Regular Meeting of the Finance & Administration Committee
March 16, 2017
Horizon Room, Memorial Union
Corvallis, Oregon

MINUTES

Committee Members Present: Mark Baldwin, Patty Bedient, Julia Brim-Edwards (*by phone*), 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, Paul Kelly, Preston Pulliams, and Ed Ray

University Staff Present: Jennifer Almquist, Anita Azarenko, Sherm Bloomer, Susan Capalbo, Steve Clark, Debbie Colbert, Ed Feser, Becca Gose, Jan Lewis, Kate Peterson, Cindy Sagers, Clay Simmons, Patti Snopkowski, and Marcia Stuart

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

   Committee Chair Kirk Schueler called the meeting to order at 12:31 p.m., asked the assistant board secretary to call the role, 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, Heather Hesano was selected as director of treasury. She will be responsible for overseeing the university's treasury function, including cash balances and cash flows, investment management, debt management, and management of the university's internal bank. Green also reported on two projects to improve efficiencies and lower costs. First, OSU is implementing an online eProcurement System to make the procurement process easier and more effective and to enhance transparency and accountability through the use of data analytics. The system required an initial investment of $1.7M, and analysis shows that the initial investment will be recouped within five years. Next, Green noted that the university has engaged an expert in energy purchasing to help make sure the university is being as effective as possible with its electricity and natural gas purchasing contracts. The goal is to continue to explore strategic opportunities to reduce overall energy costs.

3. **Consent Agenda**

   a. **Minutes of the January 18, 2017 Finance & Administration Committee Meeting**

   b. **Minutes of the January 19, 2017 Joint Meeting of the Finance & Administration and Academic Strategies Committees**

   c. **Minutes of the January 19, 2017 Finance & Administration Committee Meeting**

   d. **FY2017 Q2 Investment Reports**

e. FY2017 Q2 Operating Management Report

On a motion made and seconded, the Board approved the items on the consent agenda.

4. Education/Discussion Item

a. Oregon Public Employees Retirement and Health Benefits

Chair Schueler reminded the committee that retirement and health benefit costs have been discussed a number of times with the Board of Trustees. He noted that this educational session was intended to help the committee better understand the cost drivers impacting university operations and tuition rates. Schueler then invited Green to facilitate a panel discussion of these topics.

Green introduced the panel, which included General Counsel Becca Gose, Acting Chief Human Resources Officer and Director of Workplace Solutions Donna Chastain, Interim Associate Vice President for Finance and Administration and Controller Jan Lewis, and Director of Budget and Fiscal Planning Sherm Bloomer. Green then provided background on the Public Employees Retirement System (PERS). He stated that the most significant financial liability associated with PERS arises out of the defined benefit part of the plan because participants in defined benefits plans are guaranteed a certain level of benefits at retirement while the estimated cost of those benefits changes over time based on a number of variables. Green noted that the PERS Board sets employer contribution rates every two years based on an actuarial study, adding that changes can be significant. Additionally, the 2013 legislation to reduce employer costs was overturned by the state supreme court in the *Moro v. State of Oregon* decision. This decision limited prospective changes only to benefits attributable to work not yet performed. This court decision and lower than anticipated investment earnings have created a net pension liability for PERS, $115M of which is OSU's responsibility. Green noted that this unfunded liability will continue unless the Oregon legislature identifies an alternative. In response to a question by Schueler, Green confirmed that the unfunded pension liability affects the current budget via increased employer contribution rates.

Next, Green asked Gose to speak to any alternatives or flexibility the university might have in its participation in PERS. Gose noted that OSU is required under current statute to participate in PERS and the Optional Retirement Plan (ORP). One area where the university does have statutory flexibility is with regard to the Individual Account Program (IAP), which is a 6% member contribution funded by either the employer or the employee (often referred to as the "pick-up"). (It was clarified that TAB O, Table 1 should reflect the same 6% "pick up" for ORP Tier 2.) While OSU currently makes the IAP contribution on behalf of employees pursuant to the public universities' collective bargaining agreement with the Service Employees International Union (SEIU), Gose noted that state statutes provide flexibility to employers with regard to the defined contribution component of PERS. In response to a question by Schueler about covering the 6% IAP, Bloomer stated that he estimated the cost to OSU to be approximately $12M. He added, in response to a question by Trustee Mike Thorne, that shifting the cost of the "pick-up" to the employee may not result in a net gain for OSU, as some agencies that have gone this route have instead increased employees' base salary, which is a strategy OSU may also consider in order to remain competitive with national salary and benefits packages.

