

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

**Thursday, May 20, 2021**

**MINUTES**

**Call to Order/Roll/Declaration of a Quorum**

Committee Members:

Sheila Clough	Present	Shaun Franks	Present
Lyn Hennion	Present	Megan Davis Lightman	Present
Bill Thorndike	Present	Steve Vincent	Present

Chair Sheila Clough called the meeting to order at 2:30 p.m. The secretary recorded the roll and a quorum was verified.

Other trustees in attendance: Paul Nicholson and President Linda Schott.

Other attendees and Zoom webinar panelists included: Greg Perkinson, Vice President for Finance and Administration; Dr. Neil Woolf, Vice President for Enrollment Management and Student Affairs; Dr. Susan Walsh, Provost; Janet Fratella, Vice President for University Advancement; Jeanne Stallman, Associate Vice President for Government and Corporate Relations; Tom Battaglia, Chief Information Officer; Sabrina Prud'homme, Board Secretary; Steve Larvick, Director of Business Services; Josh Lovern, Director of Budget and Planning; Staci Buchwald, Director of Housing; Robert Casserly, OLLI Assistant Director; Deborah Lovern, Provost's Office; Jayne Atkins, Business Services; Christina Sanz, Southern Oregon University Foundation; Jason Mendoza, University Housing; Colleen Martin Low, Business Services; Luana Stevens, TRIO/SSS Office; and Pamela Tomac, Office of the Board Secretary.

**Public Comment**

There were no public comments.

**Consent Agenda**

Trustee Franks moved to approve the consent agenda as presented. Trustee Lightman seconded the motion and it passed unanimously.

**Vice President's Report**

Regarding capital projects funding, Greg Perkinson explained that the legislature potentially could fund future projects such as the SOU Music Hall Renovation and The Britt Hall Phase 2 projects. He cautioned that some construction costs end up tripling but that interest rates are favorable. The Legislative Affairs Council is doing a fantastic job working advocacy for funding in the public university support fund. The revenue forecast is favorable and therefore, the governor is encouraging robust funding.

Mr. Perkinson shared photos and updates on the renovation of Britt Hall since the board increased spending authority for the project. The additional expenditure helped accomplish much-needed safety, restroom, and overall improvements to the building.

**Action, Information, and Discussion Items**

## Review of Board Reserve Policy Draft

Chair Clough is excited about the prospect of securing financial sustainability, thinking proactively, as well as setting policies and money aside for a rainy day.

The reserves schematic displayed the key elements of the policy: central reserves, operating reserves, working capital, capital reserves, treasury reserves, and risk management claims reserves. These, which are all intended to drive net assets and give SOU the ability to invest while spending operational assets appropriately. Along with the primary reserve ration, there will be key performance indicators (KPIs) for each reserve.

The Central Reserves will have 15 percent of the Education and General (E&G) fund held as a target minimum in two buckets, central operational reserve and divisional areas divided into two groupings (those areas that generate revenue and those areas that support revenue generation). For auxiliaries, Mr. Lovern discussed focusing on three months of working capital for these enterprises. The units may have different reserve needs, so the amounts would differ. The Treasury Reserves ensure at least one year of principal and interest for debt service, which is already the practice.

Chair Clough asked that a statement go into the policy to acknowledge that there need to be checks and balances if internal loans are transferred from one reserve to another, and an oversight mechanism to ensure issues are not inadvertently created. Mr. Perkinson said his team could study how to integrate that language and shared that a provision in the current draft requires an annual report to the board to show activity.

The Risk Management Claims Reserve information was gathered from talking with insurance companies and reviewing claims history, to set aside an amount to anticipate property and casualty claims including the deductible levels. Responding to Chair Clough's questions on how these reserves will be funded, Mr. Perkinson said the next agenda item about federal funding will provide a sense of timing, and as the draft budget is reviewed, the pro forma snapshots show how the infusion of over \$10M of institutional federal funds could be allocated if the president and board support that plan.

Trustee Franks asked about timing and how benchmarks help the ending fund balances. Mr. Perkinson explained how the charts show the health of the reserve accounts, and the vision is to get the support of the board on this concept. An important factor will be bringing campus stakeholders together and having an active dialogue of the intended and unintended consequences of this proposal. The plan is to agree on the concept, develop the structure of the system, then work on teaching and training aspects to ensure key stakeholders can take ownership and are excited about implementing the plan. Trustee Franks commented that the financial sustainability goals of the strategic plan align well with this policy.

Board Chair Nicholson asked two questions: If feeding reserves give the institution more financial strength, then there will be times the reserves are utilized; how will they be replenished—particularly a 15 percent capital reserve that has a goal closer to 40 percent? Second, the board's discussions have been about using an equity lens in making decisions—who are vulnerable to these decisions and who is being left out of the discussion? He suggested integrating such considerations into the final policy.

