The Board of Trustees of Oregon State University

Regular Meeting of the Finance & Administration Committee
May 30, 2019
Horizon Room, Memorial Union
Corvallis, Oregon

MINUTES

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

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

University Staff Present: Jennifer Almquist, Anita Azarenko, Sherm Bloomer, Donna Chastain, Steve Clark, Debbie Colbert, John Doty, Becca Gose, Paul Odenthal, Steve Pitman, Lauren Skousen, Patti Snopkowski, Kelly Sparks, and Irem Tumer

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

Committee Chair Patty Bedient called the meeting to order at 12:46 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 spoke about recent additions to the Division of Finance and Administration senior leadership team. He described an emerging capital project to update the gymnastics facility, which is currently on the Athletics master plan and the Ten-Year Capital Forecast with an estimated budget of $16.8M. Green said the university had recently entered into a long-term lease of a suitable property, with an option to purchase it in the future for approximately $3.5M with an additional $7M anticipated for renovation. He said staff would continue to work with the committee to move the project through the regular capital approval process.

Green described a new team of internal and external experts that will be collaborating on the evaluation and development of potential public-private partnerships, adding that the new senior associate vice president for administration will coordinate the university-wide effort, which could involve a broad range of areas such as developing utility infrastructure and student housing. In response to a question by Trustee Darry Callahan, Green said the university might also engage outside experts in the effort where appropriate. Green provided an update on operations within the division, noting that a project to develop key performance indicators and metrics is proceeding on schedule. He said his staff is developing risk tolerance guidelines and other tools to assist employees in making decisions that more broadly consider risks and benefits.

Green then reported on efforts by the Higher Education Coordinating Commission (HECC) to develop a long-term capital strategy for the state's higher education institutions and to update its capital project scoring rubric for the 2020 legislative session. HECC staff are currently engaging in a series of meetings with each institution and a number of constituents to understand each university's unique capital needs and circumstances. Green said that

Oregon State has a panel of stakeholders prepared to advocate on the university's behalf, with a particular emphasis on articulating OSU's broad statewide and national impacts. Green concluded by reporting that the university had recently completed its sale of $140M in long-term bonds at a 4.05% interest rate. The proceeds will be used to fund projects on the university's Ten-Year Capital Forecast.

3. **Consent Agenda**

   a. **Minutes of the April 4, 2019 Finance & Administration Committee Meeting**
   On a motion made and seconded, the committee approved the minutes of the April 4, 2019, meeting.

4. **Action Items**

   a. **Capital Project Stage Gate: OSU-Cascades 46-Acre Site Reclamation**
   Bedient asked Associate Vice President of Finance and Strategic Planning Kelly Sparks and Director of Facilities and Operations Steve Pitman to present this item. Sparks noted that in January 2017, the Board approved the acquisition of the 72-acre demolition landfill to complete the 128-acre OSU-Cascades campus. She said the university is now presenting the 46-acre site reclamation project for Stage Gate 2 approval. The project is the first phase of redevelopment of the pumice mine and landfill into land that is usable for expansion of the 10-acre campus in accordance with the OSU-Cascades Master Plan, which was approved in 2018 by the City of Bend. Sparks described the scope of the project, which includes the 46-acre site reclamation and a small portion of the Academic Building 2 project. Pitman provided an overview, noting that the project involves reuse of suitable landfill material, properly blended with other materials on-site to fill and regrade both the pumice mine and landfill to create a buildable campus. In response to a question by President Ed Ray about the capacity of the 128-acre campus, Sparks said the OSU-Cascades Master Plan projects needs through 2034 and allows the university during that time to develop the Bend campus to a capacity of 5,000 students taking classes on site. She added that the university would also put in place infrastructure improvements, including traffic mitigation both on- and off-site, to support that growth. If there were a need to grow the capacity, the university would work with the city of Bend to revise the OSU-Cascades Master Plan.

   Vice Chair Mike Thorne asked about the identification of risks and proposed mitigations. Sparks noted that one risk is not having the amount of material in the landfill and mine to meet the elevations necessary for future use of the land. The mitigation plans to address this risk include making a scope plan to remediate the mine with lower elevations. She noted that another risk is the discovery of prohibited waste in the landfill, and she described the due diligence related to this risk. Sparks added that a full understanding of waste cannot be known until it is uncovered; however, mitigation plans are in place to address a number of possible scenarios. This includes a Prospective Purchaser Agreement with the Department of Environmental Quality (DEQ) to limit OSU liability. Sparks noted that the university has a communication plan in place for the project, which includes a strategy for addressing possible environmental concerns, such as dust management. Trustee Rani Borkar asked about the risk of environmental impacts, and Pitman said a number of environmental studies have been completed and the university has worked with the DEQ to develop material handling plans. In response to a question by Trustee Kirk Schueler, Sparks said that an agreement is in place between OSU and Deschutes County to share remediation costs and third-party claims, up to fixed monetary limits for the county, related to any unauthorized waste discovered in the landfill. Schueler also asked about future work, and Sparks said that plans for further development beyond the scope of the current project would require additional site reclamation work. General Counsel Becca Gose reminded trustees of the discussion of risks and mitigation plans during their original consideration and approval of the acquisition.

