Oregon State University

The Board of Trustees of Oregon State University

Meeting of the Board of Trustees
April 16, 2018
Telephonic and Memorial Union Board Room (Room 221)
Corvallis, Oregon

MINUTES

Committee Members Present: Mike Bailey, Mark Baldwin, Patty Bedient, Julia Brim-Edwards, Darry Callahan (*vice chair*), Michele Longo Eder, Paul Kelly, Angel Mandujano-Guevara, Julie Manning, Laura Naumes, Preston Pulliams, Ed Ray (*ex officio*), Kirk Schueler, and Mike Thorne

University Staff Present: Ron Adams, Jennifer Almquist, Ed Feser, Anita Azarenko, Sherm Bloomer, Steve Clark, Debbie Colbert, Lori Fulton, Becca Gose, Mike Green, Heather Hesano, Terry Meehan, Nicole Neuschwander, Cindy Sagers, Lauren Skousen, and Kelly Sparks

Guests: Thomas Toepfer (*senior managing consultant, Public Financial Management*)

1. **Call to Order/Roll/Declaration of a Quorum**
   Vice Chair Darry Callahan called the meeting to order at 3:01 p.m., asked the assistant board secretary to call the role, and noted a quorum.

2. **Consent Agenda**
   a. **Minutes of the October 20, 2017 Executive Session**
   b. **Minutes of the April 6, 2018 Strategic Plan Forum**
   c. **Minutes of the April 6, 2018 Board Meeting**
   On a motion made and seconded, the Board approved the items on the consent agenda.

3. **Action Items**
   a. **Acquisition of Real Property**
   Callahan asked Finance & Administration Committee Chair Kirk Schueler to introduce this item. Schueler reminded trustees that staff had presented in January during executive session an opportunity to purchase a building that would support the university's research needs. He described some of the benefits of the building, including the location and existing infrastructure to support biological and chemical research and innovation. Schueler also noted that acquisition of the building would provide surge space opportunities for research needs and building renovations, as well as replace the need for the construction of a new STEM-related building in the future. He then asked Mike Green, vice president for finance and administration, and Anita Azarenko, associate vice president for university facilities, infrastructure and operations, to provide additional details. Green reported that the university had entered into a \$19.8M purchase and sale agreement for the building, which is contingent on Board approval and due diligence findings. Azarenko summarized the project details and due diligence. She added that the opportunity to purchase the

building was evaluated by leadership and faculty in the colleges of Agricultural Sciences and Science, and they have indicated their support. Azarenko said staff will soon begin a study to determine the cost for building improvements and capital repairs, noting that if the improvements total more than $5M, staff would provide a capital request for those improvements at a future meeting. Green said this research building was included in the 10-Year Business Forecast with a placeholder value of $30M for purchase and improvements, to be financed by OSU revenue bonds, and he anticipates that the total cost will be lower. He said the 10-Year Business Forecast included forecasts of the debt policy ratios that would be impacted by this purchase, adding the Board approved ratios were projected to remain within the range of approved tolerances. In response to a question by Schueler, Green said that the university would be working with one of the lessees who has vacated the building, Sarepta Therapeutics, to negotiate termination of their lease in exchange for their leasehold improvements and research equipment. Schueler also asked about anticipated revenue from existing cell tower leases, and Director of Leasing and Strategic Real Property Management Nicole Neuschwander said staff were in the process of reviewing the existing leases. Following discussion, a motion was made and seconded to approve the purchase of the research building for $19.8M using OSU revenue bond proceeds, contingent on satisfactory due diligence reports. The motion carried.