Gose explained that the current collective bargaining agreement with SEIU employees expires in 2019, and that current statutes require OSU to share services with the other former Oregon University System institutions until July 2019. In response to Green's question about bargaining flexibility after July 2019, Gose noted that the requirement has already been extended once and it is reasonable to expect subsequent extensions. She added, however, that there is a possibility OSU may not have to bargain collectively with Oregon's other public universities in the future. In this case, OSU would bargain with SEIU independently. Whether OSU bargains alone or with the other institutions, the next bargaining round would provide the opportunity to potentially shift the IAP to the employee (and away from the employer).

Gose explained that it would take a legislative change to pull OSU out of the PERS system altogether. Chastain noted that, even if OSU were to successfully move out of the PERS retirement system, OSU would still be obligated for two-thirds of the current rate based on employees that have already retired.

Green also asked panelists to provide an overview of proposed statutory reforms. Chastain reported that at least 20 bills related to PERS have been introduced in the current legislative session, including bills to redefine eligibility for PERS participation and to change the calculation of final average salary. Chastain added that another bill proposes to redirect employee contributions to the IAP to a member pension contribution account. Applying employee contributions to the cost of pension or other retirement benefits would help reduce the overall unfunded liability. Lewis added that the Senate Committee on Workforce has developed a framework for considering any pension reform concepts brought forward. However, Lewis noted that proposed reforms are unlikely to significantly reduce the state's retirement costs.

Following discussion of PERS, Green asked the panel to shift their discussion to employee health benefits. Currently OSU employees choose among five different medical plans, two vision plans, and four dental plans, with employers paying most of the premium. Trustee Paul Kelly asked about any flexibility in this, and Chastain stated that the percentage of the premium covered by employers was a collective bargaining item. In response to a question by Trustee Darry Callahan, Chastain stated that the level of coverage is established by the Public Employees Benefit Board (PEBB) and cannot be adjusted by OSU. Trustees Patty Bedient and Pat Reser both noted that many employers have moved away from multiple plans. Chastain responded that the PEBB Board wants to be able to provide at least two options in each county, and, because, statewide coverage is limited, this necessitates a greater number of plans.

Gose explained that the statutes require OSU to participate in the PEBB system or (since October 2016) an alternative group health plan if it is a plan offered through the state's health insurance exchange. However, Chastain stated the exchange would likely not offer better coverage or result in any cost savings. She added that if OSU were no longer bound by statute, it may be possible to find less expensive options. In 2011, the Oregon University System did a study that showed universities have a healthier population compared to the overall statewide public employee population. Because the university's "healthier" population subsidizes the rest of the state, the state would likely expect a trade, possibly in the form of reduced appropriation. Trustee Michele Longo Eder asked whether staff had discussed retirement and health benefits costs with other universities within the state, and Green noted that, to-date, only preliminary conversations had occurred.

Discussion focused on the need for the university to be proactive in identifying employee retirement and health benefits options that allow for greater flexibility in allocating benefit costs, including potential legislative fixes. The committee asked staff to begin to develop short- and long-term strategies to better manage these costs.

5. Action Items

a. FY2018 Tuition Rates, Mandatory Fees and Student Incidental Fees and Operating Budget Outlook

Schueler reminded the committee that they heard a presentation on a range of Fiscal Year 2017-18 tuition and education general budget scenarios at the January 2017 committee meeting. He then invited Green and Bloomer to present recommended changes in tuition and fees for 2017-18.

Green stated that, in recommending tuition and fee rates, the university considered a number of factors including affordability for students, access to a high-quality education, undergraduate financial aid needs, projected funding from the state, and the impact of tuition increases on future enrollment. He added that the university developed a budget outlook for FY2018 that took into account the various funding and revenue projections and how tuition rates impact outcomes.

Bloomer then started his presentation with an overview of the tuition setting timeline and engagement. He reminded trustees that they had worked with staff to make changes to the process to provide more opportunities for input from the Board and from the community. One such change was the establishment of the Student Budget Advisory Council to provide advice to the University Budget Committee. Bloomer reported that the Office of Budget & Fiscal Planning solicited feedback from between 250 to 300 students, the summary of which is included in the materials in TAB P. He noted that participants devoted considerable time and energy to providing guidance throughout the budgeting process. While conversations covered a range of themes, Bloomer noted that many participants recognized the tension between devising short-term solutions and planning for long-term needs.

