MINUTES

Committee Members Present: Patty Bedient, Rani Borkar, Darry Callahan (chair), Susan Clark, Mike Green (ex officio), Román Hernández (vice-chair), Jax Richards, Kirk Schueler (ex officio)

Other Trustees Present: Maria Chávez-Haroldson, Michele Longo Eder, Lamar Hurd, Becky Johnson (ex officio), Preston Pulliams, Inara Scott

University Staff Present: Jackie Bangs, Sherm Bloomer, Jack Breen, Ryan Bucher, Penny Burgess, Becca Gose, John Gremmels, Heather Hesano, Jen Humphreys, Stephen Jenkins, Terry Meehan, Nicole Neuschwander, Paul Odenthal, Jarrod Penttila, Melanie Rose, Alan Sams, Heidi Sann, Eric Schoenstein, Shawn Scoville, Staci Simonich, Kelly Sparks

Other Guests: Surya Pisapati (PFM Asset Management), Alan Clark (PFM Asset Management), Trey Thompson (Agility), Lindsay Olson (Agility)

1. Call to Order/Roll/Declaration of a Quorum
   Committee Chair Darry Callahan called the meeting to order at 1 p.m.
   Board Secretary Jackie Bangs called the roll and noted a quorum.

2. Vice President for Finance and Administration’s Report
   Mike Green, vice president for Finance and Administration, provided a report on the South Farm property, a 50-acre lot south of campus adjacent to Hwy 20 and Brooklane Ave. Green said that since it has been deemed a surplus property with no immediate or long-term use planned, OSU is developing a plan to offer the land for sale. The sale could provide an opportunity for the university to contribute to Corvallis community livability if the property can be developed to provide an increased level of local housing inventory for people with varied incomes and residential needs. Green said OSU is working with a commercial real estate firm and that an important goal of the property development includes sustainable, multi-modal, and accessible transportation options.

   Green reported that Chief Human Resources Officer Cathy Hasenpflug resigned effective mid-May and that Heather Horn, previously the university’s Director of Employee and Labor Relations, has filled the interim role. Green said a national search, chaired by University Honors College Dean Toni Doolen, is underway.

   Green then spoke about significant cost escalations in the market related to capital projects. Green said that budgets for projects currently in design are at risk of increasing. Green said that priority projects will continue, but funds may need to be pulled from other projects in the Ten-Year Business Forecast.
Green noted that OSU received funds ($30M) in the last legislative session which may allow for addressing some of the capital project cost escalations.

3. Consent Agenda
   a. Minutes of the April 7, 2022 Finance & Administration Committee Meeting
   b. FY2022 Q3 Operating Management Report
   c. FY2022 Q3 Investment Reports
   d. Capital Project Stage Gate II: Gilkey Hall Renovation

   A motion was made and seconded to approve the consent agenda. The motion carried.

4. Action Items
   a. FY2023 Modification to Honors College Differential Tuition
      Associate Vice President of Budget and Resource Planning Sherm Bloomer shared that there is currently only one rate for Honors College differential tuition ($500/quarter). Bloomer said the proposed change would apply a part-time Honors College tuition rate ($250/quarter) for part-time students and would extend the Honors Experience to Ecampus students, most of whom are part-time students.

      A motion was made to approve the modification to the Honors College Differential Tuition. The motion was seconded and carried.

   b. FY2023 Operating Budget
      Mike Green began by sharing that OSU is in a good place financially, especially given the current national context. Green said the enrollment outlook is strong but OSU has not yet recovered the substantial loss in international student enrollment compounded by the COVID-19 pandemic. Green said that overall increases in net tuition revenues and the typical increase in state funding that comes in the second year for the biennium is expected to cover inflationary costs. Green said that a $12M deficit is anticipated in self-support units, though they should be back to normal this fall.

