Board of Trustees
Finance Committee Meeting

Thursday, October 15, 2015
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. He reviewed the agenda, introduced guest Penny Burgess and thanked her for attending to present to the committee. The board secretary called the roll and a quorum was established.

The following committee members were present: Chair Paul Nicholson, Les AuCoin (via videoconference), Lyn Hennion, Jeremy Nootenboom, April Sevcik, Dennis Slattery, and Steve Vincent.

Other meeting guests included: David Coburn, OSA; Dr. Susan Walsh, Provost and Vice President for Academic and Student Affairs; Emily Pfeiffer, ASSOU; Olena Black, League of Women Voters; Ryan Brown, Head of Community and Media Relations; John Stevenson, IT User Support Manager; Don Hill, Classroom and Media Services Manager; Shane Hunter, Research and Reporting Analyst; Deborah Lovern, Budget Officer; Kemble Yates, SOU; Janet Fratella, Vice President for Development; Liz Shelby, Chief of Staff and Director of Government Relations; Sabrina Prud'homme, Board Secretary; Kathy Park, Executive Assistant; Jason Catz, General Counsel; Craig Morris, Vice President for Finance and Administration; and Mark Denney, Associate Vice President for Budget and Planning.

Trustee Slattery moved to approve the minutes, without amendments, of the September 1 and 17, 2015 meetings. Trustee Sevcik seconded the motion and it passed unanimously.

Public Comment
There was no public comment.

Vice President's Report
Vice President Morris distributed the 2010-2020 campus master plan to the committee and asked them to review it in preparation for the November meeting of the committee where the upcoming capital request will be discussed.

The SOU Science Building had a soft opening at the beginning of fall term. Issues remain regarding noise from the exhaust and HVAC system of the building, which impacts SOU's neighbors. SOU is doing its best to identify solutions to mitigate the problem and Mr. Morris will continue to update the committee.

Investment Report

Penny Burgess introduced herself and informed the board that she and her team at the University Shared Services Enterprise (USSE) provide administrative, accounting and compliance support services in banking, investments and debt management to the seven public universities in Oregon. She offered an update of the Public University Fund's (PUF) fourth-quarter investment performance, the fund's asset allocation and investment policy guidelines, as well as performance of SOU's endowment assets.

Orienting the board, she described the creation and history of the PUF, which allows the former Oregon University System (OUS) to commingle cash and investment balances in a manner similar to the former system. Six of the seven state universities participate in the PUF, generally investing the entirety of the universities' operating assets in the pooled investment fund. The average combined quarterly cash and investment balance in the PUF is approximately $500 million. Oregon State University serves as the current administrator for the PUF.

The PUF seeks a total return in excess of what the state treasury provides banking clients. The investments managed by the treasury consist of an allocation to each of three investment pools:

1. The Oregon Short-Term Fund (STF) provides liquidity for operations based on analysis of cash flow forecasts from university participants. The minimum target cash balance was set at $150 million during FY15. This will be reviewed annually.
2. The Oregon Intermediate-Term Pool (OITP) invests cash balances in excess of those necessary to meet operating expenses, as indicated from the aggregated cash flow forecasts. Maximum allocation is set at $300 million.
3. The Long Term Pool (LTP) also invests cash balances in excess of those necessary to meet operating expenses. Maximum allocation is set at $120 million.

The asset allocation reflects investment balances at the end of an academic quarter, which is a low point for operating cash balances. As tuition revenues and general fund appropriations are received during the first month of the new academic quarter, the short-term fund balance will nearly double and the total allocation will be 50-55 percent of the total market value.

The asset allocation percentages at the end of the fiscal fourth quarter were: STF at 37.4; OITP at 38.9; and LTP at 23.6. The PUF totals were: STF at $183.8 million; OITP at $191.3 million; and LTP at $116.1 million for a total of $491.3 million. Ms. Burgess also discussed the economy and market performance during the quarter for each of the funds.

Responding to a question from Trustee Sevcik, Ms. Burgess said the internal costs of administering the PUF are extremely low for investment management fees at 1/3 of a basis point. Ms. Burgess' team has an additional cost that's about an annual of 20 basis points to SOU.

Responding to questions from Trustee Nootenboom, Ms. Burgess confirmed that the public university not participating in the program is University of Oregon and that university administers their own program, with the help of an investment consultant. She further responded that SOU can engage in bank accounts or investment management agreements outside of the state treasurer, so its participation doesn't have to be at 100 percent in the PUF.

