



The Board of Trustees of Oregon State University

Regular Meeting of the Finance & Administration Committee

January 15, 2015

**Willamette Room, CH2M Hill Alumni Center
Corvallis, Oregon**

MINUTES

Committee Members Present: Mark Baldwin, Patty Bedient, Darry Callahan, Elson Floyd (*vice chair – by phone*), Taylor Sarman, Kirk Schueler (*chair*), Mike Thorne, Pat Reser (*ex officio*), Ed Ray (*ex officio*), and Glenn Ford (*ex officio*)

Other Trustees Present: Michelle Longo Eder, Orcilia Forbes, Paul Kelly, and Brenda McComb

University Staff Present: Sherm Bloomer, Mike Green, Mark Huey, Jan Lewis, Kirk Pawlowski, Linda Powell, Meg Reeves, Patti Snopkowski, Marcia Stuart, and Kay White.

Guests Present: Stacey Lewis (*partner, Pacifica Law Group*) and Susan Musselman (*director, Public Financial Management*)

1. Call to Order

Committee Chair Kirk Schueler called the meeting to order at 12:49 p.m., asked the Assistant Board Secretary to call the roll, and noted a quorum.

2. Consent Item

a. Approval of Minutes of October 16, 2014 and January 9, 2015 Finance & Administration Committee Meetings

Under two motions that were seconded, the Committee approved the minutes of the October 16, 2014 and January 9, 2015 meetings of the Finance & Administration Committee as presented.

3. Action Items

a. Treasury Managed Endowment Fund

Chair Schueler advised that, with the proposed action, the Finance & Administration Committee (Committee) would authorize staff to work with the OSU Foundation to develop an investment contract for the Foundation to manage the University's endowment and quasi-endowment funds. Schueler asked Vice President for Finance & Administration Glenn Ford to present the item. Ford explained that before the OSU Foundation was established and while OSU was part of the Oregon University System (OUS), gifts made to the University were owned by OUS and managed in several investment pools. Since OSU separated from OUS, the University's endowment and quasi-endowment assets are now owned by the University and continue to be held and invested by the State of Oregon Treasury. Ford noted that the State of Oregon Treasury charges three basis points (bps) (0.03 percent) annually for the service.

Ford reported that the University and the Foundation agree that, given that the Foundation is managing more than \$500 million in endowment investments and already has in place the professional investment management personnel and practices necessary to manage an endowment fund, the University, working with counsel, would develop a plan to transfer the investment management responsibility from the State of Oregon Treasury to the Foundation. This would avoid duplicating the endowment investment management work of the Foundation at the University and place the endowment assets of the University in a solid management structure.

Ford also reported that the Foundation assesses a 150 bps fee on the endowment funds it manages. This fee accounts for approximately 25 percent of the Foundation's budget and has been instrumental in funding an operation that raised over \$100 million annually for the past four years. Although the fee charged by the Foundation is greater than the fee charged by the State of Oregon Treasury, the University believes the fee would contribute to building a new long-term funding source for the Foundation, as part of the University's ongoing commitment to build a best-in-class advancement program and to prepare for the next comprehensive fundraising campaign. It would also position the Foundation to provide direct support for two key initiatives that are critical to the University's mission – a master plan for OSU-Cascades and a scholarship fund to enhance the University's ability to recruit high quality student-athletes from underrepresented student populations, including women and Pell-eligible students. After considering the investments in the University by the OSU Foundation and the reduction in USSE costs, the net fee is 32 bps.

Ford also reported that, if authorized by the Committee, staff would develop an investment management contract that would include provisions requiring the Foundation to report on investment performance quarterly to the Committee. Further, staff would ensure that the Foundation's investment policies were reviewed with the Committee at least biennially in order to ensure they remain congruent with the University's goals and objectives. The Board would maintain the discretion to discontinue the contract in the future.

Following a full discussion, a motion was made and seconded that the Committee authorize staff to work with the Foundation to develop an investment management contract for the Foundation to manage the endowment and quasi-endowment funds of the University and to review the Foundation's current investment policies and contract terms with the Committee before executing the contract. The motion carried.

b. Proposed Resolution Adopting Tuition and Fee Process

Board Secretary and General Counsel Meg Reeves provided background and an overview on the proposed tuition and mandatory fee process. During the Committee's discussion, amendments to the third paragraph were proposed as follows (additions to the staff proposal shown as underlined; deletions as strikethrough):

The Board's consideration of tuition and mandatory enrollment fees will be based on the recommendation of the President, who will consult with ASOSU, ASCC and enrolled students in developing the recommendation. The President will report to the Board the nature and outcomes of consultations with students and others, including any significant disagreements. The President's recommendation will include considerations regarding historical tuition and fee trends, comparative

data for peer institutions, the University's budget and projected costs increases, and anticipated state appropriation levels.