b. 2019-21 Biennial Funding Request to HECC

Callahan asked Schueler to introduce this item. Schueler reminded trustees that, every other year, the Board reviews and endorses the university's biennial budget request to the Higher Education Coordinating Commission (HECC). He noted that staff would be presenting the university's prioritized proposed capital requests for the 2019-21 biennium, and the operating request would be presented at a future meeting. He then asked Green, Azareko, and Director of Budget and Fiscal Planning Sherm Bloomer to provide an overview of the request. Green began by reviewing the capital request development process, which starts with each of the seven public universities prioritizing their capital requests. University presidents will then develop a collective "Tier 1" list to submit to the HECC. He said the seven universities are working to rationalize the total combined Tier 1 request against the state's $1B debt capacity, noting that a request for a commensurate level of capital investment for the 2019-21 biennium will consider the universities' need for capital renewal and new capital to accommodate growth and the fact that public university building space makes up about half of all state-owned buildings. Green reviewed the total amount received for all public universities in previous years, which includes $241M in the 2013-15 biennium, $252M in the 2015-17 biennium, and $339M in the 2017-19 biennium, adding that the relative total of the presidents' combined Tier 1 request will be informed by that context. Once the combined Tier 1 listing is submitted, the HECC will review and prioritize university capital recommendations for the Governor and Legislature's consideration. Green noted that for the purposes of the 2019-21 HECC capital prioritization process, OSU-Cascades will be treated as an institution and will have its own list of proposed projects. He said the seven public universities will collectively ask the HECC to continue the pooled Capital Improvement and Renewal funding to address deferred maintenance. Trustee Mike Bailey asked about the timeline for submission of the request, and Green

said the Tier 1 listing, along with information packets from each individual university, is due to the HECC by May 1, 2018.
Azarenko summarized the university's proposed capital requests for the 2019-21 biennium. She began with the Educational Performing Arts Center, which will bring together the university's programs in the arts that are currently distributed in suboptimal spaces around the campus. The project will renovate and expand the existing LaSells Stewart Center and will be funded by $35M in state-paid bonds and $35M in gift funds. Trustee Michele Longo Eder asked when LaSells Stewart Center was built, how programming will be impacted during construction, and how much money has been raised to-date. Azarekno said the university received a $25M gift for the center and will continue to work with other potential donors. During renovation, some activities will be able to continue in the space, and the university is also exploring other opportunities for some of the services currently offered in the space. The facility was constructed in 1981.

Azarenko then described the proposed Cordley Hall Renovation, noting that this second phase will renovate the facilities on the building's west side. She said that doing so will remove a total of $70M in deferred maintenance for the entire building. She said Corley Hall is home to a large proportion of the university's life-science research enterprise for the colleges of Science and Agricultural Sciences, but the building's systems are well past their expected life and pose a significant challenge and expense to maintain. Phase two of the renovation will be funded by $28M in state-paid bonds and $28M in OSU-paid bonds. During the renovation, occupants of the west side will move into the recently acquired building on Research Way.

Next, Azarenko presented the university's two proposed projects for OSU-Cascades. She said the Student Success Center is intended to improve learning outcomes and facilitate student engagement through a combination of flexible use spaces for classroom, study and tutoring, advising and counseling, and other activities as well as offices for student success staff. Azarenko reported that a second phase of land development is necessary to expand developable land for growth of the core academic and recreation districts of the campus. She noted that the proposed development would be entirely funded by state-paid bonds. Green added that the list of proposed projects is consistent with the Ten-Year Business Forecast. He noted that the Student Success Center was in the forecast at $16M and the land development was included at $15M, but he did not anticipate the escalation to have a negative effect on the university's financial viability.

During the discussion, Schueler asked whether the land development would include environmental remediation. Associate Vice President for Finance and Strategic Planning Kelly Sparks confirmed that the project would include remediation of portions of the former demolition landfill. In response to a question by Schueler about external funding to support remediation, Sparks said staff are exploring grant opportunities that are available at the state and federal levels. Trustees also discussed the effect of the inclusion of projects for OSU-Cascades and asked whether presenting four projects for the two campus affected the perception by HECC of OSU's total request. Ray noted that the separate consideration for OSU-Cascades is important positioning for the future. Green said considering the needs in Bend did not alter the university's overall prioritized capital requests and did not hinder the ability to meet needs on the Corvallis campus.

