



Oregon State
University

The Board of Trustees of Oregon State University

Regular Meeting of the Finance & Administration Committee

January 23, 2020

**Horizon Room, Memorial Union
Corvallis, Oregon**

MINUTES

Committee Members Present: Patty Bedient (*chair*), Julia Brim-Edwards (*phone*), Mike Green (*ex officio*), Khawater Hussein, Kirk Schueler, Stephanie Smith, and Mike Thorne (*vice chair*)

Other Trustees Present: Mike Bailey, Darry Callahan, Lamar Hurd, Paul Kelly, Julie Manning, Preston Pulliams, and Ed Ray (*ex officio*)

University Staff Present: Charlene Alexander, Jennifer Almquist, Sherm Bloomer, Jacque Bruns, Susan Capalbo, Steve Clark, Debbie Colbert, Ed Feser, Becca Gose, Paul Odenthal, Heidi Sann, Lauren Skousen, Patti Snopkowski, and Irem Tumer

Guests: Shawn Scoville (*president and chief executive officer, Oregon State University Foundation*)

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

Committee Chair Patty Bedient called the meeting to order at 9:30 a.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 began by reminding trustees that the university must replace the Oregon State Police as its law enforcement provider by July 1, 2020. Green reported that he has convened an advisory committee to provide recommendations on how best to manage the transition. Additionally, the committee will engage the OSU community in conversations about long-term public safety needs. Green said the committee anticipates developing recommendations by the spring. Trustee Mike Bailey asked about the timeline for transitioning providers, and Green said that some of the options being considered to meet long-term needs may require time beyond July 1; however, in that case, the university would explore interim options to ensure there is no break in law enforcement coverage.

Green provided a summary of the university's cost containment measures implemented during the 2019-20 academic year, noting that the seven public universities has recently submitted a collective report to the Oregon Legislature on such efforts. At OSU, cost containment measures included reducing positions, keeping vacant positions unfilled, and making reductions to administrative spending. Green added that OSU did not utilize central reserve funds to balance the FY2020 budget, recognizing the need to maintain reserves for possible emergencies and to help support future strategic investments. Trustee Darry Callahan noted that while the university had been able to implement reductions, it would be important to communicate that doing so was not easy and that such measures affected the university's ability to fulfill its mission. Green said the university continued to look for opportunities to convey to legislators the impact of reductions, and Bailey added that

it would also be important to communicate that it would not be sustainable for the university to continue to make reductions. President Ed Ray remarked on the importance of also considering new ways to generate revenue to mitigate the effect of fluctuations in state funding.

Green provided updates on several capital projects, beginning with the Arts and Education Complex, which is currently in schematic design. The project has an estimated budget of \$70M, funded equally by state bonds and philanthropic gifts. Green said the project is included within the capital request advanced by the Higher Education Coordinating Commission (HECC) for consideration during the February legislative session. He reported that the Collaborative Innovation Complex, an interdisciplinary science and engineering center, was being envisioned as a project that would be completed in two phases with an expected budget of \$200M, with \$75M in state paid bonds split over two biennia. Green said that a university committee was exploring the feasibility of the Completing Reser project, which seeks to update the stadium's infrastructure, right-size its capacity, and contribute to the year-round success and wellness of the university community. The budget of \$175M anticipates \$100M in philanthropic gifts, up to \$45M in private capital, and \$30M in state-backed bonds that would be repaid through athletics revenue generated by the project. Green reported that university is also exploring potential public-private partnerships. He said the university would soon be releasing a request for proposals for design and build contractors for the project, which he explained is part of the preliminary work the university needs to do in order to develop the project for the next step in the Board's capital projects policy. Green added that these are preliminary steps and the project oversight committee will complete due diligence on the various aspects of the project before the project is brought before the Board. In response to a question by Bedient, Green said the oversight committee includes representatives from the OSU Foundation and university leaders representing a range of functional areas. In response to questions from trustees about funding the project, Green confirmed that Education & General (E&G) funds would not be used and debt service would be paid by Athletics. Green also provided an update on plans to develop and construct new student housing in Newport to support the university's Marine Studies Initiative. He said a first phase of housing would be designed to meet the needs of Marine Studies Initiative students who are currently based in Newport. If the program proves viable, the university would develop a second phase of student housing in Newport to support it.

