



The Board of Trustees of Oregon State University

Meeting of the Finance & Administration Committee

October 20, 2016
Room 204, Tykeson Hall
OSU-Cascades
1500 SW Chandler Avenue
Bend, 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, Rani Borkar, Michele Longo Eder (*by phone*), Paul Kelly, Preston Pulliams, and Ed Ray

University Staff Present: Ron Adams, Anita Azarenko, Angela Batista, Sherm Bloomer, Penny Burgess, Susan Capalbo, Debbie Colbert, Becca Gose, Mark Huey, Becky Johnson, Jock Mills, Patti Snopkowski, Marcia Stuart, and Marianne Vydra.

Guests: Shawn Scoville (*executive vice president, Oregon State University Foundation*) and Monique Spyke (*director, PFM*) (*by phone*)

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

Committee Chair Kirk Schueler called the meeting to order at 10:01 a.m. He asked the assistant board secretary to call the roll and noted a quorum.

2. Interim Vice President for Finance and Administration Report

Interim Vice President for Finance and Administration and Chief Financial Officer Mike Green reported that, following a national search, Anita Azarenko was selected as associate vice president for capital planning and facilities services. He also reported that the Finance and Administration (F&A) leadership team has been working on the division's first strategic plan. Green described how the process has engaged employees in all of the F&A units and how the team has worked to align the division's efforts with the university's overall strategic plan, SP3.0. The plan outlines how the division will support the university community and identifies three primary areas of responsibility: service, safety and health, and stewardship. Strategies have been developed to advance progress in each of those areas.

During the discussion that followed the report, Chair Schueler asked about the search for a permanent vice president for finance and administration and chief financial officer. President Ray said the search has been reconstituted.

3. Consent Item

a. Minutes of the August 25, 2016, meeting

A motion was made and seconded to approve the August 25, 2016, committee meeting minutes as presented. The motion carried.

4. Action Items

a. Calendar Year 2017 Committee Work Plan

Schueler presented the Calendar Year 2017 Finance & Administration Committee work plan, which reflects adjustments made after the committee's August 6, 2016 meeting. There was no additional discussion. A motion was made and seconded to adopt the Calendar Year 2017 Finance & Audit Committee work plan. The motion carried.

b. FY2017 Capital Plan Amendment

Schueler asked Green to provide background for the proposed amendment to the Fiscal Year (FY) 2017 Capital Plan. Green said that staff was proposing to amend the capital plan to include the expansion of the Small Animal Veterinary Teaching Hospital and renovation of part of Magruder Hall. He asked Associate Vice President for Capital Planning and Facilities Services Anita Azarenko to summarize the proposal. Azarenko said that, since the Small Animal Veterinary Teaching Hospital opened 10 years ago, the caseload has increased annually at a rate higher than initially predicted. She said that the increased caseload provides excellent experiential learning opportunities for veterinary students and specialized services for pet and livestock owners in Oregon and generates additional revenue to fund the program. With this rapid increase in caseload, the hospital has outgrown its space. The lack of available teaching hospital space is creating bottlenecks in service, requiring the hospital to turn away potential clients, and inhibiting the addition of needed specialty services. Azarenko noted that this project was originally in the 2017-19 Higher Education Coordinating Commission (HECC) request; however, given the joint priorities identified by the seven universities, the HECC is not planning to include this project in the list that will be submitted to the Governor. Since it is unlikely that state revenue would be available for this project, as originally proposed, the scope has been reduced and alternative revenue identified. The expanded instructional space would support an annual class size of 72, providing an additional 16 students per year the opportunity to study at OSU. The addition of approximately 6,600 square feet for the hospital would enable increased revenue, services, and educational experiences for students. In providing the proposal's pro forma, Director of Budget and Fiscal Planning Sherm Bloomer said that, as proposed, the \$10.0M project would be funded using \$5.0M in gifts and other funds the College of Veterinary Medicine has set aside in a building fund and by borrowing \$5.0M from the university's internal bank. New revenues with the anticipated increased enrollment would be sufficient to retire the debt in seven years. In addition, the College expects new gifts would retire the debt earlier than seven years.

