance and Administration; Kathy Park, Executive Assistant; Sabrina Prud'homme, University Board Secretary; Liz Shelby, Chief of Staff and Director of Government Relations; and Sue Walsh, Provost and Vice President for Academic and Student Affairs.

Welcome and Introductions

The trustees and meeting guests at the table introduced themselves and welcomed the new board secretary to the meeting.

Public Comment

No public comment was made.

Consent Agenda

There were no changes or corrections to the minutes from the June 22 meeting. Trustee Slattery moved to approve the minutes, Trustee Sevcik seconded the motion. The motion passed.

Vice President's Report

Craig Morris, SOU Vice President for Finance and Administration began his update by explaining a charge by President Saigo to him and to the provost to think "outside the box" about new, strategic initiatives around enrollment, including recruitment, supporting the state's 40-40-20 goal, and retention. The focus of these new initiatives requires execution within a year and a positive impact on enrollment. The legislature provided an additional \$582 thousand for SOU to spend exclusively on student success initiatives and/or fee remissions in each year of the biennium to help students with affordability of university tuition. As a result, the vice president and the provost plan to present new ideas to the president at an upcoming cabinet retreat and will keep the board informed through their reports at the appropriate committee meetings in the future.

Mr. Morris explained that during lunch at the full board meeting, the group would hear a presentation from the architects working on the campus' McNeal project. The project was still materially over budget, as construction prices continue to inflate. The group would see rougher designs than intended because the architects continue to redesign in an effort to get costs back within budget.

Mr. Morris explained money was allocated in the legislative session, the disposition of which would be determined in the February session. Included in that was \$1.9 million that was requested by the classified union (SEIU) to help fund negotiations for their collective bargaining agreement, primarily for Oregon's technical and regional universities (TRUs). A proposal has to come forward from the seven universities and the seven must be in agreement on how the funds should be disbursed among the institutions. He indicated that he and his colleagues would meet on the campus of SOU in the upcoming week and Representative Buckley was invited to hopefully open a dialogue about how it could work. More about this good news would be shared with the board.

In response to questions from Trustees AuCoin and Nicholson, Mr. Morris clarified that the funds are intended to help the TRU's, especially those with financial needs, to better afford a settlement for the classified employees. He confirmed that the \$1.9 million already has been approved by the legislature and the uncertainty has to do with the distribution. Liz Shelby confirmed this and clarified that the funds are part of a \$3 million rebalance that will take place when the legislature returns to session in February.

Mr. Morris referred the committee to the fiscal year (FY) 2016 Preliminary Public University Support Fund Allocation. He pointed out the current funding for SOU and the FY 16 funding, which represents a 10.5 percent increase in additional operational funding. He also pointed out the amount of shared services being added to SOU's funding. The inequitable distribution of funds among the seven universities was noted and explained.

After the enrollment services update, Mr. Morris continued his report and explained that he was approached by a developer to put a hotel on the SOU campus and noted a potential link with SOU's hospitality program. The vice president expressed interest in inviting the developer to a finance committee meeting to allow the board to discuss and decide whether SOU would have any interest in pursuing such a project. The developer, as well as other universities in Oregon, have completed similar projects. Trustee AuCoin questioned whether "sounding board sessions" had taken place to explore feasibility of the idea internally and in the local community. It was suggested that the developer attend a future meeting.

Enrollment Services Update

Lisa Garcia-Hanson provided an enrollment update to the committee. She highlighted that overall applications were up 17 percent for residents and 10.3 percent overall. Ms. Garcia-Hanson noted a "trickling down" of applications typically occurs at this time of the year, but she wasn't seeing that trend at this time. At the time of the report, the numbers of admitted, confirmed (deposit paid), and enrolled students were up 13.6 percent, 17.5 percent, and 44.2 percent, respectively. She briefly discussed application activity as it related to the information presented.

Mr. Morris further noted, that to translate this trend to financial terms, the board would need to look at student credit hours (SCH) and full time equivalent (FTE) numbers. However, the weeks' numbers fluctuate up and down and a month from now, a fuller picture is expected. This year's Raider Orientation and Registration (ROAR) events were thought to explain some of the significant increases, attributing them, in part, to a timing difference in the scheduling of this year's ROARs over the dates of last year's.

Ms. Garcia-Hanson addressed Trustee AuCoin's questions regarding enrollment, particularly around negative shifts for the General Education and House Experience as well as the Honors College programs, which, most likely, were attributable to factors of ROAR timing as well as the relative newness of these programs. Regarding Trustee Hennion's questions about the staff rates, Ms. Garcia-Hanson noted that the negative 94.1 percent is likely a function of timing, in that staff had not yet received their notifications to enroll yet. Ms. Garcia-Hanson said she would explore the matter further.

The committee looked forward to receiving more enrollment information in August.