Following discussion, a motion was made and seconded to recommend to the Board approval of a total capital project budget of $13.4M for the OSU-Cascades site reclamation project and advancing of the project to the construction phase. The motion carried.

b. FY2020 Operating Budget

Bedient asked Green and Director of Budget and Fiscal Planning Sherm Bloomer to present this item. Green said staff worked to develop the budget based on the approved FY2020 tuition rates, projected softening enrollment, and continued uncertainty regarding state funding levels. In introducing preliminary expense reduction strategies, Green emphasized the importance of looking beyond numbers to consider the impact to people and programs and of working to maintain the university's commitment to student success.

Following Green's summary, Bloomer presented the university's proposed FY2020 operating budget, which is guided by the university's strategic plan, business and capital forecasts, contractual obligations, and financial position. He described the context and challenges, noting that revenue projections for state appropriations assume a $40M biennial increase to the Public University Support Fund. Ray added that this would translate to an approximately $12M biennial increase for OSU. Bloomer also described important strategic investments noted in the proposed budget, including investments to advance actions outlined in Strategic Plan 4.0 (SP4.0), provide the third increment for capital renewal in Corvallis, and support the OSU Foundation and Alumni Association as planning continues for the next capital campaign. These strategic investments also account for considerations such as the Board's commitment to try to minimize tuition increases, an emphasis on pursuit of enrollment growth strategies, and a commitment to expense reduction management.

Bloomer said the proposed budget includes three principal components—Education & General (E&G) Funds, Self-Support Funds, and Restricted Funds—which total $1.351B in revenues and $1.348B in expenditures, net transfers, and fund deductions. Total E&G expenditures are projected to increase 3.9%, with the largest driver of the expense changes being personnel costs. Bloomer said the expense planning required identifying reductions of approximately $18M in projected spending in Corvallis E&G operations, which is an increase over the $12.7M budget gap discussed at the April 2019 Board meeting. He said the two significant changes since April are an increase in the preliminary estimate of FY2020 insurance rates and a decrease in the number of non-resident freshman from what was projected. This is in addition to projected increases in personnel services, primarily in retirement and medical benefits costs. Bloomer presented preliminary expense reduction strategies, including reductions or deferrals of new strategic commitments, targets for significant reductions in services and supplies spending, and reductions in net personnel expenditures. He added that specific unit level budgets have not yet been assigned; however, based on the overall distribution of expenses, of the anticipated $18M of expense reductions, $4.1M is from reduced new central commitments; $5.5M is from service, support, or management units; and $8.3M is from academic colleges and centers. Bloomer presented scenarios for different levels of state funding, from the $40M proposed in the budget released by the tri-chairs of the Joint Ways and Means Committee to the $120M increase requested by the seven public universities. He then discussed strategies for increased levels of state funding over the $40M used to prepare the proposed FY2020 operating budget. Bloomer also presented an overview of the uncertainties, issues, and opportunities in Self-Support Funds and in restricted funds.

Following Bloomer's presentation, Bedient observed the challenge of managing new expense reductions in addition to those made in the last biennium, as many of the most straightforward strategies have already been implemented. Trustees discussed personnel services costs, including state mandated increases in retirement rates and the cost of benefits as a percentage of salary. Thorne asked about funding for OSU-Cascades as a portion of overall E&G Funds and asked how costs are divided between the two campuses in Corvallis and Bend. Bloomer noted that E&G Funds support academic and support operations both in Corvallis and at OSU-Cascades, and staff are doing more to understand how costs and benefits flow between the two campuses. Green emphasized the need for continued advocacy at the state level for adequate support for OSU-Cascades. Trustees considered flattening enrollment trends and the importance of making investments in a strategic enrollment strategy. Trustee Julie Manning noted the need also to understand the effect of tuition increases on enrollment, particularly for Oregon residents. Trustees also discussed the uncertain state funding and considered what strategies would be important to pursue were the allocation to increase beyond the level used in the FY2020 operating budget. Bedient noted the need for continued conversation among trustees about strategies the university could pursue for increased levels of state funding, and Board Chair Rani Borkar committed to setting aside time during the Board consideration of this item for further conversation of strategies. Following discussion, a motion was made and seconded to recommend to the Board that it approve the FY2020 operating budget, as presented in Tables 1 through 4. The motion carried.