Following discussion, a motion was made and seconded to recommend to the Board the approval of the FY2017 Capital Plan Amendment adding the Small Animal Veterinary Teaching Hospital expansion and Magruder Hall renovation to the 2015-17 Capital Plan. The motion carried.

c. Public University Fund Investment Policy

Schueler asked Green to lead the presentation on this item. Green introduced University Shared Services Enterprise (USSE) Director of Treasury Operations Penny Burgess who noted that Monique Spyke, a director at OSU's investment advisor PFM Asset Management, LLC (PFM), was on the phone and available to answer committee questions. Burgess described the requested change in the Public University Fund (PUF) to divest from current fossil fuel-related securities and restrict future investment of assets

into fossil fuel-related securities, specifically, the Carbon Underground's list of 200 global oil, gas and coal companies (CU 200). Burgess noted that the Board's current investment policy does not restrict investment into CU 200 companies. OSU, in its role as the designated university under the fund's administration agreement, collaborated with the Oregon State Treasury, PFM and USSE staff to design a portfolio strategy to incorporate the fossil fuel restrictions while maintaining a low-cost, total return strategy similar to the present fund investment strategy. Because the Oregon Intermediate-Term Pool and Long-Term Pool policies do not restrict investment into the CU 200, Burgess noted, with approval of the proposed policy amendment, a new separately managed account would be established to fulfill the fossil fuel-free mandate.

To meet the revised investment policy guidelines, the State Treasury would transfer the fund's proportional share of securities, now held in the Oregon Intermediate-Term and Long-Term pools, into the new separately managed account. The liquidity allocation of the PUF would remain invested in the Oregon Short-Term Fund, which, because it is the primary cash investment option for multiple state agencies banking with Treasury, precludes any request to restrict fossil fuel investments from this specific fund.

Burgess noted that the amendments provided in Tab J, Attachment 2, reflect the requested investment restrictions, portfolio changes to incorporate the investment restrictions, modifications to active management parameters to reduce variances to the benchmark, and formatting revisions to streamline the policy. Burgess also noted that the recommended policy changes have been communicated to all fund participants.

As discussion began on the proposal, Trustees Bedient and Callahan asked whether this item constituted actual or potential conflict of interest that would require them to recuse themselves from discussion or from voting on the proposal as Trustee Bedient sits on the board of Suncor Energy and Trustee Callahan holds investments in Chevron, both CU 200 companies. General Counsel Becca Gose advised the trustees that the statutory requirements regarding conflicts of interest as set forth in Oregon law are the ultimate binding authority to which trustees must adhere. She said that, if a trustee believes there to be an actual or potential conflict of interest, the trustee must disclose the nature of the conflict by publicly announcing the conflict at a meeting of the Board or its committee before taking any action on the item. If the conflict is a potential conflict, a trustee may, after public disclosure of the conflict, either participate in the Board's or committee's official action on the issue that gave rise to the conflict or recuse him- or herself from such participation. If, on the other hand, the conflict is an actual conflict, the trustee must recuse him- or herself from participation in official action on the issue that gives rise to the conflict.

Trustee Brett Morgan noted that students had voted in favor of the university divesting from fossil-fuel investments, and Trustee Mike Bailey noted that the Faculty Senate had also voted in favor of divesting from fossil-fuel investments. Trustee Julia Brim-Edwards asked whether guidelines had been developed for the Board's use in considering changes to the investment policy. Following the presentation, trustees discussed the relative size of the economic impact of this divestment proposal on the companies identified and broader impacts of energy conservation. Trustees also discussed the source of OSU funds in the PUF, their fiduciary responsibilities, and impacts of fossil fuel divestment on financial returns. More broadly, trustees discussed the precedent of this action and other future requests for divesting based on other societal concerns. A number of trustees expressed concern about acting on this request without a framework

to guide the Board's consideration of these types of requests. Trustees also asked for clarification on how the list of companies would be updated, and staff clarified that the list would be updated annually. Several trustees expressed support for moving the item to the Board for further discussion. To that end, President Ray noted that the committee could move the item to the Board without a recommendation. After further discussion, a motion was made and seconded to move the item to the Board without a recommendation from the committee. The motion carried. Trustees Callahan and Bedient recused themselves from voting.

d. Investment Policy Biennial Review and Amendments

Schueler asked Green to provide an overview of this item. Green said that the current investment policy was originally approved by the Board in 2014 and requires a biennial review by the Board. Green said that in reviewing the policy he consulted with PFM, the university's investment advisor, and determined that the established guidelines continue to be appropriate for OSU. He said that no substantive changes are recommended at this time. In consultation with the board secretary and general counsel, however, Green said that he is recommending one amendment to Section X of the policy to clarify that the vice president for finance and administration presents the quarterly investment reports to the Finance & Administration Committee, rather than to the Board. He noted that the amendment would clarify implementation of the policy and is consistent with the oversight and monitoring role identified in the committee's charter.