Fiscal Year 2015-16 Budget Review and Recommendation to SOU Full Board of Trustees

Chair Nicholson introduced the agenda item and reminded the committee that the task before them is to review the budget, ask questions, challenge the staff, and get to a point where the committee could recommend the budget to the full board at the next day's meeting.

Mark Denney led the committee through a review of the budget worksheets starting with the Education and General page and highlighting the FY 14 final results ending with a 3.5 percent fund balance. He also highlighted the following fund balances: 8.1 percent for the FY 15 Original Budget; 8.8 percent for the FY 15 Projected Close; 10.6 percent for the FY 16 Proposed Budget; and 7.8 percent for the FY16 retrenchment plan.

Despite some increases in revenue and being ahead of the retrenchment plan, SOU remains conservative and is sticking with the retrenchment plan, which projects a 1.1 percent enrollment decline. He further noted, that even if enrollment of SCH is down, that SOU's mix has improved and he continues to project favorability.

Trustee AuCoin questioned if the committee would see increases in expenditures that may be required in the provost's office if SOU achieves higher enrollment. Mr. Denney noted that it wasn't included in the budget but the group prepared some information to address this and could discuss it when he reaches the applicable slide.

Finally, a one-time variance was noted in net transfers. In FY 15 there was \$2.5 million in net transfers "in" and FY 16 has net transfers out, which is more in line with normal operations.

Answering Trustee Vincent's questions about goals of the ending fund balance and the HECC Conditions requirement, Mr. Denney said the FY 16 retrenchment goal was 7.8 percent and the HECC requirement is for SOU to be above 10 percent by FY 18. According to Mr. Morris, the old State Board of Higher Education suggested a fund balance between five and 15 percent, with 10 percent being ideal.

Mr. Denney continued his review and presented the Auxiliary Enterprises budget worksheets explaining that these operations need to be budget neutral and generate enough revenue for their own expenses. Specifically, the athletics budget has a \$400 thousand shortfall with projected deficit spending, and doesn't have the fund balance to cover it. Mr. Morris said the committee would discuss athletics in great detail at a future meeting. It was noted that there are many good things to talk about, some financial challenges, and the committee would have a comprehensive conversation about it.

Mr. Denney clarified that the university no longer operates the bookstore but it is still listed as an auxiliary because the university had a few employees working there, has kept them, and SOU pays their salaries. However, Barnes and Noble reimburses the university, assuming the full burden of cost, including retirement benefits, which Trustee Sevcik inquired about.

Next, the committee reviewed the Designated Operations, Service Departments, Clearing Funds budget worksheet. Mr. Denney described the makeup of these areas and noted that they were all pretty cost neutral and had nothing significant to explain from FY 15 to FY 16.

He briefly explained the FY 16 Budget Notes and discussions took place around the following notes:

1. State funding increased by \$30 million. The university's share is approximately \$582 thousand each year in the biennium. There is a budget note requiring that the \$582 thousand be spent exclusively on tuition remissions and student support and success initiatives each year.

Trustee Slattery questioned how the larger pool of money was divided among the universities and how SOU's share was determined. Mr. Morris explained that of the additional \$30 million, 49 percent was allocated for the first year, 51 percent for the second year, and it all gets run through the new funding model to determine how much each institution shall receive.

Trustee AuCoin commented that if SOU is going to better serve the subcategories of students that the HECC model requires, there are going to be support costs and sociology on campus that the university will have to institutionalize. With increasing minority and veteran populations, the supportive services for students will have to be robust. To retain students and do better at recruiting them, the money will need to be split between the two areas wisely.

Chair Nicholson calculated that SOU's portion of the state funding looks like 5.7 percent and made the observation that there is some other formula in place that is not favorable to SOU. Mr. Morris explained that portions are fixed, others are variable, and when the board sees the HECC's presentation in the next day's full board meeting, this would be explained and would make more sense.

7. If actual Fall 2015 enrollment is flat or better compared to last year, additional adjunct faculty and graduate assistants will need to be hired. Provost has identified the financial impact at \$363 thousand for adjuncts and \$57 thousand for graduate assistants.

Mr. Morris commented that this financial impact was in the original budget as submitted by the provost's office. He negotiated with the provost to remove these impacts from the budget but if enrollment was flat or better, SOU could hire the additional staff and graduate assistants necessary to cover the additional enrollment. The provost added that she didn't expect any difficulty in hiring for the positions quickly, if the need should arise. Dr. Walsh also clarified that the identified impacts were for the academic year, not any one term.

Chair Nicholson emphasized that the board will need to bear this point in mind as it moves into any budget approval process and should provisionally approve these funds for the budget so the provost doesn't have to come back to the committee again if enrollment is up.

10. The budget includes a new, unfunded position for diversity.

With the breakup of the university system, SOU recognized a need for the position, but didn't receive funding for the Office of Diversity and Inclusion, so the institution had to come up with the funding.

13. All auxiliary and designated operations department budgets are balanced with the exception of athletics. That budget has budgeted deficit of approximately \$400 thousand that includes the addition of two new sports teams.