4. Education/Discussion Item

a. <u>Strategic Financial Opportunities</u>

Callahan asked Green to introduce this topic. Green reminded trustees that they had asked university staff to consider a range of strategic financial opportunities to manage significant costs the university is facing, particularly the university's portion of the Oregon Public Employees Retirement System (PERS) net pension liability. He then introduced Director of Treasury Heather Hesano and Thomas Toepfer, senior managing consultant with the university's financial advisor, Public Financial Management. Hesano began the presentation by stating that the goal of the discussion was to gather Board input on possible approaches to mitigate the expected pension liability cost increases. Hesano presented the first option staff explored, which is to use bond funding of approximately $214 million for a significant portion of the outstanding liability. She said that, as of June 30, 2017, the university's Unfunded Actuarial Liability (UAL) was $323 million. Conservative assumptions were used to determine the investment return and costs of debt service. Hesano said the step-up costs begin at $7M and progress to $13.7M throughout the term of the bonds, adding that the use of bond funding has an impact on the overall university ratios and will limit future issuance for capital projects and initiatives for the next four to five biennia. She said the analysis results show use of bond funding will cost OSU more than the actuarial projections for the 30-year time horizon.

Hesano then presented a second option considered by staff to create a reserve fund to set aside monies to offset future increases. She said the reserve would be created with annual contributions above the projected costs incurred in early years with a step-up payment structure beginning if FY2019. The funding would require increasing revenue or decreasing costs, or a combination of the two. Hesano said the analysis also assumes the reserve funds are invested at the Ten-Year U.S. Treasury rate, which would result in level payments. This option results in a savings compared to the actuarial projections for the 30-year time horizon, but, with the current investment returns, this option is not a certain solution.

Next, Hesano described the Employer Incentive Fund, which was established by Senate Bill 1566 and offers public employers a state match on revenue they raise to pay down their individual liability. While this could provide OSU with additional options for addressing the expected liability increases, until the PERS Board develops the program rules, there are variables in the framework that prevent a definitive answer regarding the viability of this option. Hesano noted that employers have to apply by December 31, 2019 to reserve matching amounts in the fund by committing to make a qualifying lump sum payment no later than July 1, 2023. Hesano concluded the presentation by summarizing the financial options considered, adding that conservative investment returns were used in the analyses in order to not overstate any potential savings.

In response to a question by Callahan about the Employer Incentive Fund, Hesano noted that the contribution cannot be made with moneys borrowed by the employer. Eder asked about the likelihood that the university would be able to participate, given that matching would be prioritized for employers with unfunded actuarial liability of more than 200% of the employer's payroll. Hesano said it was unclear and acknowledged the uncertainty about whether the university would be able to participate in this option. Trustee Paul Kelly asked for more information about the benefits and drawbacks of the options to either issue long-term debt or create a pension reserve fund. Toepfer said the option to issue long-term debt would be beneficial if the university earned a higher rate of return on the investment than the borrowing rate, but he noted that the approach also carries risk. The benefit of building a reserve is that the university has more control over the annual contributions, but the downside is that those monies are no longer available for other strategic investments. In response to a question by Trustee Patty Bedient about the risk of borrowing costs exceeding the return on investment, Hesano noted that the benefit to issuing long-term debt would be in taking advantage of low borrowing rates now knowing that the projected liability continues to increase. Toepfer added that the strategies presented were not exclusive, and the university could consider portions of any of the options presented. Bailey asked about the impact on the university's debt ratios, and Hesano said the analysis had not been re-run because the assumption was that if the university utilized its debt capacity for bond funding, it would then not be available for the existing ten-year strategy. Thus, there would be no net change to the ratios. Trustee Mike Thorne observed that the unfunded liability would not exist in perpetuity and costs were projected to decline after 2043. Through their discussion, trustees noted the limitations to the option of issuing long-term debt to cover the liability and the level of risk required to realize potential benefits. They noted that building a reserve through annual contributions also presented both possible benefits and challenges, particularly in that it would require diverting contributions away from other strategic investments. Lastly, although the potential to take advantage of an incentive fund holds promise, many uncertainties remain, including whether the university will actually be able to access the fund. Green thanked trustees for their guidance and said staff would use the input to refine options to bring back to the Board at a future meeting.

