



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

**Thursday, June 16, 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 4:01 p.m.

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

Other meeting guests included: Penny Burgess, USSE, Director of Treasury Operations; 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; Steve Larvick, Director of Business Services; Chris Stanek, Director of Institutional Research; Gordon Carrier, Computing Coordinator; Shane Hunter, Senior Financial Management Analyst; Deborah Lovern, Budget Officer; 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 Sevcik moved to approve the May 19, 2016 meeting minutes as drafted. Trustee Vincent seconded the motion and it passed unanimously.

**Public Comment**

There was no public comment.

**Vice President's Report**

Reviewing the financial dashboard, Craig Morris said all criteria were on target or better. The dashboard included information on the allowance for doubtful accounts--that portion of receivables that would be deemed uncollectable if SOU were to close. Approximately \$600,000 was added to the accounts receivable reserve (the allowance for bad debt) and \$510,000 was written-off. SOU's new auditors will expect SOU to provide its own conceptual methodology for calculating that reserve and Mr. Morris believes SOU's reserve is in the right place. Examples of doubtful accounts include student accounts more than 5 years old and uncollectable; however, SOU never stops collecting those debts using its internal collector as well as external agencies.

Chris Stanek reviewed the FTE enrollment trends. The FTE numbers change every week

but a lot of the other data does not. The dashboard reflects SCH only from admitted students; there is quite a bit of SCH generated from non-admitted students. The admitted undergraduates for summer 2016 is up from last summer. However, the admitted graduates for summer 2016 is down, especially in the education (the MAT cohort will start in the fall rather than the summer) and business departments. Taking admitted and non-admitted students, the SCH is down about 5-6 points overall compared to last year, most of which is coming from the graduate programs.

Shifting to the completions report, Mr. Stanek said degree applications track the number of students applying for degrees. Since it is an ongoing process through the summer, those numbers as well as degree awards will increase dramatically. Bachelor degree applications are up 5.5 percent compared to last year. The second chart tracks degree applications and awards by sub-populations. The funding model counts veterans very differently than just the number of veterans taking courses. Mr. Stanek is on a working group to analyze tweaks to the funding model and this is one of the focus areas.

Mr. Stanek will go into more detail on these figures at the board meeting. Mr. Morris commented that, although a deeper dive shows lower applications, there appears to be a bigger yield and the staff is cautiously optimistic about the fall term.

Praising Ryan Brown, SOU'S Head of Community and Media Relations, Mr. Morris said that Mr. Brown has accepted a job with the San Jose Community College District.

Regarding the president's residence, Mr. Morris said significant improvements need to be made, especially to the kitchen, bathrooms and windows. At the July committee meeting, he and Drew Gilliland will give a presentation on the necessary improvements and will seek the committee's authorization to move forward with those improvements. President Saigo agreed that improvements need to be made and cautioned about the impression that the incoming president is fixing her own nest in a very comfortable and expensive way.

### **Fiscal Year 2016-2017 Budget (Action)**

Introducing this agenda item, Chair Nicholson said the committee has been working on the budget since the committee's inception last year, working with the staff on key issues and discussing the budget components in great detail. Partha Chatterjee then reviewed the pro forma, focusing on the 2016-17 budget, the 13.6 percent ending fund balance and the primary assumptions used to develop the budget. A new assumption incorporated into the pro forma was a 2.7 percent employment position vacancy rate; Mr. Morris added that a \$500,000 operating contingency was added on the supplies and services (S&S) line to absorb any variation in this vacancy rate.

Mr. Chatterjee then discussed factors impacting the budget. SOU is relatively confident in the level of state funding, S&S and personnel costs. However, the big unknown is enrollment revenue, which is comprised of tuition increases and enrollment growth. The current projections assume 3 percent increases in tuition and flat enrollment. An increase in tuition or enrollment, or both, to a total of 5 percent results in a sustainable ending fund balance. Mark Denney added that without increases in state funding, the real challenge going forward is that tuition revenue (about two-thirds of total revenue) must increase because labor costs (about 85 percent of total expenses) increase about 5 percent per year.

