Board of Trustees
Finance and Administration Committee Meeting
Thursday, March 17, 2022

MINUTES

Call to Order/Roll/Declaration of a Quorum

Committee Members:

Sheila Clough	Present	Shaun Franks	Present
Lyn Hennion	Present	Mimi Pieper	Present
Bill Thorndike	Present	Steve Vincent	Present

Chair Sheila Clough called the meeting to order at 4:00 p.m. The secretary recorded the roll and a quorum was verified.

Trustee Shaun Franks later read the SOU Land Acknowledgement.

Other trustees in attendance: Daniel Santos and President Rick Bailey.

Other attendees and Zoom webinar panelists included: Greg Perkinson, Vice President for Finance and Administration; 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; Josh Lovern, Director of Budget and Planning; Director, Office of Postsecondary Finance and Capital; Steve Larvick, Director of Business Services and Controller; and Sabrina Prud'homme, Board Secretary.

Chair Clough welcomed special guest, Jim Pinkard from the Higher Education Coordinating Commission (HECC), to the meeting.

Public Comment

No members of the public offered comments to the committee.

Consent Agenda

Trustee Bill Thorndike moved to approve the consent agenda as presented. Trustee Hennion seconded the motion, and it passed unanimously.

Vice President's Report

Tuition Advisory Council (TAC) Update

Vice President Perkinson said the TAC has been meeting regularly and their next steps are to continue the dialogue on affordability as well as modeling of the pro forma and see if they can get to consensus on tuition and fees. He commended the work the TAC has been doing and Provost Walsh for her leadership of the council.

Facility Planning and Utilization Committee Update (FPUC)

Regarding the FPUC, he said it was formed as a way to clean up the governance of space planning and utilization on campus. It is a committee with himself, Provost Walsh and Vice President Woolf as tri-chairs. The group started off reviewing the space needs of Native American Studies and in February, they prioritized capital projects, as that is due to the HECC April 4. The committee offered to any proponent the opportunity to pitch their projects and four were proposed, as presented in the materials.

Facility Planning and Utilization Committee Capital Projects Recommendation
Based on the four proposed projects and others of importance that previously had been identified, the FPUC's recommended capital projects prioritization are: 1) Creative Industries Center and Digital Media Conversion; 2) Stevenson Union mechanical repairs' 3) Central Hall Phase 2; 4) Affordable Housing (Replace Greens Springs); and 5) Business Sustainability Center at the Farm. He also discussed, as presented in the materials, the estimated costs, funding source for each project, remarks on each project, as well as the sample scoring rubric.

Responding to Chair Clough's question on the scoring rubric, Vice President Perkinson said yes, it includes components pertaining to equity, and regarding furthering the strategic plan, he said the strongest link is Strategic Direction (SD) 3 regarding sustainability, which is an important part of an effective project submittal to the HECC. Another clear link is to SD 6 on active learning and universal design, as well as SD 7 and the community relationship. For example, SOU's number one prioritization on the list supports performing arts activities currently degraded by condition, lack of size and accessibility on restrooms and improving these helps SOU's students as well as patrons.

Regarding Trustee Vincent's question about whether SOU pursued LEED design and certification for the Central Hall project, Vice President Perkinson said SOU considered but could not afford certification. Much discussion ensued on the applicability of the executive order to pursue LEED standards in SOU's projects as well as Earth Advantage as an alternative to LEED. The vice president thanked Trustee Vincent for the information and said he would follow up on Earth Advantage and if SOU is subject to the executive order.

Trustee Thorndike asked if SOU has building standards within its maintenance plan for uniformity across buildings and systems to allow the university to maintain them successfully and efficiently so SOU is not competing with pricing. Mr. Perkinson said yes and no: SOU used all Johnson controls for a long time but broke ranks with Johnson on the Churchill project due to significant costs and other issues. He said those decisions were made by his predecessors. Another example is the Stevenson Union, which was a 1972 install and typical of older buildings. With that at end of life, SOU now has better design standards.

