OSU Oregon State UNIVERSITY

The Board of Trustees of Oregon State University

Meeting of the Finance & Administration Committee

August 25, 2016
Teleconference and President's Conference Room
Kerr Administration Building, OSU
Corvallis, Oregon

MINUTES

Committee Members Present: Mark Baldwin, Patty Bedient, Julia Brim-Edwards, Darry Callahan, Mike Green (*ex officio*), Brett Morgan, Laura Naumes, Pat Reser (*ex officio*), Kirk Schueler (*chair*), and Mike Thorne (*vice chair*)

Other Trustees Present: Mike Bailey, Michele Longo Eder, and Ed Ray

University Staff Present: Anita Azarenko, Sherm Bloomer, Penny Burgess, Debbie Colbert, Becca Gose, Mark Huey, Jan Lewis, Cindy Sagers, Patti Snopkowski, and Marcia Stuart

Guests: Steve Schauble (*vice president and chief financial officer, Oregon State University Foundation*) and Monique Spyke (*director, PFM*)

1. Call to Order/Roll /Declaration of a Quorum

Committee Chair Kirk Schueler called the meeting to order at 10:05 a.m. He asked the assistant board secretary to call the roll and noted a quorum.

2. Consent Item

a. Minutes of the June 2, 2016, meeting

A motion was made and seconded to approve the June 2, 2016, Committee meeting minutes as presented. The motion carried.

3. Action Items

a. FY2016 Q4 OSU Operating Management Report

Chair Schueler asked Interim Vice President for Finance and Administration Mike Green to report on the FY2016 fourth quarter operating results for the University's three operating fund groups: Education and General (E&G), Self-support, and Restricted. Green reported that revenues for the E&G funds ended higher than budgeted, with an operating reserve of 13.4% of revenues, or $80.0M, on total actual revenues of $597.0M, as compared to a budgeted operating reserve of 9.4%, or $54.8M, on budgeted revenues of $581.9M.

For the Self-Support fund group, Green reported an operating reserve of 20.6%, or $44.2M, on total actual revenues of $214.6M, as compared to a budgeted operating reserve of 23.2%, or $49.0M, on budgeted revenues of $211.4M. He said the $4.4M favorable variance in Sales & Services revenue was attributed to Athletics receiving $3.0M more from a higher than anticipated Pac-12 year-end settle-up distribution and $1.6M more in sponsorship revenue than projected. The $2.9M favorable variance in Personnel Services expenses was mainly due to $1.2M lower INTO OSU salaries and benefits and $1.1M in Athletics performance bonuses that were budgeted but not earned. The $2.9M unfavorable variance in Supplies & Services (S&S) and Capital Outlay was due mainly to $1.2M lower INTO OSU personnel services costs for which the reimbursement is run through S&S and Capital Outlay; $1.2M in Athletics debt service payment; and $0.8M lower post-season expenses. The $4.5M favorable variance in Transfers-Out was mainly due to a $2.5M correction in prior year capital equipment purchases; $0.8M in lower Athletics transfers; and $0.8M in lower student center transfers.

In response to Trustee Baldwin's query as to why INTO OSU salaries were lower, Green advised that the decline in INTO OSU enrollment last year drove a reduction in personnel costs. Trustee Bedient noted the change in the student centers and asked if it was due to timing or a budget issue. Green advised that the transfers-out were for equipment that normally would not be transferred. The student center auxiliary initially funded a plant fund for the new SEC building project with operating dollars to be spent on equipment. The equipment was incorrectly capitalized to the building during FY15, and the error was discovered during FY16. Correcting entries were made at FY16 year-end to reverse the transfer-out and to record the capital equipment within the auxiliary funds.

The $3.7M unfavorable variance relating to additions/deductions to Unrestricted Net Assets was primarily due to the $2.M correction of prior year capital equipment purchases, as explained above, and a $0.6M in-kind donation of a parking lot that was not budgeted. This donation resulted in an increase in revenue, but, since this is a capital asset, does not result in an increase in unrestricted net assets. Green advised that this parking lot transaction is related to a third-party lease agreement and is under review to determine if the transaction should be classified as lease revenue instead of a donation. The results of that determination will not impact the current analysis.

For Restricted Funds, the $7.9M unfavorable variance in Other Revenue was due to $3.2M in lower than projected revenues from the OSU Foundation, $3.2M in lower than projected year-end accrual of grant revenues, and approximately $0.9M in lower revenues from commercial business. For Personnel Services, the $3.4M unfavorable variance is due mainly to $1.1M in increased spending on unclassified salaries, approximately $0.8M in higher graduate fee remissions and related benefit expenses, and the timing of expenditures on awards that can cross multiple years. The $7.1M favorable variance in S&S and Capital Outlay is due mainly to higher capital spending expenses during the year and then capitalized at year-end and the general timing of expenditures on awards that can cross multiple years.

Following discussion of the report, a motion was made and seconded to accept the FY2016 Q4 Operating Management Report. The motion carried.

b. <u>FY2016 Q4 OSU Investment Reports</u>

Schueler asked Green to report on the FY16 fourth quarter results for the Public University Fund and the investments of the operating and endowment assets of the University. Green introduced Penny Burgess, USSE director of treasury management services, Steve Schauble, OSU Foundation vice president and chief financial officer, and Monique Spyke, director, PFM Asset Management.

Burgess noted that the report was composed of three sections: the market background, which provides a general discussion of the investment markets and related performance information, and the fourth quarter performance reports for the Public University Fund (P.U.F.) and the University's investments. In accordance with the investment policy, the entirety of the funds held in the P.U.F. is invested with the State Treasurer in the Oregon Short-Term Fund, the Oregon Intermediate-Term Pool, and the P.U.F. Long-Term Pool. As of June 30, the P.U.F. investment returns were 1.0% for the quarter and 2.5% for the year.