After studying the resolution and proposed amendments, a motion was made and seconded to recommend the proposed resolution adopting the tuition and fee process as amended to the full Board for adoption. The motion carried.

c. Proposed Resolutions Requesting and Consenting to the Refunding and the Sale of State General Obligation Bonds

Ford introduced Stacey Lewis (partner, Pacifica Law Group) and Susan Musselman (director, Public Financial Management) to the Committee. Associate Vice President for Finance & Administration Mike Green then provided an overview of the item and noted that two resolutions were proposed both to refund bonds at a lower rate in order to realize present value savings on the future debt service payments and to authorize participation in a sale of new bonds.

i. Proposed Resolution Requesting and Consenting to the Refunding of State General Obligations Bonds

A motion was made and seconded that the Committee recommend to the Board that the Board adopt the Resolution Requesting and Consenting to the Refunding of State General Obligations Bonds at pages F-11-1 through F-11-3 of the Finance & Administration Committee meeting docket for January 15, 2015, authorizing the Oregon State Treasurer to refund existing outstanding bonds. The motion carried.

ii. Proposed Resolution Requesting and Consenting to the Sale of State General Obligations Bonds

It was noted that the 2013 and 2014 legislatures authorized several University projects to be financed, in part, by state-issued bonds. The projects include:

- OSU-Cascades expansion
- Strand Agricultural Hall
- The New Classroom Building (OSU Learning Innovation Center)
- Johnson Hall

The Committee discussed the process, and Ford assured the Committee that, when the revenue bonds are discussed at the Committee's March meeting, it would have the opportunity to re-address the issuance of the Article XI-G bonds at that time, if deemed necessary.

A motion was made and seconded that the Committee recommend to the Board that it adopt the Resolution Requesting and Consenting to the Sale of State General Obligation Bonds at pages F-11-4 through F-11-7 of the Finance & Administration Committee meeting docket for January 15, 2015, authorizing the Oregon State Treasurer to issue Article XI-Q and Article XI-G bonds. The motion carried.

4. Discussion Items

a. FY14 Financial Statement Analysis

Ford and Green presented the University's FY14 Financial Statement analysis. The report provided a five-year trend analysis of key financial information, a comparison of that information to peer data, and an analysis of specific financial metrics. Green reported that, with declining and uncertain levels of state funding, universities have been required to reduce costs and gain efficiencies while looking to other sources of revenues through philanthropy, intellectual property, increased tuition, and a larger research base. Because of state budgeting constraints, universities were unable to budget for or set aside operating monies to fund the renewal of major Education & General building systems, such as roofs and HVACs, and, as a result, deferred maintenance has become a growing issue universities are having to address. As enrollment has increased significantly and the University has focused on retention, more resources were invested into the core instruction mission, while amounts expended in research and public services decreased in relation to the total, due to the decline in grant and contract funding and the flattening of state support for statewide public services. Green noted that, when compared to peers, the University is challenged by much lower per-student revenues from State appropriations and tuition and fees, but compares very favorably in measures of productivity and efficiency. Green also reported that the University's balance sheet remains strong. When discussing the metrics relative to the debt policy, a question was raised whether the University has a policy governing metric targets. It was pointed out that the fund balance as a percentage of revenues has been the metric used by the State Board of Higher Education. As an institution no longer governed by a state board of higher education, the University is in the process of developing its own specific metric targets.

b. Budget, Detail, Trends, Financial Targets, Metrics

Director of Budget & Fiscal Planning Sherm Bloomer described for the Committee the process the University uses to develop its budget. He said that the current metrics were built around the University's Strategic Plan 3.0 and include degrees awarded, first- and six-year retention rates, U.S. minority and international students, and total research and development expenditures. Key measures of financial health include such ratios as viability, primary reserve, net income, return on net assets, fund balance as a percentage of revenue, and debt burden. Staff were directed to bring back the proposed metrics to the March 2015 meeting for approval.

5. Education Items

a. Long-range Capital Plan Development Process – “Capital 102”

Executive Director of Capital Planning and Development and University Architect Kirk Pawlowski provided an overview of the long-range capital plan development process. Pawlowski described the planning process as it proceeds through each fiscal year to assess the space and capital needs, thereby contributing to development of the biennial capital allocation budget.

b. State Funding Process Update

Director of Administrative Services Jan Lewis provided an overview of the 2015-17 state funding process and a summary comparison of the Agency Request Budget with the

Governor's Recommended Budget. Glenn Ford provided an overview of the capital budget.

6. Adjournment

There being no other business, the meeting was adjourned at 4:51 p.m.

Respectfully submitted,

Mark Huey
Assistant Board Secretary