Update on Banner System Replacement
On the Banner project, Vice President Perkinson described that the technical evaluation has been completed, legislative advocacy is ongoing and the next steps will be to publish a request for proposals for implementation support, and develop an implementation cost and timeline for the project. He said he would keep the committee posted on new developments.

Action, Information and Discussion Items

Higher Education Coordinating Commission Evaluation: Financial Conditions Report
Chair Clough introduced the topic explaining that every two years the HECC evaluates the state's public universities on a number of criteria and in SOU's last evaluation, the report had challenging information regarding SOU. She said the committee is excited to welcome Jim Pinkard, from the HECC to discuss the financial metrics as the work continues to sustain this institution. Vice President Perkinson, introduced other members of the panel discussion: Steve Larvick and Josh Lovern.

Mr. Perkinson provided an overview, as presented in the materials, that the baseline information supplied to HECC is from the university's audited financial statements. Mr. Pinkard said HECC tries to take a broad perspective of oversight, communication, collaboration, and monitoring, as theirs is not a governing role. They perform a ratio analysis with financial data from both the university and the foundation together and use industry ratios that have been standard for almost 40 years now. These ratios simplify the data for commissioners into a composite financial index to indicate directionally, over time, where an institution is headed.

Discussing “why we use financial ratios,” Josh Lovern shared perspectives on benchmarking and analysis, the main points were that it provides quantifiable measures, it allows for benchmarking and analysis, communicates financial health of SOU, and is an accepted practice with a 40-year history recognized by ratings agencies and others. Chair Clough affirmed that outside of higher education, this is standard practice in other industries. Regarding how these ratios support governance and oversight, Mr. Perkinson pointed out that these ratios measure financial resources, provide a way to view the institution holistically, measure indebtedness, measure the use of resources to achieve mission or support growth, and measure the importance of programs to mission and financial health over time. Steve Larvick added that over time SOU has seen dramatic ebbs and flows in the overall health of the institution. He said the individual ratios in a particular year only tell part of the story; the trend in the rations tells the bigger story. For example, if the institution is in the process of investing in programs, the results may not fully transpire until further years out. With that, there comes a balance of ensuring the institution is healthy and keeping the institution affordable for students, which is important for public institutions especially.

Regarding the current versus future state of the “finance follows mission” graphic, Jim Pinkard said, a key element is balance. When looking at the four ratios making up the composite financial index, a weighted approach is used. Two indicators focus on current operations and two speak to future state so it is weighted 70-30, long versus short term. Short term is important but long term is to make sure the universities are capable of a stable foundation for success well into the future (40 to 50 years). Trustee Vincent remarked on Steve Larvick’s earlier comments regarding balance, and added a third item: the state’s need, if not tension, to educate its people but now, it’s on the backs of [students’] tuition as the state has defunded higher ed and as legislatures appropriate for the greater good, that has been lost for academia; it’s as if students are customers who ought to pay and the greater good of society is no longer part of that. Mr. Pinkard agreed and said that in Oregon over the last two decades, the state contributed enough to pay for 45 percent of the cost of the students’ education and now it is about 25 percent of the total Education and General spending. Around the nation, a university degree is less attainable creating more disparity and inequities since the great recession, which is problematic. As a commission, HECC is concerned about affordability to address this, the staff recommendations will focus on student affordability, equity, underrepresented minorities, etc. and spoke of efforts outside of the funding formula to address the inequities and student affordability.

Discussing SOU’s financial condition ratios and the composite financial index (CFI) numbers, Mr. Pinkard pointed out the main difference between the CFI and adjusted CFI: the adjustment includes pension and post-employment benefit obligations as government accounting standards have changed how pension liability is recorded. There is little SOU can do to affect the size of those liabilities because they are determined by the Public Employees Retirement System board, but the CFI is very different without these liabilities as a result, so the CFI is computed both ways.

Processing through the materials, Vice President Perkinson showed the CFI over time and highlighted the positive uptick from 2020 to 2021 attributable to cost management, furloughs, federal support, and a strong $8M at the foundation. These transient factors, and not structural changes, helped improve the university's CFI.