Bloomer then offered an overview of changes over the past ten years to show growth in financial aid and enrollment alongside decreases in state funding, adding that a majority of the growth in spending over inflation supported direct academic delivery. He added that state appropriations per resident student FTE are below the U.S. average, and, as a result, net tuition as a percent of university revenue is above the U.S. average. He also noted that other Oregon public universities have been reported to be considering resident tuition increases as low as 5% and as high as 12%. These increases are being proposed in a year when the overall economy of the state is healthy, which suggests that the projected budget gap reflects expense commitments, such as those associated with employee retirement and health benefits, and points to a budget landscape with different conditions than other states. As a result, the university's revenues are more than 70% tuition, with the majority coming from undergraduate tuition, and expenses are more than 75% salaries and benefits.

Sherm shared that participants in the budgeting process discussed this central question of expense drivers, noting increases in staffing, enrollment, and strategic investments. The University Budget Committee considered several different tuition scenarios and discussed hosw projected gaps between expenses and revenues might affect the quality of programs delivered to students. Bloomer noted that all scenarios will require approximately $20M in permanent expense reductions, making any increases in tuition and fee rates one part of a long-term financial strategy for the university that also includes expense reduction, administrative efficiencies, and strategic enrollment growth. He added that all heads of units centrally and in the colleges have been asked to identify reduction opportunities. Trustees discussed where decisions would be made, and Bloomer stated that there would likely be a balance of decisions managed at the college level by deans as well as some guidance offered centrally.

Bloomer reported that the University Budget Committee focused their conversations on increases in resident undergraduate tuition at 4%, 6%, and 8%, with particular attention to both enrollment sensitivity as well as the balance of short-term costs and consequences with long-term financial and programmatic stability. Given the complexity of these issues, the group did not reach consensus on undergraduate rates; however, Bloomer said a majority of participants in the process preferred a recommendation of a 4% increase in resident undergraduate tuition and a 2% increase in non-resident undergraduate tuition. As a result, Bloomer said that staff proposed that the Finance & Administration Committee recommend to the Board that it approve tuition and fee proposals presented in TAB P.

At the conclusion of the presentation by Green and Bloomer, Schueler thanked staff for their detailed presentation of the material and invited discussion by the Board. At that point, Trustees Mike Bailey and Mark Baldwin declared a potential conflict of interest. General Counsel Becca Gose responded that a potential conflict of interest would exist where a Board decision could potentially impact a trustee's financial interest. Gose stated that, as employees whose salary is paid by OSU, it is logically possible that the salary and job interests of Bailey and Baldwin could be affected by any Board decision regarding tuition, budget, or any other matter with financial implications for OSU. However, Gose noted that there is no conflict if the potential conflict is created by membership in a class that is required by law as a prerequisite to the person being able to hold a position. In this case, the potential conflict is created by Bailey and Baldwin being members of the "employee of OSU" class, and Gose added that Oregon statutes require that two members of the Board belong to this class. With that in mind, Gose noted that while there was likely no potential conflict of interest, there was no problem with Bailey and Baldwin declaring a potential conflict of interest, and, as with all potential conflicts of interest, they would still be permitted to participate in discussion and to vote. Trustee Brett Morgan also declared a potential conflict of interest, and Gose confirmed that the same logic applied. (Gose also reminded all trustees that this is one area in which they could not rely on her legal advice and that there had not been time to obtain OGEC [Oregon Government Ethics Commission] written confirmation of her analysis. Accordingly, it made sense for the trustees to be more conservative and announce the potential conflict in this case.)

Trustees then focused their discussion of proposed tuition and mandatory fees on the recommendations for the 2017-18 academic year rates for resident and non-resident undergraduate tuition. Discussion was wide-ranging and spoke to the complexity of the topic. Trustees acknowledged the importance of considering the impact of any decision about tuition on both current students and short-term access and affordability as well as on future students and the long-term responsibility to maintain high quality degree programs and the overall financial health of the university. Trustees noted a point of diminishing returns with higher tuition rates, where an increase of over about 6% begins to impact overall enrollment, offsetting revenue increases. Additionally, trustees discussed differences in enrollment sensitivity across groups of students. For example, setting a higher rate may generate revenue from students who can afford the increase, which would allow for investments in financial aid; however, students in the mid-range may neither be able to afford the increased cost nor qualify for the necessary assistance.