Much discussion ensued among trustees and the following points were made: the rationale explaining the need for the reserves is critical; 15 percent is too low, although it is nearly

double what has been reserved in the past; and reserves aren't just money in the bank but they're diagnostic tools that try to bring about specific expectations that will be required on some of those reserves. For example, reserves are operational tools for the ability to go out into the marketplace for borrowing, bonding, etc. Trustees also expressed that this is what SOU needs to have available to work with students, faculty, staff, the HECC, and to understand how to work through time; finances are either managed reactively or proactively, and having reserves helps manage the impact of finances down the road; with a proactive plan SOU will not have to make rash decisions because the money already exists, and there will need to be a big education and training effort to secure and activate this plan for future generations, and the students will come to value it.

Regarding concerns or alternatives to what is being proposed, President Schott cautioned that this is the right thing to do but if enrollment does not pick up, and if state funding is decreased, it will require reductions at the university. When instituting discipline, there may be times when it does not feel so good, but it may require reductions elsewhere; this will require some balance. Further, the federal money only buys time to make necessary adjustments to business processes and there will probably be some pain coming with this kind of discipline.

Board Chair Nicholson supported all the reasons outlined to have a policy like this in terms of defense are that SOU can build against unknown calamities or catastrophes, and in terms of an offense is that SOU can take advantage of opportunities that may not otherwise have been available. This plan is absolutely worthwhile.

#### Federal Relief Funding Update

Mr. Perkinson explained that each week, SOU learns something new about how the federal funds will flow. SOU recently learned that Deferred Action for Childhood Arrivals (DACA) and international students could be included in the disbursements. Universities that have drawn down CARES Act funding will automatically receive funds from the Coronavirus Response and Relief Supplemental Appropriations Act and the American Rescue Plan Act (ARPA) but the allocation strategy may not come until August. The SOU reserve policy could be a shaping factor but there will be other items to shape this as well. The duration of spending those funds is believed to be through September 2023 with a one-year window after draw-down unless an extension is submitted and granted. As the university thinks about the elements that help students persist and thrive, and looks at the aid that goes directly to them versus what the institution is allowed to use, it is a good concept to keep in mind. Dr. Woolf later added that in the first two rounds, students overwhelmingly asked for funds related to housing.

#### Review of Fiscal Year 2021-22 Budget Draft

Chair Clough reminded everyone that the role of FAC is to get a good understanding of the draft budget assumptions, to test them, and provide feedback that will help the management team to shape the budget that FAC will feel comfortable sending as a recommendation to fellow trustees.

Mr. Perkinson described the three funds: 1) Budgeted Operations (also called Education & General - E&G) which include Academic Units and Support Areas; 2) Auxiliaries which include Housing, Student Health and Wellness Center, and the Student Recreation Center; and 3) Designated Operations & Service Centers such as the print and copy center and Jefferson Public Radio.

He also described the key assumptions and observations for each of the three fund types. Labor increases appear magnified due to furloughs and hiring freeze during the pandemic; there are increases in Supplies and Services (S&S) to catch up from prior years; and athletics is forecasting decreases due to lottery funding and incidental fee decreases. In the Auxiliaries Budget, fee revenues are projected to be down and some auxiliary fund balance may be necessary for operations; lottery support is projected to be down more than expected; and increases in S&S. For the Designated Operations and Service Centers Budget, S&S is scaling back as some programs reduce need, and it's largely stable but there's some concern around revenue generation which will require careful monitoring. For all three, labor increases appear magnified due to furloughs and a hiring freeze during the pandemic. Additionally, Mr. Lovern was hopeful that some answers on the sports lottery funding would be available for the final budget review in June.

Vice President Perkinson and Mr. Lovern then reviewed the summary of the expenditures budget, of \$90,233,609, both with and without federal relief funding. They also reviewed the sample budget detail behind the budgeted operation including revenues, labor, S&S, capital expenses, transfers, and total revenue minus expenses.

Responding to Chair Clough, Mr. Perkinson said that the sports lottery saw a decrement this current fiscal year, then it got restored, and saw strong performance the last months on the gaming side, which is good for revenue. The uncertain piece is 1) the timing of when the legislature will decide whether to fully fund a sports lottery and 2) how much to allocate amongst the universities, which usually occurs at the end of the cycle and could be after the June board meeting.

Responding to Chair Clough, Mr. Lovern explained that the \$6M increase from 2019 to the FY 2022 draft budget was due to the administrative labor increases from 2020 & 2021 that did not occur. Additionally, the classified labor pool has also increased and with the faculty expected increases, as well as the 2.25 percent increase in S&S along with the unavoidable increases such as the Public Employee Retirement System (PERS) cost increase contributed to this increase.

Trustee Thorndike said most businesses today cannot hire. The application pool has evaporated, but because of how attractive working for SOU is, it will be interesting to see what happens here. Every single entity in Medford is short of people. There was only one application to work for Medford Fabrication last month. All restaurants have signs advertising that they are hiring. It will be interesting to see who will come back to staff positions that need to be filled. Trustee Clough added, for businesses to be attractive to higher people, the increase in rates and compensation are escalating beyond the imagination. It will be interesting to see how that will impact managing labor costs for the institution.