Looking at the seven universities over time, Mr. Pinkard explained that the data set begins about 5 or so years ago because there was a different governance model before 2014 or 2015. He said the universities generate an operating deficit, meaning they spend more money than they collect and they close this gap with fund balance dollars. However, this can only be done so many years in a row until a fund balance is exhausted. It is a balancing act and the hard work is up to the governing boards to decide, "where do we want that balance to be?" Does a board side with student affordability to maintain consistent tuition or does it increase tuition to build fund balance? At the end of day, HECC has seen many of the universities' operating balances decline over time as they have had to deal with enrollment decreases and expense increases to the point where many in Oregon and nationally believe higher education is reaching an inflection point.

He explained further that in the rear view of 20 years, overall, enrollment across Oregon's public universities has been up only one percent, while at most institutions it has dropped. Going forward there are many challenges to face. There is overall population growth expected but a decline in the normal college-going population, or people under 30. Oregon has raised tuition such that a strong economy is a headwind. Unemployment in the state is the lowest it has ever been, which could affect a student's decision to go to college if they can get good job with benefits. State funding is another challenge and whether strong funding can be sustained going forward. Oregon is largely dependent on income taxes versus sales taxes like other states. Of course, inflation is a headwind as well. All of these considerations are important as governing boards try to figure out how to strike the balance of affordability, paying the bills the universities need to pay, growing the institution, and paying for expense growth going forward.

Vice President Perkinson highlighted several key takeaways noting that trustee advocacy for direct funding to SOU is critical especially in the post-pandemic ecosystem and that SOU cannot cut its way out of its financial issues, although cost management is still critical to success. Another takeaway was that the pandemic has been brutal, financially, but the team endured through aggressive cost control, furloughs and federal relief; expense items outside of SOU's control are too heavy to shift to students (retirement, healthcare, IT, utilities, insurance, etc.); and that SOU needs more revenue streams. Trustee Franks thanked the vice president for slowing down this topic for the committee to make sure trustees understand it well.

Trustee Thorndike said he always tries to keep the whole of higher ed in the state in mind and hopes the university doesn't get caught in the trap of just utilizing ratios and not taking into account what the dollars and cents mean to SOU's goals. He appreciates these efforts, and acknowledged SOU has come a long way from a couple years ago.

<u>Budget Update and Review of Pro Forma</u>

Before discussing the budget, Vice President Perkinson reminded the trustees of the challenges he faces in trying to balance revenue and expenses. The major areas of expenses are labor including retirement and benefits, and supplies and services (S&S). The major revenue areas are tuition, the state allocation, and fees. He appreciated board's willingness to approve a deficit budget, as it forced him to stretch to emphasize efforts on cost management and revenue generation. He then reminded trustees that SOU has been implementing significant cost management strategies, and showed a pie chart of where SOU gets its monies to operate, including the grants "slice." President Bailey added thanks to Vice Presidents Perkinson, Walsh, and Fratella and mentioned he had just met with them earlier in the day to discuss supercharging grant revenue and reimagining the grants function.

Regarding enrollment revenue, Vice President Woolf said the team runs a number of different models and factors to see where enrollment may land. Headcount for fall 2021 saw a slight increase while FTE was down slightly. For fall of 2022, there are already some positive indicators on new freshmen, which are getting back to pre-pandemic levels; transfers are expected to be down; graduate students are expected to be flat; continuing students are expected to be flat; and overall, total headcount is expected to be flat, but it is still very early so this will be updated.

Mr. Perkinson showed the key assumptions and observations and reviewed the pro forma spreadsheet, focusing on the differences in the data elements from what the trustees have seen previously. There was an uptick in state funding, but SOU learned yesterday that there also will be a $1M hit to state funding next year, which is not yet represented in the data set. There is about a $500K positive indicator in labor on the faculty side from vacancies met with about $200K in new faculty contracts, and a big swing in S&S due to inflation.