Green provided updates on several recent business improvement reviews within the university's administrative operations. He reminded trustees that in 2016 the university examined its delivery of human resources services. After Cathy Hasenpflug joined as the university's new chief human resources officer, she introduced a new operating model and expanded the capacity of University Human Resources to support Strategic Plan 4.0 (SP4.0). Green also reported that a 2017 review of OSU's business operations resulted in a set of recommendations to improve effectiveness and better align resources with strategic priorities. He concluded by referring to the items on the consent agenda, noting that the Internal Bank Annual Report listed several capital projects that used bond proceeds. He said some of the projects were below the Board's \$5M approval threshold but were aligned with the bond issuance approved by the Board.

3. Consent Agenda

- a. **Minutes of the October 17, 2019 Finance & Administration Committee Meeting**
- b. **FY2020 Q1 OSU Operating Management Report**
- c. **FY2020 Q1 Investment Reports**
- d. **Internal Bank Annual Report**

Bedient introduced the items on the consent agenda. A motion was made and seconded to approve the items on the consent agenda. The motion carried.

4. Action Items

- a. **Capital Project Stage Gate I: Gymnastics Practice Facility**

Bedient asked Paul Odenthal, senior associate vice president for administration, and Jacques Bruns, senior associate athletic director, to introduce this item. Odenthal said the university has completed the schematic design phase and was now seeking to advance the Gymnastics Practice Facility project to the design development phase. The university is currently leasing a building located on Research Way, with an option to purchase, with the intent to relocate the gymnastics practice facility there from the Gladys Valley Gymnastics Center. Bruns described how the renovation of the practice facility would help to meet the needs of the women's gymnastics program and advance the strategic goals of the Athletics department and the university. Odenthal said the estimated net project cost is \$12.5M, which includes \$3.5M to purchase the building the university is currently leasing and \$8.65M to renovate nearly half the space to accommodate a new Gymnastics Practice Facility. He added that Athletics would share operation and maintenance costs. The remaining area will continue to be leased to two other tenants who will pay rent to OSU. Odenthal also described the risks that have been identified for the project and the proposed mitigation strategies.

Following the presentation, Callahan asked about plans to transport student-athletes to the new practice facility. Bruns noted the ample parking onsite and added that a shuttle option could be added if needed. In response to a question by Trustee Mike Thorne, Odenthal clarified that while the building currently has tenants, the income from the leased space included in the estimated life cycle ownership costs included a projection of the value of the space not tied to particular tenants. Trustee Julie Manning asked about the university's plans for the vacated Gladys Valley Gymnastics Center, and Odenthal said renovating and reusing the space would be part of the Ten-Year Capital Forecast. In response to a question by Trustee Kirk Schueler, Odenthal confirmed that the building would remain an E&G asset. Schueler also asked about the request before the committee, noting that while the proposed renovation budget of \$8.65M met the Board's approval threshold, the purchase cost of \$3.5M did not. Board Secretary Debbie Colbert confirmed that the motion before the committee was not related to the acquisition; rather, the committee would consider approval to advance the Gymnastics Practice Facility to the next phase of design development. Green added that the purchase price was summarized in the docket to provide context and gauge the level of trustee support for the entire project. Trustee Khawater Hussein asked about the amount of time per week that the practice facility would be used by the gymnastics program and whether it could be utilized for other purposes when not in use by student-athletes. Bruns said that because it would become a complete facility to support both practice and other program needs, it would likely be in regular use by the team throughout the year. In response to a question by Trustee Stephanie Smith, Green confirmed that bond proceeds would be paid by E&G funds, but over time, the leasing account could repay those costs. A motion was made and seconded to approve advancing the Gymnastics Practice Facility to the next phase of design development. The motion carried.

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b. Ten-Year Business Forecast (includes FY2019 Financial Statement Analysis & Financial Metrics)

Bedient reminded trustees that the university's Ten-Year Business Forecast combines the university's long-term operating plan together with its long-term capital plan. She then asked Green, Odenthal, Associate Vice President for Budget and Fiscal Planning Sherm Bloomer, and Associate Vice President for Finance and Controller Heidi Sann to introduce this item. Green said the purpose of the forecast is to provide a long-term view of the aggregate impact of near-term operating and capital decisions made in support of the university's strategic plan. He said the current forecast is aligned with SP4.0, considers the long-term effects of current decisions, and provides the opportunity to take action to maintain and improve the university's financial strength as needed.

