Southern OREGON UNIVERSITY

Board of Trustees
Finance and Administration Committee Meeting

Thursday, May 19, 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 4:04 p.m.

The following committee members were present: Paul Nicholson, Lyn Hennion, Jeremy Nootenboom, Dennis Slattery and Steve Vincent. Trustee Les AuCoin participated by videoconference. Trustee April Sevcik was not in attendance. Board Chair, Bill Thorndike and President Roy Saigo (ex officio) also attended the meeting.

Other meeting guests included: Jason Catz, General Counsel; Craig Morris, Vice President for Finance and Administration; Dr. Susan Walsh, Provost and Vice President for Academic and Student Affairs; Mark Denney, Associate Vice President for Budget and Planning; Steve Larvick, Director of Business Services; Chris Stanek, Director of Institutional Research; John Stevenson, User Support Manager; Shane Hunter, Senior Financial Management Analyst; Janet Fratella, Vice President for Development; Ryan Brown, Head of Community and Media Relations; Treasa Sprague, Administrative Services Coordinator; Vicki Forehand, SOU; Sabrina Prud'homme, Board Secretary; and Kathy Park, Executive Assistant.

Trustee Hennion moved to approve the April 14, 2016 meeting minutes as drafted. Trustee Slattery seconded the motion and it passed unanimously.

Public Comment

There was no public comment.

Vice President's Report

Craig Morris presented the financial dashboard, noting that supplies and services (S&S) is still trending ahead of the burn rate from last year, primarily due to the costs of the presidential search. Every other category is meeting or exceeding its target. He pointed out that a box on the dashboard may rotate information of interest each month.

In addressing the enrollment dashboard and completions report, Chris Stanek said he adjusted the dashboard based on prior feedback and added FTE enrollment for summer sessions. In comparing the admissions applications from fall 2015 and 2016, Mr. Stanek said the number of applications decreased slightly but the number of confirmed students increased slightly.

Discussion ensued on identifying veterans and whether the current method of identification for funding purposes is appropriate. There are about 150-175 veterans at

SOU but not all of them are counted in the funding model. The HECC does not count military-related students in the funding model.

Mr. Stanek then addressed the completions report. Responding to Chair Nicholson's inquiry, Mr. Stanek said the number of degrees awarded for residents affects points in the funding model. Although the numbers for bachelor degree applications is down 7.4 percent, the numbers will increase significantly as degree applications are processed over the next few weeks.

Mr. Stanek said the mix of resident to nonresident bachelor degree applications and awards is 70:30. For master degrees, the distribution is 55:45. For certificates, the distribution is 80:20. Overall, the distribution is 67:33 resident to nonresident.

Mr. Stanek then provided a general enrollment synopsis, adding that SOU is down about 7 percent in FTE for the summer, compared to last summer at the same point in time. Trustee AuCoin mentioned the Oregon Promise and that it is likely prospective students are delaying the submission of their applications until they find out if they qualify for two years of tuition-free college under that program. In applications, Mr. Stanek added that SOU is down about 4 percent compared to last year. He attributed that to a number of dynamics, including late applications related to the Oregon Promise and following an all-time high watermark for applications.

Mr. Morris then provided an update on the capital request to the HECC, reminding the committee that the seven university presidents worked together and submitted a consolidated request. He explained that the request listed projects by tier and that tier-one projects are the only ones that may make it through the HECC to the governor's office and that all other projects will carry over to the next biennium.

SOU had one project in tier-one (Central Hall deferred maintenance) and one in tier-two (boiler replacement). Mr. Morris agreed with the other vice presidents of finance and administration that SOU's boiler replacement project could be included in tier-two, with the understanding that they would support SOU's submission of the boiler project as an emergency request in the February legislative session. Chair Nicholson pointed out this course of action presupposes the legislature will have funds to distribute in February. Mr. Morris said he was comfortable with taking the risk because the project is only $2.7 million and is easily packaged as an emergency.

Responding to Trustee Nootenboom's inquiry about consequences if the boiler project is not funded as an emergency request, Mr. Morris said it would be submitted as a request in the next biennium. If there was a boiler failure in the interim, SOU would have limited hot water and heat but would be fine during a normal winter. SOU would also have other available options, such as deferred maintenance funding from the legislature and access to a line of credit.

Periodic Management Report
Steve Larvick highlighted a few figures and mentioned some accounting changes: shifting bad debt allowance from an expense to an offset to revenue, and reclassification of funds coming from the North Campus Village (NCV) project.

Within education and general (E&G), with the overall enrollment growth and labor cost reductions, the ending fund balance projection is 1 percent better (at 11.8 percent) than the earlier estimate. Mr. Larvick addressed the negative ending fund balance for the auxiliary enterprises, attributing it to the ongoing deficit projected in athletics, the impact of the BOLI settlement and projected campus food service expenses exceeding net revenue. There was nothing unusual in the designated operations figures and he projected the ending fund balance to hold at 21.8 percent.