Trustee AuCoin expressed concern over state funding and said SOU needs to be ready for

any scenario. Concurring, Mr. Morris said that a significant reduction in state allocation would create serious budget problems for SOU. The university has a couple of years to work on a strategic plan to determine where to put values, address tuition rates, how to grow enrollment, desired qualities in future students and level of dependence on state allocations.

Trustee Slattery said it is important to take this information to faculty to show what factors could lead SOU right back into retrenchment. This should encourage all of the departments to make every effort to increase their enrollment, which is not yet happening. It is critical that everyone participate in increasing enrollment.

Based on the committee's guidance of an ending fund balance between 12 and 14 percent, Mr. Morris said the budget office intentionally chose 13.6 percent. Going any lower than that would cause the 2017-18 forecast to fall below 11 percent.

Mr. Denney discussed the initial budget development. The budget office started from a zero based budget for all approved positions and built in known expenses. S&S was then rolled forward, which was flat this year. The \$582,000 for student success initiatives was also included. This resulted in a 14.8 percent ending fund balance. Mr. Denney then described revenue changes from the original FY16 budget to the FY17 initial budget.

After developing the initial budget as described, the budget office then developed a proposed budget which builds upon the initial budget by including adjustments and initiatives in academic, student or institutional support that were not otherwise included in the initial budget. In reviewing the proposed budget, Mr. Denney detailed the changes between the initial and the proposed revenue, labor, S&S and transfers. The proposed budget has a 13.6 percent ending fund balance. Mr. Denney added that, if there is a 2 percent enrollment growth, there is the potential to invest and include some of that revenue in the budget for some initiatives that have been set aside.

Mr. Denney addressed designated operations (e.g., JPR and RVTV) and auxiliary operations. Both of those are projected to have a positive operating surplus in FY17.

Responding to Trustee AuCoin's inquiry regarding which previously-unfunded initiatives would be considered for funding, Mr. Denney said the Budget Committee and the UPB will institute a process to provide input to the president and his cabinet so the president can make a final recommendation to the committee.

Trustee Slattery moved that the Finance and Administration Committee recommend to the SOU Board of Trustees, adoption of the fiscal year 2016-17 budget, inclusive of budgeted operations, auxiliaries and designated operations, as presented or as amended. There being no amendments, Trustee AuCoin seconded the motion and it passed unanimously. Chair Nicholson further requested attaching specific numbers to the budget and the board secretary offered to revise the motion that would be presented to the board to include final numbers.

Chair Nicholson and Mr. Morris praised the hard work and huge efforts of Mr. Denney, Mr. Chatterjee, Deborah Lovern, the four accountants in the Service Center and 75 budget managers.

## **Proposed Endowment Investment Policy**

Introducing this item, Chair Nicholson said SOU inherited the existing policy from the Oregon University System (OUS). Ms. Burgess said the proposed draft policy will govern the \$2.1 million in endowment assets held in SOU's name which are separate from the endowment assets managed by the SOU Foundation. She distributed the proposed draft policy and SOU's current policy which was established by OUS to govern the former Higher Education Endowment Pool. The primary edits or modifications to the current policy are focused on the investment strategy and asset allocation section, as the current SOU strategy and allocation differ from the former OUS endowment fund. The other modifications are an attempt to simplify the language and put it into a format similar to the policy used by SOU's investment adviser, State Treasury.

In general, the draft policy outlines the purpose and goals of the endowment investment portfolio which is to preserve and enhance the real purchasing power of the investment assets over the long term, while meeting the annual spend rate currently set at 4 percent. It identifies and articulates relevant constraints, sets an appropriate investment structure and target asset allocation of 70 percent to global equities, 30 percent to fixed income and establishes guidelines to monitor performance and risk. The policy also defines the roles and responsibilities of the board, the investment advisor, managers and any others associated with oversight of the assets, requiring typical fiduciary responsibilities.

