Regular Meeting of the Finance & Administration Committee
May 31, 2018
Horizon Room, Memorial Union
Corvallis, Oregon

MINUTES

Committee Members Present: Mark Baldwin, Rani Borkar (*ex officio*), Julia Brim-Edwards (*by phone*), Darry Callahan, Mike Green (*ex officio*), Angel Mandujano-Guevara, Kirk Schueler (*chair*), and Mike Thorne (*vice chair*)

Other Trustees Present: Mike Bailey, Patty Bedient, Michele Longo Eder, Paul Kelly (*by phone*), Julie Manning, Preston Pulliams, and Ed Ray

University Staff Present: Ron Adams, Jennifer Almquist, Dan Arp, Anita Azarenko, Sherm Bloomer, Debbie Colbert, Anthony Davis, Ed Feser, Becca Gose, Jan Lewis, Jock Mills, Javier Nieto, Scott Reed, Cindy Sagers, Lauren Skousen, and Patti Snopkowski

1. **Call to Order/Roll/Declaration of a Quorum**
   Committee Chair Kirk Schueler called the meeting to order at 1:57 p.m., asked the assistant board secretary to call the roll, and noted a quorum.

2. **Vice President for Finance and Administration's Report**
   Vice President for Finance and Administration and Chief Financial Officer Mike Green shared that Cathy Hasenpflug would begin as the university's new chief human resources officer at the end of June. He also reported that Ron Adams had been appointed as Senior Associate Vice President for Administration (SAVPA) for a period of at least six months and as a national search is conducted to fill the newly created role. The SAVPA will oversee the Department of Public Safety, Enterprise Risk Services, and the division's information technology efforts. Next, Green referenced the FY2018 Q3 Operating Management Report in TAB R and the FY2018 Q3 Investment Reports in TAB S and said there was no material variance to note. He concluded with a brief introduction of the capital projects process discussion scheduled for later in the meeting, adding that staff were working on several projects to be presented to the committee for approval at a future meeting. Schueler asked about potential timing of that review, and Green said he and Board Secretary Debbie Colbert were exploring a telephonic meeting in July of either the Executive & Audit Committee or the full Board.

3. **Consent Agenda**
   a. **<u>Minutes of the April 5, 2018 Finance & Administration Committee Meeting</u>**
   b. **<u>FY2018 Q3 OSU Operating Management Report</u>**
   c. **<u>FY2018 Q3 Investment Reports</u>**
   A motion was made and seconded to approve the items on the consent agenda. The motion carried.

4. Action Items

a. FY2019 Operating Budget

Schueler asked Green and Director of Budget and Fiscal Planning Sherm Bloomer to present this item. Green said the allocations in the FY2019 Operating Budget support and enable the education, research, and outreach and engagement goals of the university's strategic plan and maintain a stable financial condition. He noted that while expected expenditures are projected to exceed expected revenue, this trend was anticipated in the Ten-Year Business Forecast. Green added that he was mindful of needing to maintain the university's credit rating and strong financial foundation and would be monitoring enrollment trends and initiatives.

Following Green's summary, Director of Budget and Fiscal Planning Sherm Bloomer made a presentation on the university's proposed FY2019 operating budget, summarizing the proposal and providing additional context. He said the proposed budget includes three principal components—Education & General (E&G) Funds, Self-Support Funds, and Restricted Funds—which total $1.306 billion in revenues and $1.285 billion in expenditures, with $39.3 million in net transfers out and fund deductions. Bloomer emphasized that the proposed operating budget was an estimate of revenues and a plan for deploying those revenues during the next year, as informed by needs to advance the university's strategic plan, priorities identified in the Ten-Year Business Forecast, contractual obligations, and requirements to maintain a solid financial position. He said that strategic investments in the budget include ongoing budgeting for the capital renewal and repair fund, investments that allow for programmatic growth in Bend and Portland, and funding for improvements in research infrastructure. The budget also provides some bridge funding to colleges as they transition to the new productivity-informed budget allocation model. In speaking about the budget context, Bloomer described the uncertainties, issues, and opportunities that were considered in the development of the budget. For the E&G Funds, these include recruitment and enrollment concerns for different programs and locations, state funding increases that were short inflationary cost increases for the Statewide Public Service Programs, and a volatile federal funding environment that could affect research funding, financial aid, and the costs of compliance with federal requirements. Bloomer said that Self-Support Funds, for areas like University Housing and Dining Services (UHDS) and Athletics, are sensitive to enrollment levels. He added that transfers out are high as UHDS spends down money reserved for dorm renewal. Bloomer also reported that Athletics has been making progress on its sustainability plan, although its financial progress is behind schedule due to costs associated with coaching changes and a change in federal tax law that affected ticket sales.