With the committee's main focus being on the ending fund balance for E&G, Chair Nicholson said the 11.8 percent ending fund balance was cause for comfort, compared to 9.1 percent for FY15 and 10.9 percent previously projected for FY16. He also said the 7.6 percent ending fund balance for All Current Unrestricted Funds, although down .2 percent from the initial FY16 budget, was not concerning. Mr. Morris added that, in the E&G forecast, it was assumed SOU will pay down the $380,000 in athletics' post season travel expense, so there will not be an increase in the year-end numbers. So, that 7.6 percent fund balance will be closer to 7.8 percent when all is done.

Pro Forma Review
Mr. Morris then reviewed the pro forma, saying nothing has changed much since last month. There is an increase from 3.1 to 5.4 percent in the forecast for the 2020-2021 fund balance because of labor adjustments. This figure will also increase if there are even modest increases in enrollment and state allocations.

Mr. Morris mentioned the 15.1 percent ending fund balance forecast for FY16-17 and said the committee needs to discuss where that should fall. There are budget impacts coming over the next biennium (e.g., a big increase in PERS and unknown state allocations and enrollment numbers). The budget office is forecasting something somewhat flat to position SOU to cover anything that is a surprise and have plenty of deep reserves to weather enrollment and state allocation fluctuations.

Responding to Trustee AuCoin's concern about making allowances for an economic correction, Mr. Morris said the only way SOU can protect itself from fluctuations is to build its reserves. The State Board of Higher Education's standard for the E&G ending fund balance was between 5-15 percent. A drop below 5 percent is an indicator that strong measures need to be taken to change that direction and a university should think about investing in the organization if its fund balance is above 15 percent.

Answering Trustee Hennion's inquiry, Mr. Morris said the $468,000 entry for one-time classified staff funding is a one-time allocation from the legislature to help cover the cost of salary increases.

Mr. Morris highlighted the retrenchment's ending fund balance of 7.8 percent and compared it to the 11.8 percent forecast for FY15-16. Trustee Vincent said that, prior to the establishment of independent governing boards, fund balances were at risk of being taken by the legislature. Mr. Morris said that is still the case and there is nothing SOU can do to protect against that. President Saigo commended Mr. Morris for holding SOU to the retrenchment plan. He advised the committee to be cautious and spend conservatively.

Trustee Slattery asked about the impact of the auxiliaries' negative fund balance and its relation to SOU's fund balance. As far as the institution's operations are concerned, Mr. Morris said the focus is on the Budgeted Operations fund. The auxiliaries' negative fund balance is primarily on the balance sheet as opposed to cash; they have adequate cash reserves but have depreciation and liabilities that decrease the fund balance.

Revenue and Fund Balance Discussion
Mr. Denney began his presentation by noting projected revenue is a product of enrollment projections and previously-approved tuition and fee rates. He would look to the committee for guidance on where the ending fund balance should be, which would allow development of an expenditure budget.

Mr. Morris explained that the revenue budget is known but the expense budget still needs to be developed. The S&S number greatly exceeds what SOU can afford and will be pared down. When the committee provides its guidance on the ending fund balance, the budget office will revise the S&S budget along with requests for additional funding into an expense budget that meets the criteria the committee sets. Chair Nicholson added that, once an expense budget is created, the budget office works its way back into the individual departments.

Trustee AuCoin expressed a concern about setting a budget without knowing which expenditures would be cut and wished to review expenditures that were cut from the budget in case the committee thought something critical was eliminated. Chair Nicholson understood the discomfort and said the challenge is that tuition and fee levels have been approved and are being wrapped in with enrollment levels to develop a revenue budget. He noted the timing still needs to be worked out, as both could not be done simultaneously.

Discussing revenue, Mr. Denney explained the tuition figure decreased, despite the increase in tuition rates, because the $65 per student credit hour for online courses was moved from the tuition category to the fee category. The proposed FY17 revenue is approximately $200,000 less than the pro forma, due in part to low bookstore sales and increases in interest earnings and collections from students on delinquent tuition.

Mr. Denney extracted figures for projected revenue and expenditures from the pro forma to develop a proposed FY17 budget that would result in a 14.7 percent ending fund balance. Increasing or decreasing the ending fund balance would result in either increasing or decreasing expenses to equal the bottom line recommended by the committee. Mr. Morris added that all departments have S&S budgets, part of which is for ongoing operations ($60 million) and a smaller amount ($2.7 million) for requests if additional money is available; the president's cabinet will decide which of the latter requests get funded. According to Mr. Denney, if all requests were funded, the ending fund balance would be approximately 9 percent.

Responding to Trustee Slattery's inquiry on the return of investment on the requests included in the $2.7 million, Mr. Morris said the budget office will develop good criteria to make a decision. At the June committee meeting, he could disclose what was done—the amount of extra money available, the asks, and the ones funded and not funded.