Ms. Burgess discussed the endowment assets, which were invested in a separately managed account by the Oregon State Treasury as of June 30, 2015. Responding to Trustee AuCoin, she confirmed that the state does not manage SOU's Foundation assets. The total return for the quarter was -1.3 percent and a positive 2.6 percent for the year, underperforming the policy benchmark by 150 basis points for the quarter and 80 basis points for the fiscal year. She later noted the total market value of SOU's endowment investments on June 30th was just above $2.2 million.

Mr. Morris added that SOU had the option of maintaining the relationship with the state or moving these asses under foundation management, but donor restrictions prevented that. SOU can revisit the option in the future if desired. Several trustees thought it was a good idea for Janet Fratella to provide the board with information on the SOU Foundation's endowment management, which she offered to do. Trustee AuCoin also suggested having a joint meeting of the boards. He further felt SOU should be doing more private fundraising and Trustee Sevcik informed him of the current campaign, Count Me In and encouraged trustees to donate generously.

Ms. Burgess also described the factors contributing to the fund's underperformance. First, the primary investment fund was holding a higher than normal cash balance during the first half of the fiscal fourth quarter during a period of rising equity returns. The cash balance was generated to fund departing universities from the pooled endowment fund due to the OUS closure. Second, SOU's separately managed fund, initiated in mid-June, was 93 percent invested during a period of equity and fixed income market price declines.

Lastly, the target policy benchmark is determined by the investment policy currently in force. Upon independence, SOU inherited the former OUS endowment policy until a new policy can be formulated and adopted by the Board. The composition of the benchmark includes additional asset classes suitable for a significantly larger sized endowment fund. The State Treasury is recommending a target asset allocation of 70 percent to global equities and 30 percent to fixed income securities using a combination of the two investments currently held in the portfolio. Following adoption by the board, a new policy benchmark incorporating the 70/30 allocation split will more closely align the portfolio's performance with this policy benchmark, going forward.

Mr. Morris surveyed the committee and determined that receiving quarterly investment reports would be ideal.

Enrollment Update

Chris Stanek gave the committee an update on enrollment at two weeks into the fall quarter. SOU's retrenchment target to reach is 4,214. SOU met the target and was at 4,271 as of the meeting date. Growth was essentially flat; however, there are many still being added through Advanced Southern Credit (ASC) courses over the next week or two. Mr. Stanek projected ending one percent above last year. He then reviewed the funnel report and explained its obsolescence as a gauge for how students are progressing through admissions since the 2015 cycle has ended. Of note, this year's incoming class is 835, which is the largest in 12 years and the second largest in 20 years. Mr. Stanek also reviewed reports for 2015-16 undergraduate and graduate student credit hours by department and by level.

In response to a request from Trustee AuCoin, Mr. Stanek noted the future development of reports based on funding model criteria such as resident students, completions, student credit hours, underrepresented minorities, rural students, veterans and Pell Grant eligible students. Reports can also include certain disciplines and graduate certificates such as bilingual education, and would be reported annually or possibly quarterly since it will be completion-based.

Answering Chair Nicholson, Trustee Slattery and President Saigo, Mr. Stanek noted the mechanisms of tracking retention from quarter to quarter and by level. SOU usually sees a drop in enrollment for winter, another small drop in spring, and big increases each fall. He discussed other trends in retention and attrition, and particular challenges SOU finds among minority and underrepresented students.

Other Personnel Expenses (OPE)
Mark Denney reviewed the three basic elements that makeup OPE: 1) medical, referred to as PEBB (Public Employees Benefit Board); 2) retirement, referred to as PERS (Public Employees Retirement System); and 3) Other, which is made up of expenses such as FICA, workers compensation, and unemployment insurance.

Starting with PEBB, the university generally covers 95-97 percent of the monthly premium cost. This is primarily negotiated through the staff and faculty unions and replicated for non-union employees. For some employees who choose the lowest cost plan, the split is a 97/3 percent split, as the university picks up an additional two percent of the premium for these employees. The lowest paid classified employees also get an additional $40 monthly subsidy to help defray their costs. Some employees are pro-rated, but most of those below 0.5 FTE are not. Mr. Denney then outlined some of the budgetary challenging instances for proration.