c. Capital Project Stage Gate: Research Way Laboratory Improvements

Bedient asked Anita Azarenko, associate vice president for university facilities, infrastructure and operations, and John Doty, project manager, to present this item. Azarenko reminded trustees that the Board approved in April 2018 the acquisition of the Research Way Laboratory Building. The building will serve as a surge space for the occupants of Cordley Hall during the building's renovation, a possible surge space for other future building renovations, and eventually as a permanent OSU research and innovation-focused bioscience building. Doty described the improvement project, which will address the building's capital renewal needs, improve air circulation, complete modest renovation of wet and dry labs, make minimal upgrades to offices and meeting rooms, and complete accessibility upgrades to restrooms and paths of travel. Azarenko said the project is expected to cost $10M and will be funded by OSU revenue bonds. The project is scheduled for completion in the summer of 2020. Azarenko also identified risks and described the mitigation strategies to address those risks. Trustee Julia Brim-Edwards asked about construction market escalation, and Azarenko said the project includes an escalation rate of approximately 2% per quarter. With no further discussion, a motion was made and seconded to approve advancing the Research Way Laboratory Improvement project to the next phase of design development. The motion carried.

5. Education/Discussion Items

a. Strategic Financial Opportunities

Bedient introduced this item by reminding trustees of the committee's work during the previous two years to consider the university's major cost drivers and explore ideas to better control those costs in the future. She said that the financial liability associated with the Public Employees Retirement System (PERS) and the costs associated with the university's participation in the Public Employees Benefit Board (PEBB) represent the most significant drivers of costs for the university. Bedient shared that she and Thorne had worked over a period of several months with Green and his team to focus on PERS costs in particular. They sought better understanding of how the university's PERS liability is calculated, what it means to the balance sheet, and whether there are any strategies to address the liability. Bedient added that they also reviewed the actual annual payments to PERS in order to consider possible ways to moderate retirement costs in the future. She then asked Green to summarize these discussions.

Green began by reminding trustees that PERS is a cost-sharing multiple-employer defined benefit pension plan, and the university is a part of the state agency pool. In odd-numbered years, there is an actuarial valuation of PERS, which results in a projected net pension obligation for the entire state agency pool. That projected employer pension obligation is then allocated to state agency employers based on their respective percent of all PERS subject member salaries. In response to questions by trustees, Donna Chastain, with the Office of Human Resources, described how the university's portion of the overall pension liability is calculated and allocated. The PERS contribution rates are established to amortize the net pension obligation and to fund future benefits of PERS members for the state agency pool. OSU then funds the PERS state agency pool via the contribution rate times PERS subject salaries.

Green then summarized efforts to explore options for moderating OSU's Net Pension Liability. One strategy was to explore the possibility of determining the true liability for Oregon State; however, when Oregon State was part of the Oregon University System, university employees were not separately identified and it is not possible now to perform a separate actuarial evaluation solely for OSU employees. Green added that even if it were possible to determine OSU's true liability, it would not be possible to pursue a buyout because the university is part of the cost-sharing multiple-employer pool from which it cannot be fully extracted. Green said this led to the conclusion that there is little to be done institutionally to affect OSU's incurred PERS liability.

With no effective way for the university to reduce PERS costs that are related to past and current participating employees, trustees noted the need to continue to plan for future funding of the incurred PERS obligation. Trustees also considered ways to pursue options to moderate retirement costs in the future with new employees, balancing an interest in providing competitive benefits to employees with managing the university's costs. They explored potential areas of flexibility and noted parameters set by statute and employee bargaining agreements. Trustees expressed an interest in continuing to explore better ways to bolster the university's financial position and to prepare for and to manage significant cost drivers.

b. <u>Research Space Needs, including risk management report</u>
Bedient asked Green and Azarenko to present this item. Green reminded trustees that in January 2016, research space needs were identified as a top risk in achieving the university's goals. Azarenko summarized the actions the university is taking to update and preserve high-quality research space. She said one of the primary strategies for addressing this risk is through the prioritized investment of state funds, E&G Funds, and other sources to improve and expand research infrastructure. These priorities are captured in the Ten-Year Capital Forecast, the development of which is guided by the Infrastructure Working Group. The group evaluates major capital and capital improvement projects and recommends to executive leadership priority projects to be funded. Azarenko noted that the priorities for capital renewal projects include addressing building systems; ensuring that students, faculty, and staff are supported in learning, research, and engagement; and working on improvements where there are synergies or opportunities to leverage other projects. She added that SP4.0 includes metrics associated with OSU's deferred maintenance backlog, currently estimated at $669M. Overall, the Ten-Year Capital Forecast is estimated to reduce the deferred maintenance backlog by $250M. In response to a question by Callahan, Azarenko confirmed that the estimated amount for maintenance increases with inflation. She added that the university is working with a facilities analysis firm to project maintenance needs over the next 25 years.

6. Adjournment
With no further business proposed, Chair Bedient adjourned the meeting at 4:10 p.m.

Respectfully submitted,

Jennifer M. Almquist
Assistant Board Secretary