Trustees also discussed the uncertainty of state funding and considered whether to set a higher percentage rate than proposed, and, if the state funds come in higher than anticipated, using that money to offer more financial aid. Trustee Brett Morgan posed a question about the particular impact for students with the highest level of need, and Bloomer stated that increases to financial aid can help close gaps but may not reduce the average unmet need. Associate Provost for Enrollment Management Kate Peterson added that, for the current year, over 10,000 resident undergraduates have unmet need, making investment in the “Bridge to Success” program a priority. Trustees also discussed the possibility of setting a tuition range dependent on state funding; however, this can be confusing for students and families who are trying to make decisions now about the next academic year. Additionally, the Board has statutory responsibility to set a specific rate, which would require a detailed formula connecting funding levels with tuition rates.

Trustees discussed the timing of the decision about FY2018 tuition and mandatory fees, noting the challenge of doing so without knowledge of state appropriations; however, OSU has to be competitive in the national market, and award decisions need to be made now so that prospective students and families can make a decision about enrollment. If state appropriations are greater than anticipated, OSU could then explore additional strategies for supporting students that would help offset the impact of the increase. For example, by investing in initiatives that help decrease students graduate in four years, OSU is able to help decrease students’ overall spending on tuition making it likely they will graduate with less debt. Trustees discussed the importance of viewing these types of investments as critical to the university’s ability to continue to be competitive in the future and help control costs for students and their families.

Some trustees shared a concern that the rate recommended by the University Budget Committee was high and considered the idea of going to a 3% increase rather than the recommended 4%. The impact to revenue would be about $2M less, but the projected budget gap could begin to grow faster than is manageable. Other trustees felt that a 4% increase was not high enough, given the need to maintain high-quality education and also to prepare for significant future costs such as those associated with health and retirement benefits, particularly given unforeseeable impacts to the national economy in the future. President Ray stated that his recommendation to support a 4% increase in resident undergraduate tuition and a 2% increase in non-resident undergraduate tuition reflected his desire to thoughtfully consider the advice of the many individuals who participated in the budget conversations and who had arrived at those rates through a consensus-building process. He also stressed his commitment to student success and reiterated that OSU will do everything possible to address the $20M budget gap without shifting the responsibility entirely to students. While relying on the fund balance to help bridge the gap was discussed as an option, several trustees expressed concern that, once the full impact of health and retirement costs on the long-term budget is considered, there really is no fund balance available to use. With that in mind, trustees expressed the need to find a long-term solution to funding that neither shifts the burden entirely to students nor depends solely on state appropriations and tuition rates.

Following the presentation and an in-depth and thoughtful discussion, a motion was made and seconded for the committee to recommend to the Board that it approve the resolution establishing the academic year 2017-18 and summer 2018 tuition and mandatory fees as provided in Attachment 1 and amended to specify a resident undergraduate tuition increase of 4%. The motion passed.

b. FY2018 Capital Budget

Schueler asked Green and Anita Azarenko, associate vice president for capital planning and facilities services, to present the FY2018 Capital Budget. Green reminded the committee that a preliminary 2017-19 Capital Plan was included in the Higher Education Coordinating Commission's 2017-19 Integrative Capital Plan request, which the Board approved in March 2016. Additionally, a 10-year Capital Forecast was included in the 10-year Business Forecast approved by the Board in January 2017.

Azarenko provided an overview of the timeline for capital projects before moving to the FY2018 Capital Budget Request. She stated that this early version focuses on five projects that are ready to begin, which includes one auxiliaries-funded project and four centrally-funded projects, two of which the committee had seen previously. Azarenko noted that the university will not proceed with two projects, the Gilkey Hall renovation and the Oregon Quality Food and Beverages Center, without state-paid bonds. Bailey posed a question about funding for OSU-Cascades, and Azarenko clarified that would be included in the FY2019 Capital Budget, pending confirmation of state support.

Green noted that FY2018 Capital Budget included projects that include revenue bond funding and that the expectation is to seek Board approval in June to sell bonds. The complete FY2018 Capital Budget that will be presented in June will also include the Newport Housing Project, which is still under development. He added that the project costs outlined in TAB Q did not change the forecasted debt policy ratios presented to the Board in January. Thorne asked whether approval by the Board would set projects in motion, and Azarenko confirmed that it would allow the university to begin taking steps toward construction. She added that this timing better aligned with the construction cycle.

Following the presentation and discussion, a motion was made and seconded for the committee to recommend to the Board that it adopt the FY2018 Capital Budget. The motion passed.

6. Adjournment

With no further business proposed, Chair Schueler adjourned the meeting at 4:07 p.m.

Respectfully submitted,

Jennifer M. Almquist
Assistant Board Secretary