Calculating the rate for PEBB works out to be a flat or composite rate that SOU pays. He briefly described how the USSE calculates the rate and SOU's fluctuation of the rate for the current year. He also showed the committee the three medical plans that employees can select, their actual dollar costs to the institution and to employees, and the differences for 2015-16 versus 2014-15.

Mr. Denney then discussed the second element, PERS, noting that SOU pays both the employer and employee contributions. In prior years, in lieu of salary raises, the university paid the employees' contribution for them. However, the employer rates differ by employee type and the tier in which they participate. The tier levels are graduated based on longevity of employees, and as longer-serving employees retire, rates go down for remaining tiers of employees. Mr. Denney explained the employee types and the tier levels. He also noted that there is also a "PERS Debt" portion, where after the recession of 2008, PERS was underfunded. All public institutions contributed to "pick up" their share and fix the underfunded portion. As no public institutions had the cash, there is a residual debt cost of the debt incurred to make those contributions.

The third basic element of OPE, Other, includes other employer costs for various benefits employees receive, such as worker's compensation, unemployment insurance, FICA and other expenses.

Discussion of FY 15-16 Budget Assumptions

Chair Nicholson introduced the topic and reminded the committee that trustees entered the last budget cycle late in the process due to timing and he requested at that time to begin budget conversations much earlier going forward.

Mr. Denney noted that the assumptions being presented all are involved in putting together the budget. The budget office starts off with the target ending fund balance, which is built by the net of operations, or revenue minus expenses. Mr. Denney then discussed the series of assumptions that go into determining revenue, beginning with state appropriations for a biennium, then when looking forward to the next biennium, the fixed base funding, which is hopefully adjusted for inflation. There are the two other elements: activity, or enrollment; and outcomes, or graduation rates, which are influenced by various underrepresented categories of students in the outcomes-based funding model, such as veterans. He noted that SOU's allocation is relative to other Oregon public universities, as the pot of money is fixed and the universities all compete for a share.

After assumptions about state funding, the next set of assumptions is around tuition revenue. Considerations include: how does SOU set tuition rates based on categories where we want to see growth. He also looks at enrollment in the key groups: new, first-time freshmen, new transfers, retention of existing students, returning students, non-admits, and dually enrolled, noting that a mix of these across the university helps build tuition revenue. Within each of these categories, SOU looks at the trend of residents versus non-residents, Western Undergraduate Exchange students, undergraduate versus graduate students and the many different tuition rates among the various groups.

Also part of tuition revenue are remissions. Questions to consider include: What is happening with that budget? What are the changing amounts? What type of student is remission targeted to attract? It typically has been in the area of about 10 percent of total tuition revenue, but for the last few years it has remained flat because, despite targets, SOU wasn't spending that budget fully.

Others areas of revenue include internal reimbursements. The facilities department will do work and charge back to other departments or projects such as for the SOU Science Building or McNeal Pavilion. Another area is the assessment of auxiliaries, which increase may increase revenue to the university. Lastly, miscellaneous sales/reimbursements are on a slow trend of slight increases from year to year with occasional bumps.

After revenue, SOU looks at expenses and the biggest pieces are: labor costs, full-time equivalent changes, cost of living adjustments, OPE rates. After labor, which is the bulk of costs, the budget office looks at smaller parts of the budget such as supplies and services and figuring out where to hold, increase or decrease. Sometimes there are also tiered, "what if" budget options, as with this year's budget to accommodate better-than-expected enrollment. The final piece discussed was net transfers, both transfers in and out on an ongoing basis. Concluding his presentation, he showed graphic representations of revenue streams, and expenditures to give an idea of the proportion each major stream contributes to the budget.

Trustee Slattery asked where athletics will impact budget and Mr. Denney informed him that it is an auxiliary unit, will remain so, and would be part of net transfers in the general fund.

Chair Nicholson noted that the assumptions presented are mostly internal and suggested a future committee discussion about external factors such as elections, recession, inflation, utilities, and others of relevance.

In response to questions from Trustee AuCoin, Mr. Denney informed him that the bulk of the one-time revenue items are not built-in to the base budget going forward. In response to a separate question from the trustee, Mr. Morris noted that it was not unusual for the Oregon University System to request scenario planning analyses and that SOU can do this going forward if and when the need presents.

Adjournment
The meeting was adjourned at 6:03 p.m.

Date: November 19, 2015

Respectfully submitted by,

Sabrina Prud'homme
University Board Secretary