The board-approved budget was focused on a 15 percent reserve and included an $8M disconnect to get there. That came with risk but was taken because SOU had federal relief dollars. As the board approved the plan to spread the federal dollars over three years, there was about a $2.9M. SOU will continue to monitor costs, show restraint and think big about revenue. Mr. Perkinson then showed the pro-forma across the biennia, but noted that it does not yet include yesterday's new information about the $1M loss in state funding, or the sale of excess properties. Chair Clough said it is fair to say there is work to do.

<u>Revenue Diversification Opportunities: Fiscal Possibilities</u>
President Bailey introduced the topic saying that after only eight weeks at SOU, he sees some interesting possibilities. He said the ideas will not solve everything—they could—but SOU needs to be efficient with what the university does operationally and figure out what SOU can do to be entrepreneurial to change the fiscal picture. Thirdly, he finds it shocking that in eight weeks, it has been possible for him to put some meat on the bones of these ideas already. He said this is because the team at SOU is so good, it has allowed him the bandwidth to do some of this work; he commended and offered gratitude to the team.

There were four ideas he discussed in varying degrees of detail: solar energy production or energy transformation, both internal to the campus and on an external community scale; a Cascades Housing Project; a university district business accelerator, and a Pacific Northwest Workday Training Center. Regarding energy transformation, he highlighted that SOU spent $717 in a COVID year, which could quickly be $1M. If SOU could generate 7.2 megawatts, it could be a $1M savings. Today, SOU generates 8 percent of its own electricity so there is tremendous opportunity. The cost of energy is relatively low and if SOU leverages infrastructure dollars to produce energy and gets external stakeholders to buy into it, there is tremendous opportunity. The challenge is that because of existing contractual obligations, there is a flat fee cost that Ashland must pay regardless of use. Dr. Bailey believes the infrastructure bill President Biden recently signed is promising for this project and Dr. Bailey will be going to Washington to meet with Oregon's federal delegation's energy experts to let them as well as local experts be part of this solution. Dr. Bailey offered special thanks to the students and staff in sustainability, Becs Walker, Jeanne Stallman, and Trustees Franks and Vincent especially. Trustee Vincent encouraged, ranking opportunities by return on investment and identifying which goals help SOU achieve which goals—for example, it may do one at the consequence of the other. He offered further cautioned using examples of other energy projects and challenges they faced.

On the housing project idea, it would be a partnership different from the Shasta and McLoughlin models in that the president would like to see courses built in to the rent model. This would focus on people other than those under 30—possibly even seniors. Residents could become students, there could be a mentoring-auxiliary support system model. The student leaders he has spoken with, including Trustee Pieper and ASSOU, have been supportive, especially, as they understand the *university district* idea. That idea would form a business accelerator in South Ashland and be a partnership with the City. He thanked Trustee Pieper about her ideas to survey students for their ideas for the types of businesses they'd like to see in such a district that would keep them in town.

A Workday Training Center, the fourth idea, would exist for the purpose of end user training and design. President Bailey said he spoke with Workday about it noting that SOU will lead the transition to Workday knowing that the other universities will follow. They said SOU would not only be the only entity in Oregon, SOU would be the only entity doing this anywhere. It would be a headquarters and a terrific use of the Medford Campus.

Lastly, the president said, these are not the only four! All of them involve collaborations so SOU can't be territorial. He also believes they all have the potential to change the higher education paradigm, which will not come without obstacles but that calculated risks could really pay off for SOU in the future.

Future Meetings

The next meeting of the committee is scheduled to take place on April 21. That is the tuition and fees meeting so the agenda is already a full one. If any trustee has an important topic for the May meeting, please send those to the board secretary.

Adjournment

Chair Clough thanked Jim Pinkard for his partnership and joining the committee. She adjourned the meeting at 6:06 p.m.

Respectfully submitted by,

Sabrina Prud'homme

Sabrina Prud'homme
University Board Secretary

Date: April 22, 2022