



The Board of Trustees of Oregon State University

Regular Meeting of the Finance & Administration Committee

January 18, 2017

Willamette Room, CH2M Hill Alumni Center
Corvallis, Oregon

MINUTES

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

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

University Staff Present: Ron Adams, Jennifer Almquist, Anita Azarenko, Sherm Bloomer, Susie Brubaker-Cole, Steve Clark, Debbie Colbert, Becca Gose, Mark Huey, Jock Mills, Patti Snopkowski, and Marcia Stuart

Guests: Susan Musselman (*director, 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 3:32 p.m., asked Assistant Board Secretary Mark Huey to call the roll, and noted a quorum.

2. Education/Discussion Items

a. 2017-18 Fiscal Year Tuition and Education and General Budget Scenarios

Chair Schueler asked Interim Vice President for Finance and Administration and Chief Financial Officer Mike Green and Director of Budget and Fiscal Planning Sherm Bloomer to lead the presentation on this item. In introducing the 2017-18 Fiscal Year tuition and Education & General budget scenarios, Green noted that budget planning and tuition recommendations have been underway since October, and the timing of this presentation was intended to be responsive to the Board's request to be engaged earlier in the development of tuition proposals.

Bloomer began by noting the state is anticipating a \$1.7 billion budget shortfall and the initial budget proposed by Governor Kate Brown (Governor's Recommend Budget) allocates less funding than requested to Oregon community colleges and public universities. This "flat" funding for public universities for the 2017-19 biennium comes despite significantly increased costs to OSU that include increased costs of state retirement and health insurance systems. As a result, the university must consider strategies for achieving a balanced budget that take into account OSU's mission and values regarding access and affordability, the university's strategic plan, and the quality and scope of programs. Before summarizing various budget and tuition scenarios, Bloomer briefly reviewed the budget planning process, reminding the committee that the Board had asked the university to develop a more substantial process for engaging students around the proposals for tuition rates. Over fall term, multiple budget planning

conversations were held with the aim of drafting a set of undergraduate tuition scenarios and discussing the impact of tuition increases. Groups included the University Budget Committee, the newly formed Student Budget Advisory Council, and various leadership groups such as the Provost's Council and the Faculty Senate Budget and Fiscal Planning Committee. In addition to considering the impact on access and affordability of higher education for all students, and particularly for students at risk, the discussion of proposed tuition also addressed the effect of tuition increases on enrollment. Bloomer noted the scenarios in Tab A, Table 1 provide an overview of four undergraduate tuition rate scenarios from one that shows no increase in undergraduate and non-resident tuition rates to one that shows a 9% increase and 4% increase in resident and non-resident rates, respectively. He described the latter as a maximum rate increase noting that there is a point of diminishing return where enrollment losses largely offset the overall increase in revenue. Bloomer also stated that each of the budget and tuition scenarios outlined requires comparable efforts to make reductions in expenses.

As discussion began on the scenarios, trustees questioned the potential differential impact on particular groups of students. Bloomer noted that a tuition increase was most likely to decrease enrollment of first-generation students and students from economically disadvantaged backgrounds. However, he also shared that budget discussions have included the idea that increases over some threshold would be allocated entirely to increase need-based institutional financial aid.

Following the presentation by Green and Bloomer and initial discussion among the trustees, Chair Schueler opened the meeting for public comments.

Public Comments

The following individuals spoke during the Public Comments period:

- Candalynn Johnson, an OSU senior and member of the Associated Students of Oregon State University (ASOSU), identified as a first-generation student and asked the Board to strongly consider making no increases to undergraduate tuition rate.
- Micah Rawson, a first-year student at OSU, commented that, as a non-resident student, an increase to tuition would make it difficult for him to stay at OSU. He asked the Board not to increase tuition.
- Jacqueline Logsdon, an OSU student and member of ASOSU, asked the Board not to increase tuition, noting that any increase would impact her ability to complete her degree.
- Joshua Kaufman, an OSU student and member of ASOSU, expressed concern about raising tuition as a strategy and instead suggested expense reduction as a more sustainable approach.
- Christian Mello, an OSU senior and first-generation college student, asked the Board not to increase tuition.
- Natalie Vega-Juarez, an OSU student and member of ASOSU, identified as a first-generation student and asked the Board not to increase tuition.
- Tabitha Pitzer, a third-year student, commented on the disproportionate impact a tuition increase could have for students with disabilities and noted the potential impact on the overall diversity of the student body.