Highlighting a couple of key changes, Ms. Burgess said the goals and structure of the portfolio are the major change. The OUS policy was crafted for a \$70 million portfolio and allocated assets across multiple different asset classes. Given SOU's \$2.1 million portfolio, there is not enough money to allocate across all those asset classes. State Treasury recommended the use of index funds, which is currently utilized to populate the 70 percent exposure to global equities, and within the 30 percent fixed income exposure utilizing the western asset core fixed income manager, which the state utilizes in many of its other portfolios. Ms. Burgess said the portfolio is being managed in this 70/30 allocation.

Another component, while not a change, is the spend rate that was set at 4 percent by OUS and is maintained in the current policy. This is one item the committee will want to evaluate and discuss. Chair Nicholson added that the spend rate is based on a 5-year rolling average and asked if that was typical. Ms. Burgess said it is not typical, is usually three years and the distribution rate will vary between four and six percent.

Chair Nicholson proposed creating a working group to review the proposed policy. He recommended the group be chaired by Trustee Sevcik and composed of Trustee Hennion, Trustee Slattery and Mr. Morris.

## **2016 Third-quarter Investment Report**

Ms. Burgess presented the third quarter investment report, which included the performance of the university's operating assets invested in the Public University Fund (PUF) and the university's endowment assets managed by the State Treasury. In the materials, she included the FY16 Q3 market commentary which provides a general discussion on the economy and market performance during the quarter.

Ms. Burgess addressed market highlights underpinning investment performance during the quarter. She then turned to the university's investment returns. The PUF investments consist of an allocation to each of the following investment pools: the Oregon

Short-Term Fund, the Oregon Intermediate-Term Pool and the PUF Long-Term Pool. The PUF investment return for the quarter was a positive 1.1 percent and a positive 1.4 percent year-to-date. The total market value of SOU's operating cash and investment deposits on March 31 was \$36.4 million, equivalent to 6.5 percent of the total PUF balance of \$556 million.

The Short-Term Fund outperformed its benchmark for the quarter and year-to-date by 10 and 40 basis points respectively and outperformed the 3-year benchmark return by 50 basis points. The returns of the Intermediate-Term Pool lagged the benchmark by 50 basis points for the quarter and by 80 basis points year-to-date. The returns of the Long-Term Pool lagged the benchmark for the quarter by 20 basis points and 130 basis points year-to-date.

The underperformance of the Intermediate-Term Pool and Long-Term Pool during the quarter was attributable to an underweight in three to five year U.S. Treasury bonds compared to the benchmark weight. This segment of the Treasury bond sector posted strong returns during the period hurting the relative performance. Additionally, price volatility in the corporate bond segment of the portfolios detracted from performance.

The Portfolio Manager, Tom Lofton, used the price volatility to increase the portfolio allocation to corporate bonds in the Intermediate-Term Pool. During the quarter, the PUF administrator distributed approximately \$107,000 of interest earnings to SOU.

Ms. Burgess then moved to the endowment assets, which were invested in a separately managed account by the State Treasury as of March 31. The total return for the quarter was a positive 1 percent and a negative 1.8 percent year-to-date, underperforming the recommended policy benchmark by 20 basis points for the quarter and outperforming by 30 basis points year-to-date. The total market value of SOU's endowment investments on March 31 was \$2.1 million.

Responding to Trustee Sevcik's question, Ms. Burgess said Arrowstreet Investments is an international equity portfolio and was part of the OUS Higher Education Endowment Pool. When the universities departed from the pooled endowment, there were outstanding foreign tax reclaims. The \$6,000 represents SOU's portion of those tax reclaim reimbursements. Responding to Trustee Sevcik's further inquiry, Ms. Burgess said they generally rebalance annually unless actual allocations deviate substantially from the targets, with 5 percent on either side being the trigger point.

## **Adjourn**

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

Date: July 14, 2016

Respectfully submitted by,

A handwritten signature in cursive script, reading "Sabrina Prud'homme", written in black ink. The signature is written over a horizontal line.

Sabrina Prud'homme  
University Board Secretary