Sann presented an update on the financial health of the university, including comparison of key financial metrics over time. She noted that the established ranges were based on an evaluation of public universities with the same Aa3 credit rating and were developed at a time when the effect of Governmental Accounting Standards Board (GASB) Statement Nos. 68, 71, and 75 was not fully known. In response to a question by Schueler, Sann said that the university now had enough data for comparison purposes to show the ratios with the implementation of these GASB statements. She spoke about each of the ratios, noting that in 2019, four of the seven key metrics were outside of the Board established range with GASB 68, 71, and 75 fully implemented. When considered without the implementation of GASB and over the longer horizon of the last five years, the debt burden, income statement leverage, viability, primary reserve, and return on net assets ratios have generally been within the operating ranges set by the Board. Green noted that several of the ratios were impacted by the revenue bond issuance supporting the capital forecast; however, they are anticipated to stabilize because the university does not anticipate needing to issue further debt in the immediate future. Bailey noted that the Net Operating Revenues Ratio was below the Board established range, and Green said the university is addressing revenue generation through its budget and forecasting process. Bedient emphasized the importance of examining the six broad initiatives included in the forecast as strategies for either slowing expense growth or adding net revenues.

Odenthal reminded trustees that the Ten-Year Capital Forecast describes how OSU will provide over the period of the forecast for the physical environment necessary to carry out its mission. He said the capital forecast is guided by SP4.0, and he described the process of developing the plan, including the work of the Infrastructure Working Group and interviews with academic and administrative leaders. He summarized the criteria used to evaluate projects for inclusion in the capital forecast and provided an overview of the major emphases in the FY2020 capital forecast. Odenthal noted significant changes to the forecast, including the addition of the Collaborative Innovation Complex and a new seawater supply system at Hatfield Marine Science Center, the demolition of Weniger Hall, and the creation of an innovation district at OSU-Cascades. He also noted that approximately \$620M in deferred maintenance would be removed and the university's footprint would be reduced by 39,000 square feet over the forecast. In response to a question by Bedient, Odenthal confirmed that the footprint reduction would allow the university to continue delivering on its mission

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but in a way that more efficiently utilized space. Manning added that the reduced footprint and more efficient use of space was a positive message that would be important for the university to communicate more broadly. Thorne asked what trustees should expect to see from staff to demonstrate the effectiveness of the initiatives proposed in the Ten-Year Business Forecast in supporting the actions outlined in SP4.0. Bedient suggested that trustees keep in mind throughout their discussion the need to link actions identified in the strategic plan and assumptions presented in the forecast. Ray added that it would be important for trustees to continue to track the six initiatives proposed in the forecast.

Next, Bloomer presented the Ten-Year Business Forecast. He reminded trustees that the forecast considers the influence of external factors as well as the projected results of strategic actions driven by SP4.0 with the goal of identifying areas of concern and opportunity associated with the university's decisions and external conditions early enough to take action to maintain and improve the university's financial strength. Bloomer said the forecast takes an institutional-level view of operating and capital needs and the expected trajectories of revenues and expenses. Bloomer noted that the forecast begins from the FY2019 audited financial statement, which forms the baseline against which six additional broad initiatives were examined. He then described the assumptions for the baseline scenario before providing additional information about each of the six initiatives. While each is relatively modest in scope, Bloomer reported that, in combination, they provide a more stable operating result and financial position. He noted that, in addition to initiatives that were intended to generate revenue, it would be important to also focus on expense management.

During discussion, Bedient remarked on the assumption in the forecast that the university would shift to the idea of reserving 15,000 seats for undergraduate resident students and asked about the ability of the university to achieve that level of enrollment. Bloomer clarified that the enrollment models did not depend on achieving that level of enrollment; rather, the number was intended as an indication of the intent to preserve ample space for resident students. Bedient stressed the importance of achieving the levels of enrollment growth that were projected in the forecast. Schueler asked about assumptions in the forecast related to student retention, and Bloomer said the baseline scenario was conservative in assuming present rates. He added that successful efforts to increase retention and graduation rates could have a further positive effect on the projections in the forecast. Ray noted the need for the university and the OSU Foundation to continue working in close partnership to increase support for initiatives tied to the university's strategic plan. Bedient said it would be important to consider what would be needed to implement the initiatives outlined in the forecast, given their collective importance to advancing the strategic plan and strengthening the university's financial position. In response to a question by Bailey, Bloomer described some of the assumptions about scope, revenues, and expenses that were considered in modeling the potential effects of the initiatives. Trustee Preston Pulliams asked about the extent to which the success of each initiative also accounted for potential competition, and Green said staff continued to monitor efforts among peers to help ensure the university remained distinctive in the areas outlined in SP4.0. Callahan remarked on some of the difficult decisions about tradeoffs that had been made in order to implement expense reductions in recent years. He noted that this was not a sustainable approach and asked what was being done to also consider ways to become more efficient

in delivering on the university's mission. Bloomer described some of the efforts underway, including using the exploration of the initiatives in the forecast as an opportunity to think about new ways of implementing programs and services. Green added that the university's new budget model also supported the exploration of cost management strategies.