      Bloomer provided an operating budget overview, budget context for Fiscal Year 2023 and the FY23 proposed budget, noting principal uncertainties and challenges. Bloomer said applications and deposits are strong, particularly for domestic non-residents, and flat for resident undergraduates. Bloomer said growth continues in Ecampus and confirmed that international enrollment has declined. Bloomer said that OSU is back to nearly normal levels of activity in self-support units such as housing and athletics.

      Bloomer then shared the impacts of the pandemic on OSU's Education & General, Self-Support, and Restricted Funds. Bloomer noted that self-support units such as housing and dining, athletics, parking, and printing and mailing experienced the greatest losses over the past year. Bloomer said that FY2023 revenues are anticipated to be $1.53B, while expenditures are anticipated to be $1.54B. Bloomer said that difference is by design, as spend down of fund balances is planned. Bloomer said the ending fund balance and the end of FY23
is projected to be $186M, or 12.2% of operating revenue.

Bloomer shared what revenues likely would have been, had the pandemic not occurred, illustrating that while OSU has returned to previous growth rates, the starting points are from a lower place, meaning that expenditures also need to be adjusted downward. Bloomer spoke about challenges and uncertainties, including national enrollment trends, pandemic impacts on transfer rates, lower international student enrollments, program growth at OSU-Cascades, continuing state budget shortfalls for statewide public services, and inflationary cost increases for such things as debt service, insurance, personnel and contracts. Bloomer spoke about the updating the timing of OSU’s budget process this year, which should allow for an earlier posting of next year’s budget.

Bloomer spoke about a change in strategy in financial aid distribution, noting an increase from $40M to $80M. Bloomer said that OSU has rejoined the Western Undergraduate Exchange program, bringing in more domestic non-residents but at a higher tuition discount. Bloomer said this strategy allows the university to increase financial aid to Pell-eligible students, putting OSU in a more solid position for the future. Bloomer said that the net tuition/student declines due to increased financial aid is still positive and is different in terms of the impact to revenue.

In response to trustee questions, Bloomer noted that OSU has a solid fund balance and that there are other levers in place to manage potential future scenarios including a recession, inflation or a mutation of the coronavirus. Discussion occurred about the fund balances that exist in some areas while other areas are underfunded, such as funding levels from the state. Bloomer shared that there is a need for OSU to build institutional reserves for strategic investments.

A motion was made and seconded to approve the FY2023 operating budget. The motion carried.

c. Capital Project Stage Gate I: Innovation District Project

Associate Vice President for Finance and Strategic Planning Kelly Sparks shared a summary of the costs associated with the project, anticipated revenues and the project timelines. Sparks said the total project cost is $34M (overall cost of ownership at $54M), with $10M in E&G funds received from the state. They are seeking support of $24M in use of revenue bond funds, noting continued efforts to secure grant funding. Sparks spoke to revenues anticipated and noted the cost of ownership to be $3.1M - $8.1M. Overall, the Innovation District will be a 24-acre development, with phase one being eight acres. Sparks said they are looking for organizations who would like to co-develop the site, including opportunities for workforce housing, instructional space, presentation space, commercial office space and creation space. Sparks then spoke about the site remediation which includes massive internal redevelopment.

Trustee Schueler noted that more information is needed regarding the revenue side of the project, and he anticipates more information on that will come back
when they seek Stage Gate II approval. Trustee Bedient affirmed the need for more information on revenue, and Green agreed that this will be further developed and shared at the next Stage Gate approval. Schueler suggests a business plan describing how the Innovation District will move forward. Trustees commented on the unique nature of this project.