Mr. Morris recommended thinking about the long-term picture and upcoming challenges to determine how big the fund balance should be to set reserves that are adequate enough to cover the challenges. Dr. Walsh added that the asks are prioritized before submission and, in some cases, what not to support is an easy decision if it is not a priority to the program submitting the request. Chair Nicholson clarified that the committee will set a firm guideline but Mr. Morris could potentially come back if there is a recommended variation from that guideline.

Mr. Morris added that some of the $2.7 million in requests are permanent, not one-time requests (e.g., staff), and he did not think funding all such requests would be wise. Trustee Slattery pointed out, however, that knowing what those requests are and which of them the cabinet would recommend funding would impact the philosophy of the ending fund balance. Trustee AuCoin concurred, adding that he is uncomfortable making a decision unless the committee can agree on a fund balance now and come back and revisit it after reviewing the expenditure budget and the requests.

Discussion ensued on the desired target for the ending fund balance - concern with not micromanaging budget managers, meeting retrenchment goals, possible disadvantages of having a large fund balance, having details on approved and denied funding requests, not starving the university such that there are no investments in it, structuring the budget to add specific unfunded requests if certain enrollment targets are met, and recommended targets.

Chair Nicholson said he thought it would be appropriate for the committee, even without having details on the $2.7 million in requests, to decide that the reserve should be at a certain amount, with the understanding that staff will come back to request a slight increase or decrease based on the requests. The consensus of the committee was that the staff should develop a budget with an ending fund balance between 12-14 percent and the staff would return in the June meeting with recommendations to increase or decrease the fund balance.

Athletics Discussion
Mr. Denney began the discussion by saying that athletics remains a challenge but is a significant recruitment and enrollment tool, as athletes do tend to graduate, at double the university average. Unlike other auxiliaries, when athletics' costs increase, it does not have a fee it can assess to cover costs. Athletics receives support from the student incidental fee, the university, and it generates a small amount of revenue on its own. Athletics has its own budgeted operations (e.g., athletics courses), designated operations (e.g., sports camps) and auxiliary operations (e.g., intercollegiate athletics and the fitness center).

Mr. Denney explained the broad intercollegiate athletics budget, focusing on FY16 projections and the FY17 proposed budget. Athletics has had a couple of years with high costs in post season travel, only some of which are reimbursed by NAIA. The increase in labor costs is primarily due to the addition of two new teams and coaching staff, an increase in COLA and OPE, and equity adjustments in salary for some coaches. Nothing was budgeted last year for post season travel; the FY17 proposed budget includes $237,586 for post season travel, which is a rolling 5-year average and will be built into the budget each year. The final proposed budget is -$598,813. A significant ask in the $2.7 million in requests is to cover this deficit.

Mr. Morris added that if there is not an increase in the allocation to athletics, it will continue to have successful years and bury its fund balance in millions of dollars of unfunded deficits. If the allocation is increased, SOU will beg the conversation from faculty over allocating $600,000 toward athletics and suggest that a better return on investment might be to invest in academic programs.

Trustee Hennion asked if a reserve is funded for post season travel, which she thought was prudent, could it count as part of SOU's overall reserves for fund balance purposes but still keep it separate as a reserve for that particular use. Mr. Morris responded affirmatively, saying it could also be allocated to athletics as a reserve and allow it to build against the deficit. It could be in the auxiliaries' reserves or the E&G reserve but Mr. Morris would recommend the former.

Mr. Denney asked the students to participate with the university in a reserve, but the students chose not to do so because they are building their own reserve for the student incidental fee. If enrollment stays strong and the students build their reserve as expected, he hopes the students will participate next year.

To help support the decision, Trustee Vincent suggested looking at the drag effect of athletes and consider this funding as an investment in increased enrollment and tuition. Dr. Walsh stressed that this is not investing in growing athletics, rather it is paying for post season travel expenses.

Housing Budget

Mr. Denney presented an overview of the housing budget, including the organization, funding sources, key partnerships and the budget structure. In past years, the housing budget included transfers to athletics and the general fund, which contributed to deficits in the housing budget, but that amount has been decreasing over the past couple of years. He then discussed the FY17 proposed budget. In FY17, the bulk of the revenue is a transfer in from the NCV and reimbursement for NCV labor. The FY17 proposed budget includes a surplus of $1,010,692, some of which will be used to pay the BOLI settlement. The NCV is projecting about $1.1 million in net operating profit, which is budgeted to be transferred out to other university fund accounts.

Adjourn

Before adjourning the meeting, Chair Nicholson informed committee members that the committee's July meeting will be moved from July 21 to July 14 and the August meeting will be cancelled.

Chair Nicholson adjourned the meeting at 6:04 p.m.

Date: June 16, 2016

Respectfully submitted by,

Sabrina Prud'homme

Sabrina Prud'homme
University Board Secretary