During the discussion, several trustees expressed concern about the decline of ending fund balances. In response to a question by President Ed Ray about the anticipated duration of the decline, Bloomer said it is projected in the Ten-Year Business Forecast to continue for three years and begin rebuilding as the university realizes projected success with initiatives. He added that it would be important to monitor to ensure returns on investment are consistent with the assumptions in the forecast, and, if returns are not realized as expected, adjust accordingly. The committee also discussed the university's strategic investments, such as in Portland and Bend, which are intended to increase enrollment and revenue in the future. To continue providing oversight, trustees asked for reports on indicators and progress toward success in these areas at future meetings. This will help ensure that the initiatives can be tracked and plans and projections can be adjusted, as needed. Schueler reminded the committee that staff would provide enrollment and other relevant updates at a future meeting.

Following discussion, a motion was made to recommend to the Board that it approve the proposed operating budget for FY2018-19 as presented in TAB K, Tables 1 through 4. Trustee Mike Thorne asked about the expected timeline for returns on the university's investment in Portland. Bloomer said that enrollment was anticipated for fall 2018, and that it was anticipated to grow significantly by fall 2020. He added that staff can return to the Board in the fall with a status report on Portland and other strategic initiatives. Thorne seconded the motion, with the expectation that staff will continue to provide periodic reports to review metrics and share progress. The motion carried.

b. <u>2019-21 Biennial Funding Request to HECC: Operating</u>

Schueler asked Green and Interim Associate Vice President for Finance and Administration Jan Lewis to present this item. Green said staff were seeking endorsement of the Oregon public universities' consolidated operating budget request to the Higher Education Coordinating Commission (HECC). Lewis began by saying that all operating appropriations are reflected in the request, including the Public University Support Fund (PUSF), State Programs, Statewide Public Service Programs (SWPS), Sports Lottery, and debt service for existing state-paid debt. She then discussed the appropriation for the PUSF, which is more than 65% of the state allocation to the universities and is the primary focus of the consolidated operating request. The agreement among the public universities to seek an additional $130 million in the PUSF was shaped by two points. First, Lewis said the state's method of calculating Current Service Level (CSL) does not adequately address the specific cost drivers encountered by universities. Second, this underestimate of CSL has shifted the burden of state-mandated cost increases to students through tuition increases. She noted that this level of funding would allow most universities to keep resident undergraduate tuition increases at or below 5%. Lewis then provided an overview of the funding requests in the other appropriation categories. She added that the request also includes full funding of the Outdoor School Initiative mandated by voters through Ballot Measure 99. Lewis concluded by saying that the HECC will prepare an Agency Request Budget for all higher education appropriations to be submitted to the Governor at the end of August. The Governor's Recommended Budget will be issued in December.

During the discussion, Trustee Darry Callahan asked about the variation in cost increases across universities. Lewis said the universities collectively identified an overall calculation of CSL, but the variation in costs at each university is due to a number of factors, including differences in population specific costs, such as healthcare and retirement. Callahan also expressed concern about the reliance on CSL because it focuses the request on the assumption that continuing current programs and operations is adequate rather than calculating what is needed to support a well-functioning university. Ray noted that the additional $130 million in the PUSF was a minimum investment. In response to a question by Schueler, Bloomer said the Oregon State's projected share of the funding request would put the university in a better position than what was projected in the Ten-Year Business Forecast. Trustee Michele Longo Eder asked how legislators received the previous year's funding request and what the anticipated response was to this year's request. Jock Mills, director of government relations, noted that the previous year was unique in that the request was considered in the context of a ballot measure that projected increased revenue as a result of a tax on corporations. Thorne remarked on the distinction between the requested increase to fund the Outdoor School Initiative, which was mandated by voters but not fully funded by the legislature, and the request for the continuation of other vital programs and services. Mills said that the universities worked with the HECC staff to stress the importance of those types of distinctions.

A motion was made and seconded to recommend to the Board endorsement of the public universities' FY2019-21 Consolidated Funding Request to the Higher Education Coordination Commission, which includes an additional $130 million for the Public University Support Fund and other increases for the SWPS and other programs administered by the various universities, recognizing that OSU may propose programmatic increases for the SWPS. The motion carried.