In addition, Burgess noted for the Committee that all allocations were within the policy parameters.

Following Burgess' report, Green provided a progress report regarding divestment from fossil fuel exposure in the P.U.F. He advised that the vice presidents for finance and administration from each participating Oregon public university have agreed with the proposal to restrict future allocations to securities exposed to fossil fuels. In collaboration with PFM and University staff, the State Treasury is drafting a revised investment policy to incorporate the fossil fuel restriction and recommend an appropriate benchmark for the new investment strategy. This draft investment policy will be presented to the Oregon Investment Council in September for review and possible approval. The University's proposed policy will be submitted to the Finance & Administration Committee and Board for approval, with the goal of establishing the new investment portfolio in early 2017.

Green reminded the Committee that OSU's endowment investments are managed by the OSU Foundation. Green asked OSU Foundation Vice President and Chief Financial Officer Steve Schauble to present the foundation-managed endowment report to the Committee. Schauble reported the return on endowment assets for the quarter, noting that the endowment was 2.4% for the quarter, which was up from the benchmark of 2.1% but behind for the year. To a question about divestment from funds holding fossil fuel investments, Schauble responded that the Foundation has decided not to divest within the endowment funds but has created a parallel fund that will be a fossil fuel-free fund and will include impact investing.

Following discussion, a motion was made and seconded that the Committee accept the FY2016 Q4 Investment Reports, which included the FY2016 Q4 OSU Foundation-Managed Endowment Report. The motion carried.

4. Education/Discussion Items

a. <u>University Risk Management – Research Space Needs</u>

Schueler called upon Green, Chief Audit Executive Patti Snopkowski, Vice President for Research Cindy Sagers and Associate Vice President for Capital Planning, Development & Facilities Operations Anita Azarenko to introduce the agenda item. Snopkowski reminded the Committee that OSU senior leaders initiated the University Risk Management Initiative in 2015. The goals of URM are to identify top risks that may hinder OSU's ability to achieve the objectives outlined in Strategic Plan 3.0, to implement activities intended to mitigate each risk the University identified and to provide senior University leadership and the Board with a tool to monitor progress in implementing the risk mitigation activities.

Snopkowski said the University's leadership presented to the Executive & Audit Committee a list of what senior University leaders had identified as the top risks, those issues most likely to hinder OSU's ability to meet University-wide objectives. The EAC reviewed a model for developing action plans to mitigate top risks and assigned the risks to the three Board committees, based on alignment with each Committee's charter and work load. She noted that the action plans would be refined over the next year, particularly with regards to establishing goals and metrics. She said the goal of her presentation and those of her colleagues was to familiarize the Committee with the proposed approaches to mitigation, noting that staff responsible for risk mitigation have either already developed more detailed plans or were in the process of developing them.

Green advised that, regarding research space needs, OSU has engaged in developing objectives for a risk mitigation plan to include incentivizing faculty and research for maximum use of space, building multi-use space and eliminating "dead space." Another issue being addressed by the plan is deferred maintenance and renovation of buildings. Trustee Reser asked whether the direction of known research knowledge and future direction are taken into account when reviewing space needs. Sagers advised that research knowledge and future direction are taken into account when reviewing space needs and that University Honors College Dean Toni Doolen's analytic priority-setting tool is being used for that purpose.

Green said that one goal will be connecting the functional use of buildings and the 10-year business forecast into a cohesive plan that will evaluate the scheduled use and efficiency of current research space before the construction of new buildings. Azarenko advised that a comprehensive space inventory evaluation was just completed and that benchmarks are being developed to discover whether current spaces are being efficiently allocated.

b. <u>2016 Board Assessment Results</u>

Schueler asked Board Secretary Debbie Colbert to summarize the results of the 2016 Board Assessment and highlight the results of responses to questions related to the F&A Committee. Colbert said that the average of the response "scores" for the assessment statements suggest that trustees feel a strong sense of satisfaction in being connected to OSU, helping to fulfill its mission and working with each other, students and staff. Overall, trustees indicated they believe that strong relationships and a positive culture exist at all levels of their interactions and that Board and Committee leadership is highly effective. Colbert called out specific comments Committee members made to the survey's open-ended question on ideas for future Committee meetings. She said that individual Committee members recommended that more time be available during Committee meetings to discuss University cost drivers and structure and ways to make the University more self-reliant in terms of revenues. Trustees expressed interest in continuing to receive information about trends in national higher education and in the Board Office working on shorter staff presentations to allow for more trustee discussion time.

c. <u>2017 Committee Work Plan</u>

Schueler opened the discussion of the Committee's work plan by advising that the plan had been modified to cover a calendar year rather than a fiscal year. Starting in 2017, a review of the 10-year business and capital plans will fall within even years, with the next review anticipated for January 2018. Schueler noted that, under the proposed plan, the

Committee would review tuition scenarios in January 2017, in advance of the Board's consideration in March 2017. During the discussion, trustees requested that a discussion of the state's public health and retirement systems (PEBB/PERS) and an update on OSU Foundation's investment strategy changes be added to the work plan.

5. Adjournment

Prior to adjourning, Green advised that the University's $52M bond sale ($42M for OSU-Cascades housing, dining and academic center and $10M for IT infrastructure), closed with interest rates of 3.35% for the tax exempt bonds and 3.31% for the taxable bonds.

With no additional business proposed, Schueler adjourned the meeting at 11:40 a.m.

Respectfully submitted,

Mark C. Huey
Assistant Board Secretary