A motion was made and seconded to recommend to the Board that it approve the amendments to the Investment Policy as provided in Attachment 1 under Tab K. The motion carried.

5. Education/Discussion Items

a. Outreach and Engagement Plan for Developing FY2018 Tuition Proposals

In introducing this item, Green reminded the committee that the Board had asked the university to develop more substantial communication and engagement with students around proposals for tuition rates. The Board had also requested being engaged earlier in the development of tuition proposals.

Bloomer then provided a summary of the proposed plan and timeline for outreach and engagement with students in developing the FY2018 tuition proposals. He said that the University Budget Committee (UBC) manages the formal development of tuition proposals provided to the provost. The UBC includes representatives of student government from the OSU-Cascades and Corvallis campuses and a graduate student recommended by the Graduate School. Staff coordinated a strategy for communication about tuition and fee proposals with student government and leadership on each campus. Bloomer said that communication efforts have included open forums, web and social media communications, news releases, purchased advertising in print publications, emails to all students, campus posters, and solicitation of student comment. He reported that to expand student involvement in developing tuition proposals and to provide broader communication about budget issues in general, the interim provost and interim vice president for finance and administration have proposed a Student Budget Advisory Council. This would include approximately 25 students representing each of the 11 academic colleges, the seven cultural centers, and other student groups. The director of budget and fiscal planning and a student elected by the membership would chair the council. The council would be advisory to the UBC and

would provide comment and ideas about tuition rates and other budget issues to the UBC. The membership of the council was designed to provide connections to many of the major student communities on campus. The goal is for the council members to communicate with their peers in those communities about the issues discussed at the council and bring questions and concerns from their peers to the council. The group will also be asked to help the university design more effective strategies for communicating with the larger student body about issues regarding tuition and fee rates.

Bloomer next addressed the budget context for FY2018 as it affects tuition planning. He said that the latest analysis of the rates for OSU's required participation in Oregon's Public Employee Retirement System (PERS) shows increases of about 12% at the beginning of each of the next three biennia (i.e., 2017-23). He reported that OSU is projecting an overall increase in all benefit costs of about 7-8% for 2017-18 or a total of about \$8.2 M for the Corvallis campus. Other anticipated cost increases for 2017-18 include 3% average salary increases for faculty and staff and 2% increases for graduate assistants. Costs for services and supplies are modeled to increase about 2.5% or \$3.1M. The total increase modeled for maintaining existing programs and people is currently about 3.7% or \$19.4M for the Corvallis campus. OSU-Cascades and the Statewide Public Services would see similar percentage increases. This scenario does not include the cost of serving additional enrolled students either on-campus or through Ecampus. Bloomer said that enrollment growth does provide some net revenue increases (depending on the type of student) that help offset other cost increases. In addition, he noted, the 3.7% total modeled increase does not include new investments in the student success initiatives.

An additional complication for the 2017-18 budget is that the current budget projection for the state, without any new tax or other revenue sources, will be \$1.4B short of sustaining the current service level. If that proves to be the case, he said that he expects public universities will see a budget that is about 7% less than 2015-17 funding and 11-15% less than funding for the state's share of current services. In order to be adequately prepared to manage the convergence of cost increases and possible decreases in appropriations, Bloomer said that the university has developed three broad strategies for addressing the expected cost increases and possible cut in state funding: reduce or control cost increases for existing programs where possible, reduce or eliminate programs or services to reduce operating costs, and increase net revenues. In the discussion that followed, Trustee Mike Thorne asked Bloomer to come back to the committee in January with more specific numbers to clarify various costs by category. This was followed by a discussion about the timing of Board action on tuition compared to when the state's contribution would be known.

b. Athletics Financial Sustainability Plan

Green, Interim Vice President and Athletics Director Marianne Vydra, and OSU Foundation Executive Vice President Shawn Scoville presented a progress report from the Intercollegiate Financial Sustainability Work Group. President Ray provided background on the value and impact of intercollegiate sports to the university and described how over 500 student athletes, competing in 18 different sports, mirror the population of the university. Green reported that the group met five times in July through October to consider and address a number of topics, including recent history and trends in Athletics operations, the net fund flows between the Education & General and

Athletics budgets, operating forecasts for the next several years, and strategies to develop a balanced operating budget and defray accumulated negative working capital.