President Saigo asked what the committee would talk about in this deeper athletics discussion that has been mentioned. The president would like to hear: how they are getting money; how it is being used; how many students are involved; other universities that get money from the general fund; etc.

Mr. Denney explained, SOU differs from others in how it funds athletics. It's usually a split between student fees and the general fund support of athletics. The assumption is that auxiliary units should be self-supporting and most can generate the revenue to cover expenses. Athletics is unusual because students attend games for free since they support the auxiliary; so, athletics doesn't generate a lot of revenue from ticket sales. At the TRU's, athletics gets general fund support. Mr. Morris referred to findings from a report produced a few years ago; it found that student athletes retain better, have better grade-point averages and they persist better. So, the university needs to balance that with the financial struggle that exists in this area.

Trustee Slattery recalled from past information that the average athlete at SOU received about 25 percent in awards toward tuition, noting that these are paying students. Mr. Morris added that student athletes contribute significantly to campus diversity and Mr. Denney added that they graduate faster and at twice the rate of other students.

Mr. Denney then turned his attention to the FY 16 Budgeted Operations Worksheet explaining variances from the FY 15 budget and significant events. He walked the committee through each of the significant events noted: Shared Services; OUS Dissolution; Diversity; Faculty Contingency; Steps/YIR/COLA increases; Furlough Eliminations and associated OPE; IT; Housing; and Student Success Initiatives.

In response to Trustee AuCoin's question under shared services, Mr. Morris confirmed that the university is paying for financial risk management services through a shared services employee who advises the four TRU institutions on best practices.

Mr. Morris walked the committee through the Budgeted Operations Pro Forma Worksheet, pointing out the fund balances at the ends of the 2011 to 2013 and 2013 to 2015 biennia as well as the assumptions in the areas of ending fund balance goals, state allocations, enrollment, tuition, and the salary increase pool for the upcoming 2015 to 2017 and 2017 to 2019 biennia. Among other items, he noted the state appropriations line for the 2017 to 2019 biennium assumed no increase in funding from the state. Trustee AuCoin added that the current markets would not last forever, and he agreed with the manner of forecasting.

Mr. Morris described the pro forma budgets as being on the conservative side and felt that enrollment growth was the real key to help the university's budget. He has heard concerns that with higher enrollment the university would need more faculty. He acknowledged that possibility noting that the university has the physical capacity to do it and it's an important strategic conversation that will be necessary.

Trustee AuCoin believed the sooner a strategic plan for enrollment and retention could be developed, the sooner the university can achieve it. He said the university has to find the perfect mix of in-state students, out-of-state students paying more, all the different subsets of students, deployment of resources, and doing so would be a complex management problem calling for a carefully-honed plan to do it and the board has to lend all the support that will be needed.

Mr. Morris appreciated the feedback and noted that he and the provost were not developing a strategic plan, but were working on 4 doable initiatives for this year. Trustee Slattery agreed that even if the university has to wait until a future date to begin a full strategic plan, much can be accomplished in the meantime so that when the future comes, SOU will be ready for it.

Chair Nicholson redirected the conversation back to the budget and Trustee Hennion questioned which budget the committee was putting forward: the retrenchment budget; or the anticipated budget with what the committee hopes will be better enrollment.

Based on the discussion, Chair Nicholson proposed a motion: this committee recommends the approval of the \$53.9 million budget, as presented. The committee additionally recommends the approval of a further \$420 thousand for the hiring of adjunct faculty and graduate assistants as required, if enrollment exceeds budget. There were no amendments or questions. Trustee Hennion moved to approve the motion and Trustee AuCoin seconded the motion. The motion passed unanimously.

Chair Nicholson thanked Mark Denney and his team, including Desiree [Young], Deborah Lovern and Shane Hunter for their excellent work in preparing the information for the meeting. The chair also appreciated the team for sharing the complex information with clarity. The entire committee agreed and applauded their work.

Before closing the budget discussion, Mr. Morris responded to Trustee AuCoin's request for an update on the progress of a line of credit for SOU with US Bank that was shared with the board in the June 22nd meeting. Mr. Morris expected the process to reach completion by end of the month. He further responded that he believes a line of credit is a good idea for all institutions.

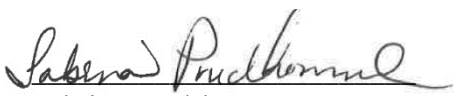
For the next meeting, Chair Nicholson said the committee will discuss the Athletics Department in considerable depth. He also drew attention to the fact that other personnel expenses (OPE), or fringe costs, represent about 30 percent of the SOU budget and believes it's appropriate for the committee to have a deeper understanding of OPE. He asked Mr. Morris to include OPE as an agenda item for the next meeting.

Next Meeting: August 20, 2015 from 4:00 – 6:00 p.m.

The meeting was adjourned at 5:36 p.m.

Date: September 17, 2015

Respectfully submitted by,



Sabrina Prud'homme
University Board Secretary