Trustee Thorndike added, in speaking with affiliates at RCC regarding retention, if childcare and afterschool care for spouses to be able to handle children and students in K-12 is not addressed, there will be some conflicts. Trustee Thorndike hopes that as SOU considers transformational investments and demographics, know that institutions that are not going to address after-school care and childcare will be at a disadvantage. Chair Clough further noted that this goes to Board Chair Nicholson's comments about using an equity lens, and to not only consider childcare but review housing affordability so that SOU may attract and retain professionals.

Responding to Board Chair Nicholson, Mr. Lovern replied that the transfers out that go across the institution are the support from E&G to athletics and it has adjusted for the foreseeable future to deal with the changes to the sports lottery. Mr. Perkinson added the other significant transfer is the legacy relationship between housing and E&G.

Answering President Schott about fire relief funding, Mr. Lovern said that those dollars have not entered the budget at all. President Schott then commented that it is hopeful that the university will receive at least a couple million or more for fire relief due to its significant impact on our enrollment this year. Mr. Perkinson said a week or so ago, it was thought that RCC and SOU would each get \$1M next year and the following year. The ask was closer to \$5M and there are indications that maybe that funding will come through. Mr. Lovern tempered that statement by saying enrollment may be more challenged than initially projected, a big push for registrations will go out on Monday, and those latest data points will be incorporated into projections going forward. The administration may come back with an enrollment figure to adjust the projections related to the environment for students, to be more realistic about our enrollment and SCH going forward. President Schott said the economic boom could give more to Oregon Opportunity Grant (OOG) to provide more financial aid and make it possible for more students to attend SOU, though there are many unknowns in all of this.

Referring to the first pro forma, Mr. Perkinson spoke of how the estimate to complete and close out this year is amazing at 14.3 percent, even without the second two increments of federal funding. Then note the \$5.9M disconnect that represents a significant challenge for the dollars needed to restore the change in fund balance from beginning to end. The next chart, which shows the difference from the -5.9 to 17.63 percent fund balance, includes the federal relief to help address the near-term challenge. Trustee Clough commented that the institution has done some amazing work on cost containment, and as plans are made for the budget going forward, it would be helpful to illuminate the continued work. The university should continue that discipline around cost controls and focus on making it more affordable for our students to continue to attend our university.

Summarizing final thoughts, Trustee Hennion wondered if it would help to ask our business school professors to offer an education about the way they would explain the things Trustees Lightman, Vincent, and Thorndike said.

Trustees Hennion, Franks, and Lightman agreed that the work on the budget is remarkable from what was imparted today.

Trustee Franks applauded the team in planning amid chaos and uncertainty, a lot of great work and thought went into these great updates with good highlights provided in advance to help think through these concepts.

Trustee Vincent said what gnaws still is what the legislature did in 2002, where they were swiping reserves from the universities, the most unfair swipe that one can imagine. Mr. Perkinson offered, to allow some measure of comfort, to have a conversation with Jim Pinkard to see if the current structure would allow the state to sweep our reserves.

Trustee Thorndike commented that there was an interesting 35-minute conversation through the Oregon Business Council and Plan with the governor on federal monies coming down aside

from those decided by legislators. The business community has discussed the four areas that are critical for success which are housing, broadband, education, and workforce. There is a great connection between education and the workforce, and it would be great to continue developing into a hybrid organization. If given an opportunity to talk about investments for long-term results versus filling a shortfall, keep this in mind.

President Schott shared some parting thoughts to follow on Trustee Thorndike's comments on how SOU will allocate the federal funds, a top criterion is to not use temporary funding for things that will have recurring costs without knowing there is a revenue stream to support that.

Board Chair Nicholson said as the pandemic is hopefully reaching the end, and though it has been extraordinarily painful, let SOU not forget the lessons learned. SOU must not return to where it was. Hearing the thoughts, concerns, and observations of trustees, this has been a really good discussion and applauded the staff for bringing this to the trustees for thoughtful discussion. In a month, the fruits of that labor will be shown.

Trustee Clough concurred wholeheartedly with Board Chair Nicholson's comments, particularly regarding the hard work of the team. The robust conversations could not have happened without all the information in the background, and the tons of work that occurred behind the scenes. Chair Clough hopes this input will help shape the budget.

#### **Future Meetings**

Chair Clough said the committee's next meeting will be on Thursday, June 17, 2021, at 4:00 PM. The FY 21-22 budget will be the main agenda item at that meeting. If any trustee on the committee has any topics they would like to see on a future agenda, please send them to the board secretary or her, as the chair.

#### **Adjournment**

The meeting adjourned at 4:26 p.m.

Date: May 20, 2021

Respectively submitted by,



Sabrina Prud'homme  
University Board Secretary