A motion was made and seconded to advance the OSU-Cascades Innovation District Project to the next stage of design and development. The motion carried.

d. **Capital Project Stage Gate I: Withycombe Hall East and West Renovation**
   
   Senior Associate Vice President for Finance and Administration Paul Odenthal and Dean of the College of Agricultural Sciences Staci Simonich spoke about the project and how the building will be utilized. Odenthal noted that Withycombe is a historic building and has never been upgraded. Odenthal said that it will be tied to the district utility plant leading to efficiencies. Odenthal said the project budget is at $51M, with $3M from a donor and $3M from the state. He added that cost escalation was the main risk. Simonich shared the excitement about the renovation, as it will double the size of the creamery and winery, which will help important industries in the state and provide a better-educated workforce. Simonich spoke about improved accessibility to the building as well as a storefront for the Beaver Classics food products.

   Conversation continued about potential cost escalations, with Odenthal reporting that the cost could go as high at $71M, though costs can be managed during the design development stage of the project.

   A motion was made and seconded to approve advancing the Withycombe Hall project to the stage of design and development. The motion carried.

e. **Capital Project Stage Gate II: Whyte Track and Field Center Grandstands**
   
   Odenthal and Associate Director of Facilities and Event Management Ryan Bucher gave an overview of the project. Odenthal said that there will be a 1,200-seat grandstand with a press box, restrooms and ADA improvements. Odenthal said the overall price is $7.3M, with a significant portion coming from donated funds. Bucher said that the state-of-the-art facility will be transformative in improving the overall experience for student athletes and fans. The facility will allow OSU to host NCAA events that cannot currently be accommodated.

   Conversation occurred about the city’s requirement related to parking improvements, which will cost approximately $2M, though Odenthal said it is possible that the total area to be paved may decrease.

   A motion was made to recommend to the board approval of a capital project $7.3M. Motion was seconded and carried.

f. **Amendments to Approval of Capital Projects Policy**
   
   Odenthal shared that in previous meeting discussions, there was a suggestion to consider whether projects should be reviewed at the $5M level, and how to handle scope changes in projects after they have been approved. Odenthal said
that at $5M, fairly routine projects like building roof repairs are being brought to the Board. Capital Planner John Gremmels reviewed the current Stage Gate approval process. The proposed policy update would increase the project approval threshold to $10M for initial project cost, and adds a requirement to seek re-approval if a project’s budget changes by $10M or 20%. The policy would also be updated to require Board approval if the scope change in a project is inconsistent with the scope presented to the Board at Stage Gate II.

Odenthal provided examples of recent projects for reference.

There was discussion about the suggested changes, including the percentage budget change and whether 20% is too high. Trustees proposed that it be reduced to 15%. After discussion, the proposed amendment to the policy is that once the approved budget has been established by the board, any increase anticipated to cause the total of all increases to a capital project budget to exceed the lesser of $10M or 15% must be approved by the board.

A motion was made to recommend to the Board amending the Approval of Capital Project Policy as provided in Attachment 1, with the adjustment to the budget change percentage threshold being reduced to 15%.

g. **Lease Agreement with USDA**

Odenthal introduced Nicole Neuschwander, director of Leasing and Real Property Management, Jack Breen, chief operating officer for the College of Agricultural Sciences, and Terry Meehan, senior associate general counsel. Neuschwander explained that a ground lease agreement has been in place with the USDA since 1978 and a renewal is being sought. Neuschwander said that this would extend the current ground lease relationship and considers some planned improvements by the USDA worth $10M. USDA is responsible for all operating costs, and this is a non-monetary arrangement. Breen went on to speak about the importance of the collaboration for the College of Agricultural Sciences and the state of Oregon.

A motion was made and seconded to recommend that the board authorize the OSU president to move forward with the negotiation and execution of a ground lease agreement between OSU and the USDA Agricultural Research Service, National Clonal Germplasm Repository (NGGR) that is consistent with the terms set forth in the Term Sheet described in Attachment 1.