Green shared that the work group has identified a number of actions that could be part of a strategy for a sustainable operating budget for Athletics. These strategies have not been finalized because the work group is reviewing the specific dollar amounts, consequences, and timing of each action. The work group believes that no single change or strategy is sufficient by itself to create a sustainable operating budget. Green also noted that any strategies recommended for implementation would be preceded by review of the draft report and recommendations by President Ray and discussions with the campus community, Faculty Senate, and ASOSU. These discussions will inform a final report and set of recommendations to be submitted to President Ray no later than December 15, 2016 and to the Board for its review in January 2017. Vydra shared that, new innovative business strategies are being investigated that may provide incremental funding sources and generate revenue. Scoville advised that athletics is the way in which many donors and alumni engage with the university, thereby creating critical synergies that benefit the entire university. Scoville discussed strategies that have been developed to raise unrestricted gifts for athletics such as enhancements to the transactional aspects of giving to the "Beaver Nation," seating at games and parking, and focusing on the "Everyday Champions" program to support the student initiative.

Following the presentation, the committee discussed the reduction in subsidies to intercollegiate athletics, financial aid through scholarships, and the fact that only a few universities can support their athletics budgets with the football revenue. Scoville noted that almost \$200 million has been raised for Athletics; however, those funds were not unrestricted but earmarked for endowments, facilities, and individual sports. Trustee Bedient noted that, although there may be a deficit to the Athletics program, the value far outweighs the deficit. Schueler thanked Green, Vydra, and Scoville for the presentation.

c. Ten-Year Capital Forecast

Green introduced the update on the development of the university's 10-year capital forecast. He noted that, for the January meeting, staff would align with more specificity the 10-year capital forecast with the university's 10-year operating forecast, following additional work on the operating forecast based on, among other items, the guidelines that came out of the October 19 Board Retreat, the Governor's 2017-18 budget, and the results of Ballot Measure 97.

Azarenko provided an overview of the process developed for establishing a 10-year capital forecast. She said that the interim vice president for finance and administration first defined the financial boundaries for the forecast, that it would align with the university's financial metrics and would assume per biennium funding from HECC-requested, state-paid bonds and capital improvement and renewal funding, as well as gifts and other OSU funds. The Infrastructure Work Group developed five primary criteria for considering capital projects and three primary data sources for their assessment and planning. Azarenko said that based on this work the group recommended for the academic enterprise of the Corvallis campus 10 major academic building renovations, six new buildings and one major expansion; for housing and dining services, one major renovation and three new housing complexes; renovations and expansion of several athletics facilities; and several capital improvement and renewal projects. They also recommended several new buildings for OSU-Cascades. If all this work is accomplished

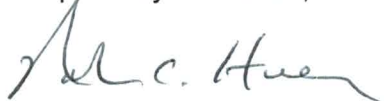
over the next decade, Azarenko noted, it would result in up to a 47% reduction in the deferred maintenance and systems renewal backlog for the Corvallis campus' academic enterprise and the demolition of structures totaling 140,000 gross square feet (GSF) and the addition of 560,000 GSF, with a resulting net gain of 420,000 GSF.

Azarenko noted that accomplishing this work with current anticipated resources would result in some financial metrics being outside their Board-approved ranges. Trustee Baldwin asked what drove those metrics. Green clarified that the impact on those metrics largely reflects insufficient net operating revenue and would be addressed in the 10-year business forecast presented in January. Azarenko concluded her presentation by describing the next steps. Schueler noted the substantial body of work that has been done in developing financial metrics and draft 10-year capital and operating forecasts and thanked Green, Azarenko, and staff for their work to date.

6. Adjournment

With no additional business proposed, Schueler adjourned the meeting at 1:36 p.m.

Respectfully submitted,



Mark C. Huey
Assistant Board Secretary