Following the comments, Schueler invited Green and Bloomer back for further discussion with trustees. Trustee Pat Reser and President Ed Ray acknowledged the complexity of the issue and stressed the importance of also keeping in mind that budget and tuition decisions have profound consequences on the lives of students, as well as faculty and staff. Trustees Mike Bailey and Rani Borkar echoed this sentiment and encouraged fellow trustees and OSU staff to move beyond conventional thinking in working toward solutions. It was noted that raising tuition and drawing on fund balances are short-term solutions, and, when paired with unreliable funding from the state, point to the need to also identify strategies for increasing revenue. Several trustees emphasized the importance of addressing the immediate budget gap while also mitigating potential adverse impacts on the university's strategic goals. Trustee Reser emphasized that current budget decisions made by the Board will impact the university's next round of strategic planning and implementation, and Chair Schueler echoed the need to position the university and its students for future success.

In closing, Bloomer noted that, in the following months, additional outreach will be conducted with students, the University Budget Committee, Provost's Council, the Faculty Senate Budget and Fiscal Planning Committee, the Student Budget Advisory Council and others in order to develop final proposals to present to the Board at its March meeting. Green mentioned that he and Ron Adams, interim provost and executive vice president, would be starting a parallel set of conversations about how to approach and manage expense reductions.

b. FY2016 Financial Statement Analysis and Financial Metrics Update

Chair Schueler asked Green to summarize the analysis of the FY2016 financial statements. Green noted that public universities operate in a challenging financial environment and must balance competing goals of financial strength with access and affordability. He noted that OSU's financial information is combined with OSU Foundation financial information to calculate the Board's approved financial metrics that provide a holistic portrayal of the financial health of the university. Green also reminded the committee of the university's implementation of new GASB (Governmental Accounting Standards Board) statements, which impacts six of the seven financial metrics. Trustees commented on the inclusion of data with and without GASB, noting that it was important to include both sets of data in tracking the metrics. Green reviewed each financial metric and pointed out that two ratios are outside of the approved ranges but this does not indicate an immediate concern about OSU's financial health. Trustees thanked Green and his staff for their work.

3. Action Items

a. Internal Bank Annual Report

Chair Schueler asked Green to lead the presentation on this item. Green introduced Thomas Toepfer, a senior managing consultant at OSU's investment advisor PFM Asset Management, LLC (PFM). Toepfer reviewed key elements of the performance report. Trustee Mark Baldwin inquired about year-to-year variability in operating expenses of the internal bank. Toepfer clarified that these expenses can change based on the timing of bond sales and the fees and other expenses associated with those sales. There was also some discussion of the increase in outgoing debt service in 2044 and 2045 when the principal portion of revenue bonds is due. Green noted that the revenue bonds debt service in prior years is interest only.

Following the presentation and discussion, a motion was made and seconded to accept the FY2016 Internal Bank Annual Report. The motion carried.

b. FY2017 Capital Plan Amendment

Schuler asked Green to provide background for the proposed amendment to the Fiscal Year (FY) 2017 Capital Plan. Green introduced Bloomer and Associate Vice President for Capital Planning and Facilities Services, Anita Azarenko. Azarenko started the presentation by reminding the committee that the FY2017 plan was approved by the Board in May 2015, amended in June 2016, and further amended in October 2016. Azarenko then summarized the current proposal to amend the capital plan to include the renovation and build-out of much of Hewlett-Packard Building 11. Building 11 is currently leased by OSU on a long-term basis, and the university manages all operations for both private tenants and university research groups, which include the Advanced Technology and Manufacturing Institute, Oregon Nanoscience and Microtechnologies Institute, and start-up companies driven by OSU research. Azarenko said that the investment in renovating Building 11 will allow OSU's College of Engineering to accept a five-year, \$15M grant from the National Network for Manufacturing Initiative. She also noted that the potential capital investment will generate net revenue and contribute to undergraduate and graduate student success. The project also presents the potential to generate future revenue through additional private tenant occupancy.

In providing the proposal's pro forma, Bloomer said that the \$12.75M project would be funded using \$1.75M from the Research Office; \$1.125M in Oregon Business grant proceeds that are available to the OSU Accelerator until July 2017; \$1.125M from the Office of Commercialization and Cooperative Development, Research Office; and a \$8.75M loan from the university's internal bank. Bloomer noted that, with the university as the operator of the building, the building is anticipated to break even by Year 4 or 6, depending on the percentage of private tenant occupancy. Trustee Callahan remarked on the potential for this project to further improve the university's research enterprise. Trustee Reser praised this proposal as an example of OSU acting nimbly and pursuing an opportunity to align the university's research and strategic plans.

Following discussion, a motion was made and seconded to recommend to the Board the approval of the FY2017 Capital Plan Amendment adding the Hewlett-Packard Building 11 renovation to the 2015-17 Capital Plan. The motion carried.

4. Adjournment

With no further business proposed, Chair Schueler adjourned the meeting at 6:29 p.m.

Respectfully submitted,

Jennifer M. Almquist
Assistant Board Secretary