5. **Discussion Items**

a. **Research Infrastructure Needs, including risk management report**

Vice President for Research Irem Tumer spoke about needs of research facilities, laboratories and equipment as a top enterprise risk and the efforts to mitigate the risks. Tumer said that modernizing aging facilities and investing in new ones is key to attracting and retaining faculty. Tumer said that long-term multi-disciplinary research is still a struggle due to the expense and effort involved. Tumer said that there has been a lot of emphasis on capital renewal and working through a large maintenance backlog. Odenthal spoke about the
methodology behind how OSU approaches capital renewal of research infrastructure.

Tumer spoke about the future Collaborative Innovation Complex (CIC) and how it will enhance OSU’s ability to conduct transdisciplinary collaborative research. Tumer said it is an opportunity to recruit new talent and students. Dean of the College of Engineering Scott Ashford then spoke about the signature research facilities that will be housed within the CIC, including a supercomputer, a clean room, a cyber physical playground, an extended reality theater, and a water science and engineering hub.

Questions and conversation amongst the trustees and presenters occurred after the presentation about the CIC.

b. Investment Strategy

OSU Treasury Director Heather Hesano provided additional context about investment strategy. She focused on long-term tier-three assets, which represent 15.9% of the total portfolio as of March 31, 2022. Hesano shared a graphic and explanation about OSU’s cash and investments, describing Tiers 1, 2, and 3 and noting OSU’s unique circumstance of being a 153-year-old organization that has been independently managing its investments for only seven years. Hesano spoke to the volatility of the conditions in quarter 3 and also spoke to cash and investment allocations in Tier 3.

Penny Burgess, executive director of the University’s Shared Services Enterprise (USSE) then spoke about the equity portfolio construction and key investment considerations. Burgess said that OSU has adopted a core satellite portfolio construction approach for the Board-designated assets, which blends both active and passive strategies. Surya Pisapati with PFM Asset Management, the university’s financial advisor, then spoke about the equity markets and PFM’s outlook for the U.S. and non-U.S. equities.

Hesano shared information about endowment assets, their time horizon, risk tolerance, return expectations and fees (if any). Shawn Scoville, president and CEO of the OSU Foundation (OSUF), then shared information about the OSU Foundation’s endowment pool. Scoville spoke about the importance of university endowments as an indicator of a university’s financial health in addition to providing dedicated funds for faculty excellence and student success. Eric Schoenstein, chair of the OSU Foundation Board of Trustees, spoke about the OSUF Investment Committee and the logistic and strategic decision to outsource the chief investment officer (CIO) role to Agility in July 2016.

Trey Thompson with Agility discussed the organization’s execution of the OSUF investment philosophies. Thompson spoke about the types of investments and strategies utilized and recommended to the OSUF for its endowment. Thompson also spoke about the performance of the OSUF endowment since Agility’s involvement began in 2016. After the OSUF endowment conversation, Hesano then shared the opportunities for Tier 3 are to increase long-term equity
investment and to diversity equity asset allocation.

After the presentation, discussion occurred about performance of the funds and how the trustees can ensure they are meeting their fiduciary responsibilities in terms of understanding decisions that have been made.

6. Action Items
   a. Investment Policy Review and Amendments
      Heather Hesano gave an overview of the suggested amendments and the reasons for the recommendations. The recommended Investment Policy changes will provide for strategic flexibility of asset management by aligning the intent for allocation limitations to Tier 3 investments and provide edits for clarity and housekeeping. Hesano provided a slide to clarify the relationship of terminology contained within the recommended amended investment policy, the quarterly investment report and the investment strategy discussion just completed. Hesano then explained the tables and information provided to the trustees in their meeting materials to further clarify the policy amendments.

      Trustees made suggestions about changes to the tables for clarity. Hesano agreed to make those changes prior to the full Board meeting.

      A motion was made and seconded to recommend to the Board approval of the related amendments to the Investment Policy as provided in Attachment 1, modified by the discussion held today. The motion carried.

7. Adjournment
   With no other business or discussion, the meeting was adjourned at 5:11 p.m.

Respectfully Submitted,

Jen Humphreys
Assistant Board Secretary