b. University-Provided Presidential Residence

Callahan introduced this topic by stating that he and previous Chair Pat Reser had started conversations with President Ray during the prior year to begin planning for a smooth transition to the university's next president, either at the end of President Ray's current contract, or later if there is mutual agreement to extend his contract. Callahan said the discussions surfaced the importance of considering whether the university will provide a residence, which can serve both as a recruitment tool and as an asset to the university. Callahan said that he and Reser asked Board Secretary Debbie Colbert to begin researching presidential housing options and invited Bedient to help them guide the effort. He said that although the project falls below the Board's threshold for approving capital projects, it was important to solicit trustee input and feedback on the direction and project elements, as the project relates directly to the Board's efforts to prepare for future presidencies.

Callahan asked Assistant Board Secretary Jennifer Almquist to provide an overview of Oregon State's history of university-provided residences. Almquist said the original president's residence dates to 1921. That site was demolished in 1957. The university also owned a presidential residence from the early 1980s to the late 1990s and again from the late 1990s until 2011. Colbert said the first item of due diligence in considering whether to again acquire university-provided presidential housing was to research current practices across the country. More than 70% of both Pac-12 universities and the top 80 universities, based on total presidential compensation, provide a presidential residence. Additionally, search firms that conduct university presidential searches confirmed that it remains the norm for candidates to expect a university-provided residence.

Next, Bedient spoke about the desirable attributes for a university provided residence. She summarized the findings gathered through conducting online research and soliciting feedback through the Association of Governing Boards of Universities and Colleges. Colbert said staff used those attributes to review homes available in Corvallis and found the inventory of existing homes to be limited. The lack of inventory and the distance of the few available homes from campus led staff to explore the option of building a residence on university-owned property within a two-mile radius of campus. Callahan added that, in the midst of these efforts, a potential home emerged as an option that was close to campus but not on the market. Staff initiated conversation with the owners and made an offer; however, the offer was not accepted. Callahan and Bedient then encouraged staff to further pursue options to build a residence on university-owned property. After reviewing options, the decision was made to pursue a property at Northwest Harrison Boulevard. Colbert described the process for completing the project through work with a design-builder and the proposed timeline, which aims to have the house completed by February 2020. She said the budget for the project is $2M, funded entirely by the money set aside from the sale of the former presidential residence and donor contributions. Next, Almquist provided details on the proposed design, noting that the presidential residence will be the official residence for the university president and family as well as a location for special events hosted by the president.

Trustee Preston Pulliams shared his experience living in provided housing and emphasized the importance of separating public and private spaces. He also said that a university-provided residence may be attractive to presidential candidates. Schueler expressed his support for the project. Kelly said he sees the benefits of a university-provided residence and supports the project because it will be donor funded; however, he expressed reservations about ongoing maintenance obligations. Ray emphasized the importance of completing the project prior to the selection of the next president.

c. <u>October 24, 2018 Retreat Topics</u>

Due to time limitations, Callahan asked Colbert to propose an alternative way to address this topic. Colbert reminded trustees that the October 2018 will be held in Portland and said that Chair Rani Borkar and Callahan had asked her to begin working now on logistics and potential topics. Colbert said that she and retreat facilitator Steve Shields will work individually with trustees to solicit input on potential topics.

5. Adjournment

With no further business proposed, Vice Chair Callahan adjourned the meeting at 4:54 p.m.

Respectfully submitted,

Jennifer M. Almquist
Assistant Board Secretary