



The Board of Trustees of Oregon State University

Meeting of the Finance & Administration Committee
April 24, 2017
Telephonic and Journey (Room 104), Memorial Union
Oregon State University
Corvallis, Oregon

MINUTES

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

Other Trustees Present: Mike Bailey and Ed Ray

University Staff Present: Jennifer Almquist, Debbie Colbert, Becca Gose, Heather Hesano, Dan Larson, Jan Lewis, Patti Snopkowski, and Marcia Stuart

Guests: Susan Musselman (*Director, Financial Advisory, Public Financial Management*) and Thomas Toepfer (*Senior Managing Consultant, PFM*)

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

Committee Chair Kirk Schueler called the meeting to order at 11:03 a.m., 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 two national searches are underway for high-level administrative positions within the division. The search for the next Chief Human Resources Officer is chaired by Senior Vice Provost for Academic Affairs Susan Capalbo and coordinated by the search firm Isaacson, Miller. Green stated that the goal is to have someone start in the position by fall term. He reminded the committee that the search follows work with outside consultants who evaluated the structure and function of human resources at Oregon State University and suggested organizational changes and process improvements, some of which have already been implemented. The search for the next Director of Public Safety is chaired by Vice Provost for Student Affairs Susie Brubaker-Cole. Green stated that the goal is to have someone start in the position by mid-July. He added that both searches are composed of a wide variety of stakeholders from across the university.

Next, Green reported that a number of capital projects are in design or out for bid, including the Forest Science Complex and the first phase of the Marine Studies initiative. He stated that these projects are being impacted by significant cost escalation in construction across the state, adding that the projects were previously approved by the Board as part of the university's capital plan; however, the current market dynamics are different from those at the time the projects were approved. Green said the university may need to think about design changes and staging options for planned construction, depending on the bids received, and he alerted the committee to the possibility of adjustments to the capital plan in

the future. President Ray also noted the work Green and his staff are doing with administrators across the university to set firm targets and make adjustments to projects to remain within approved budgets.

3. Consent Agenda

a. Minutes of the March 16, 2017 Finance & Administration Committee Meeting

A motion was made and seconded to approve the minutes of the March 16, 2017, Finance & Administration Committee meeting. The motion carried.

4. Education/Discussion Item

a. Short-term Financing

Chair Schueler asked Green to present this item. Green said that the purpose was to discuss short-term financing options the university can explore that would provide cost effective and flexible interim financing in support of capital projects.

Green then introduced Director of Treasury Heather Hesano and representatives from Public Financial Management, Inc. (PFM), Susan Musselman and Thomas Toepfer. Hesano started by noting that to-date the Internal Bank has used unrestricted university funds to provide interim financing for capital projects and later replenished the cash from proceeds of long-term bond sales or from OSU Foundation gift funds. However, she added that this is not considered a best practice long-term cash management strategy because unrestricted funds are finite and must be available for general operating purposes. Additionally, this approach may result in lost investment income and may also impact the year-end Unrestricted Net Assets of the Internal Bank.

Schueler asked whether interest was being charged when unrestricted funds were used for interim financing, and Green confirmed interest was and would continue to be charged. Hesano then reminded the committee that the approved Debt and Internal Bank policies permit use of a number of external short-term funding sources, which can be used to increase liquidity, potentially provide a lower borrowing cost, and improve the Unrestricted Net Assets position of the university. In response to a question by Trustee Mark Baldwin about the relationship between the use of external short-term funding sources and total cash flow, Hesano noted that the aim was to more efficiently manage resources. Green added that short-term financing options were not being explored for operating purposes and that the university would anticipate remaining in a position to repay outstanding loans in the event a strategy was no longer working or beneficial.

Next, Musselman and Toepfer were asked to review the interest-rate environment that encourages use of different types of external short-term funding sources. Toepfer reported that short-term rates are generally lower than long-term interest rates, referencing TAB B for additional details. He pointed to several factors that have led to an increase in short-term interest rates; however, the short-term rates are still significantly lower than long-term rates. By using short-term financing, OSU can take advantage of low short-term interest rates. Toepfer added that long-term borrowing rates are higher than the interest earnings on the university's cash and investments, but the overall net interest cost of the university can be improved by using short-term financing, which PFM expects will be available at a lower interest rate than the earnings rate on the university's investment.

Hesano then reviewed the rationale behind staff's recommendation to utilize a revolving line(s) of credit, as opposed to the other approved types of facilities available to consider for short-term financing. She noted that a line of credit provides flexibility in timing and use and would be used to provide funds to the Internal Bank solely for interim financing of capital projects. Hesano added that there are risks and considerations associated with any short-term financing option. The Debt Policy helps manage some of these risks, and the committee and the Board would need to consider the impact on university finances in relation to the Unrestricted Net Assets position and liquidity, debt capacity, and affordability ratios. She said the next step would be for staff to develop a Liquidity Management Policy to present to the committee in June. This new policy would create a decision framework to link the Internal Bank, Debt, Investment, and other related policies. Hesano also noted that staff would determine the maximum borrowing amount for the revolving line of credit facility. Musselman stressed the importance of determining the appropriate size for the line of credit to avoid paying excess fees on the unused portion of the loan. Schueler also asked about annual fees, and Toepfer noted that PFM has recently seen all-in interest costs below 1%, adding that the university would likely issue a request for proposals and then compare terms across multiple lenders. The university would also be able to renegotiate the terms of the facility on a periodic basis. Trustee Laura Naumes asked what would secure the line of credit, and Hesano reported that the line of credit could be secured based on the university's assets, although an unsecured facility would also be available.

During the discussion, trustees explored the feasibility of slowing capital projects to match the availability of funds through sources already in use by the university rather than pursuing new short-term financing options. Green pointed to other universities that delay the start of construction projects until all funds are available, which is a policy OSU could consider. Ray added that such an approach would need to weigh both the opportunities and consequences associated with delaying the start of construction, which may vary from project to project. Trustees noted the importance of continuing to reference the 10-Year Capital Forecast as a guide in short-term and long-range planning for investments in buildings and other infrastructure. Hesano also stated that short-term financing was not intended to provide a funding source; rather, use of a facility such as a line of credit would provide more immediate access to funds that have been committed but not yet received.

Schueler thanked the presenters for providing information on the university's exploration of short-term financing options and reminded the committee that they would hear more about a Liquidity Management Policy at their June meeting.

5. Adjournment

With no further business proposed, Chair Schueler adjourned the meeting at 12:01 p.m.

Respectfully submitted,



Jennifer M. Almquist
Assistant Board Secretary