Following discussion, Bedient thanked staff for their work and said she was pleased with how the forecasting process had evolved during her time as a trustee. A motion was made and seconded to recommend the FY2020-2030 Ten-Year Business Forecast to the Board for acceptance. The motion carried.

5. Education/Discussion Items

a. **Preliminary FY2021 Tuition Scenarios and Education and General Budget Planning**

Bedient reminded trustees that this topic was for discussion purposes and that no action would be taken until the Board's next meeting in April. She then asked Green and Bloomer to present this item. Green began by noting that tuition rate scenarios took into account the commitments outlined in the Board's tuition and fee process, the university's focus on maintaining access and affordability, the evaluation of price elasticity, and the goals articulated in the strategic plan. He added that any recommended tuition increases were informed by efforts to first consider enrollment trends, revenues generated by enrollment related initiatives, and opportunities to manage cost drivers and pursue other revenue opportunities. Bloomer reported that current year undergraduate tuition revenues in Corvallis were within 0.2% of initial budget projections and tuition revenues at OSU-Cascades were also consistent with projections. He noted that planning for FY2021 is more straightforward than was planning for the current year because the allocation of state operating funding across the biennium is known. Bloomer described the enrollment context for FY2021, including a projected enrollment decline in Corvallis. He also provided an overview of new projected costs — including the next capital renewal increment, property insurance increases, growth in debt service, and increased commitments to the OSU Foundation — and the revenue context for FY2021. In response to a question by Schueler about expected growth in salary costs, Bloomer confirmed that projections were based on present staffing levels.

Next, Bloomer described the university's tuition planning efforts, noting that the University Budget Committee (UBC) is discussing undergraduate tuition rates through a scenario approach as it has done in previous years. He then summarized three preliminary tuition scenarios, centered on inflationary increase. Bloomer noted that, under any scenario, the university would still need to identify strategies for increasing revenue and managing expenses. He said staff would continue to work with the UBC and the Student Budget Advisory Council, host tuition forums through winter term, and submit rate recommendations to the president by the end of February.

Following the presentation, trustees discussed the scenarios. Manning remarked on the resident and non-resident undergraduate tuition rates, and Bloomer said that while the percentages were the same, staff were mindful of the particular price sensitivities in the non-resident undergraduate student market. In response to a question by Bedient, Bloomer noted that actual salary costs may differ from projections once the inaugural agreement between the university and the United

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Academics of Oregon State University is established. Bedient concluded by reminding trustees that staff would bring a tuition rate proposal for the Board's consideration in April.

b. OSU Foundation Update

Bedient welcomed Shawn Scoville as the new president and CEO of the Oregon State University Foundation and asked him to provide an update. Scoville began by describing themes that emerged from his early conversations with leaders from the university, the OSU Foundation, and the OSU Alumni Association. He spoke in particular about four significant industry-wide challenges: a generational paradigm shift in the way people give, the acceleration of technological change, the effect of changes to the federal tax code on charitable giving, and the need to more effectively scale initiatives. Scoville described efforts underway at the OSU Foundation to address these challenges, including investing in technology, encouraging innovation, endeavoring to tell stories differently, and engaging more strategically with partners.

During discussion, Pulliams asked about the Foundation's initiatives related to advancing diversity. Scoville noted that diversity was one of the Alumni Association's three priorities for engagement, and he added that efforts would be considered in partnership with the university's Office of Institutional Diversity. Trustees discussed some of the shifts to the ways people give, and Scoville noted that changes include donors being increasingly likely to designate gifts to support specific causes and expressing an interest in supporting scholarships and endowing faculty positions. In response to a question by Bedient, Scoville said the industry is also adapting to meet the increasing number of online students. Trustees expressed interest in helping the Foundation continue to broaden its reach, and Scoville described efforts developed in partnership with Provost Ed Feser to test a set of themes that align with the university's vision and strategic plan and that could serve as the basis for the next campaign.

6. Adjournment

With no further business proposed, Chair Bedient adjourned the meeting at 1:30 p.m.

Respectfully submitted,

Jennifer M. Almquist
Assistant Board Secretary