Next, Schueler invited a panel of speakers to talk with the committee about an additional funding request for the SWPS that the university is considering making to the legislature. Scott Reed, vice provost for university outreach and engagement; Dan Arp, dean of the College of Agricultural Sciences; Anthony Davis, acting dean of the College of Forestry; Javier Nieto, dean of the College of Public Health and Human Sciences, and Mills introduced themselves. Reed began by talking about the history of the SWPS. Panelists then described the work of the Extension Service, Agricultural Experiment Station, and Forest Research Laboratory and their efforts to solve problems and create economic opportunity across the state. Arp provided an overview of funding for the SWPS since 2015, and Mills acknowledged the pivotal role of trustees in securing a $14 million increase in 2015-17 over the previous biennium. Arp noted that although there was a 4.7% increase to the 2017-19 legislatively approved budget, the total was still approximately 3% below OSU's projection of the amount needed to maintain current programs and services. For that reason, the 2019-21 request to the HECC includes both the 8.4% increase needed to maintain current service level and the 3.2% needed to recover from the shortfall in the 2017-19 biennium, for a total request of $135.8 million. Arp added that the panelists were also seeking from trustees support to move forward with an additional increase up to $18 million to support six policy option packages. Panelists described the new investment initiatives that would be made possible with additional funding, including providing breeding and cropping systems support, advancing fire-resilient and fire-adapted landscapes and communities, improving fresh water quality, supporting agricultural and natural resources technology, fostering skill development of Oregon's rural workforce, and creating Extension infrastructure to support mental and behavioral health. Panelists said that they were each consulting with stakeholders across the state about both their support for current programs as well as their interest in and support for the proposed new investment, adding that they would continue these conversations over the summer and would return to the Board in October with an update.

In response to a question from Callahan, Reed confirmed that, if approved, the new investments would become part of the recurring base. Callahan also asked whether panelists had prioritized the possible investment packages, and Mills said that one intended outcome of conversations with stakeholders would be to gauge interest and possibly narrow the scope and dollar amount of new investments. Trustees also discussed possible reasons for the underfunding of the CSL and ways the university might approach garnering support for the funding proposal. Following the discussion, Schueler thanked panelists and said he looked forward to hearing a report in October.

c. <u>Tuition and Fee Process Amendments</u>

Schueler introduced the review of amendments to the Board's tuition and fee process, noting that it was a follow-up from January's discussions on this subject. He then asked Green, Bloomer, and Colbert to explain the amendments in more detail. Green began by saying that during its recent tuition-setting discussions and based on advice of the University Budget Committee, the Finance & Administration Committee and Board discussed a long-range tuition-setting framework and asked staff to incorporate key elements of this framework into the Tuition and Fee Process. Green said the Board had also directed staff to incorporate amendments to the Tuition and Fee Process necessary to implement House Bill (HB) 4141. Bloomer presented the proposed amendments detailed in Exhibit A of Attachment 1, beginning with the changes made to describe a commitment to keep annual tuition increases to within projected rates of inflation for existing personnel and services to allow students and families to plan. Trustee Julie Manning pointed to proposed language describing the Board's consideration of "affordable access," noting that perceptions of affordability vary, which makes the concept difficult to define. Trustees further discussed the inclusion of "affordable" and whether it implied a specific definition of affordability when paired with the proposed amendments. Next, Colbert described the proposed amendments necessary to update the process in response to HB 4141 requiring institutions to have an advisory body to the university president on recommendations to the governing board around tuition and fee setting. Bloomer further described how the existing university approach would be adjusted for consistency with the new statute.

Following discussion, a motion was made and seconded to recommend to the Board adoption of the amendments to the Tuition and Fee Process, as provided in TAB V, Attachment 1, with the additional change to remove the word "affordable" from the first full paragraph of the process document. The motion carried.

5. Education/Discussion Items

a. <u>Capital Projects Process</u>

Schueler asked Green, Colbert, and Anita Azarenko, associate vice president for university facilities, infrastructure and operations, to introduce this item. Green began by describing the rationale for developing a process for bringing capital projects to the Board that would be based on the readiness of an individual project for consideration rather than being driven by the annual or biennial calendar of work before the Board. Colbert and Azarenko summarized findings from a review of processes used at other universities. Colbert noted that while there is variability, some consistent practices used across institutions including approving capital projects on a project-by-project basis, creating "stage gates" for approval of individual projects, establishing thresholds for material changes in scope and budget that require additional board approval, and developing a reporting process to enable monitoring of projects. Trustees discussed the stages of the project life cycle that are most appropriately used as "stage gates" in the approval process, the levels in change in scope and budget that would require subsequent approval by or notice to the Board, the options for aligning a project-by-project approach with the state funding cycle, and the ways fundraising goals for a project might be reconciled with a life cycle approach to considering projects. Following discussion, Schueler thanked staff for the discussion and said the committee looked forward to considering a draft policy setting out the process and standards for the Board's consideration of capital projects and related amendments to the delegation of authority at a future meeting.

6. Adjournment

With no further business proposed, Chair Schueler adjourned the meeting at 4:30 p.m.

Respectfully submitted,

Jennifer M. Almquist
Assistant Board Secretary