



## MINUTES

**Committee Members Present:** Mark Baldwin, 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

**University Staff Present:** Ron Adams, Charlene Alexander, Jennifer Almquist, Anita Azarenko, Bill Boggess (*phone*), Susan Capalbo, Steve Clark, Debbie Colbert, Anthony Davis (*phone*), Ed Feser, Becca Gose, Heather Hesano, Steve Hoelscher (*phone*), Jock Mills, Javier Nieto, Lauren Skousen, and Patti Snopkowski

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

Committee Vice Chair Mike Thorne called the meeting to order at 9:32 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 provided an update of enrollment numbers, which are generally flat-to-declining, with Corvallis down 1.9% year-over-year. Enrollments by both resident and non-resident undergraduate students were short of the budget planning projections. He said university leadership would be making adjustments to the current year budget to make up what he anticipated at the time would be an approximately \$5.2 million dollar revenue shortfall. Green also described some initiatives, projects, and organizational changes that he and his leadership team have undertaken in an effort to better support the needs of the OSU community in advancing the university's goals and plans. He noted that the fourth quarter management reports were included on the consent agenda.

Following the report, Trustee Kirk Schueler asked about the involvement of Cathy Hasenpflug, OSU's new chief human resources officer, in the union negotiation process. Green said Hasenpflug would be a member of the executive team that will work closely with the bargaining team. General Counsel Becca Gose added that the bargaining team included a newly hired chief negotiator with expertise in faculty bargaining. Trustee Mark Baldwin asked about the implementation and adoption of the online eProcurement system. Green said the university has not mandated purchasing through the system, but one goal of introducing the new system was to better track spending and purchasing to support contract negotiation with vendors. The aim is to encourage adoption by demonstrating the savings possible through use of the system.

### 3. Consent Agenda

- a. **Minutes of the May 31, 2018 Finance & Administration Committee Meeting**
- b. **FY2018 Q4 OSU Operating Management Report**
- c. **FY2018 Q4 Investment Reports**

#### **Motion carried**

In introducing the consent agenda, Thorne said the fourth quarter management reports were discussed with Chair Patty Bedient and staff. He noted that flat to declining enrollment has affected tuition revenues; however, the management report is within guidelines for results and reductions in services and supplies have helped to offset reduction in revenue. A motion was made and seconded to approve the items on the consent agenda. The motion carried.

### 4. Action Items

- a. **2019 Finance & Administration Committee Work Plan and 2018 Board Assessment Results**

Thorne introduced this item by referencing the Chair's memo to the committee and the draft work plan included in TAB L. He said the current approach provides good coverage of the committee's areas for responsibility under its charter, noting that the survey feedback from committee members indicate support for continuing that approach. He noted that the committee would continue to pursue conversations about cost drivers, including retirement and health benefits costs, and would hear an update from Athletics the following October on the implementation of the financial sustainability plan. Board Secretary Debbie Colbert noted that the committee would consider later in the meeting a Capital Projects Approval Policy that includes annual oversight of the Ten-Year Capital Forecast. That oversight was not included in the work plan but was something that the committee might consider adding to the January 2019 meeting for consistency. Thorne expressed support for this addition. Green said that in April the committee would discuss health care costs and how the seven Oregon public universities are working together to develop options for controlling these costs in the future. Trustees discussed the need to understand all of the risks as well as the opportunities of making changes to the benefits structure. Following discussion, a motion was and seconded to adopt the 2019 Finance & Administration Committee Work Plan as presented in TAB L, Attachment 4 and with the addition of the Ten-Year Capital Forecast in January. The motion carried.

- b. **2019-21 Biennial Funding Request: Statewide Public Service Programs**

Thorne introduced Provost and Executive Vice President Ed Feser, Government Relations Director Jock Mills, and Dean of the College of Public Health and Human Sciences Javier Nieto. The College of Agricultural Sciences Executive Associate Dean Bill Boggess and Interim Dean of the College of Forestry joined by phone. Thorne reminded trustees that they heard a preliminary presentation on the request at their May 31 meeting and asked the statewides directors to work with stakeholders and return to the committee with a final proposal. Feser said following that meeting the statewides directors sought input from stakeholders about additional investments in the Statewide Public Service Programs (SWPS). They were now returning to seek an increase of \$30M in 2019-21, or 25% above the current funding level. This level is equivalent to the increase recommend by the Higher Education Coordination Commission (HECC) for the Public University Support Fund. Feser, Mills, and the statewides directors provided details about

the legislative process and the programs that would be funded. Mills provided a history of funding for the SWPS and explained that the request includes \$14.4M to meet the current service levels for the 2019-21 biennium and \$15.6M to support new research and initiatives that help to address some of Oregon’s most critical needs that were identified by diverse stakeholders across the state. He indicated that, from a political perspective, there is bipartisan support for these programs. Over the next several months, OSU will continue to work with stakeholders and legislators to refine and further specify the elements that will be included in the funding package, just as was done during the 2015 legislative session when the legislature approved a \$14M increase for the SWPS.

Davis and Boggess provided context regarding how legislative funding cuts for the SWPS in the 2011-2013 biennium pushed budgets and FTE below continuing service levels. All three programs—Extension Service, Agricultural Experiment Station, and the Forest Research Laboratory—have been working since then to recover lost positions and services that were reduced over time. The \$14.4M portion of the request is intended to rebuild the three programs. The statewide directors said the remaining \$15.6M in funding is to respond to requests for new programs, such as those focused on applying technologies to resource management, in response to the challenges that Oregon’s citizens and industries face today.

The committee discussion following the presentation included clarification about how the SWPS are funded, which has traditionally been outside the normal higher education allocation process. Committee members also addressed the relationship between the legislative process, industry needs, and the university’s non-partisan efforts to form a broad coalition to advance common goals. Trustees asked for broad talking points to help them in conversations in the community, which could highlight connections between the specific work of the SWPS, the health of Oregon’s environment and economy, and possible legislative actions. The three program directors agreed to provide this information.

Following the discussion, a motion was made and seconded to recommend to the Board that it endorse the 2019-21 biennial funding request for a \$30M increase over the 2017-19 funding level for the Statewide Public Service Programs, as detailed in Attachment 1. The motion carried.

**c. Capital Project Amendment: Upper Division and Graduate Student Housing**

Thorne asked Ron Adams, senior associate vice president for administration, and Anita Azarenko, associate vice president for university facilities and operations to present this item. Adams said the university is seeking approval to increase the budget for the Upper Division and Graduate Housing capital project by \$20M, for a total project cost of \$50M, which will be financed with OSU-paid revenue bonds. He reminded trustees that the original project was approved for \$30M in June 2017. Adams added that the university does not make a profit on housing projects, but requires a budget that provides for building maintenance reserves.

Azarenko described the justification for the project, citing three independent market studies conducted by OSU over the past ten year that have indicated a significant unmet demand for beds for upper division students and a need to reconfigure University

Housing and Dining Services (UHDS) campus housing units to better meet the needs of current and future students. As the project moved through programming and schematic design, it became apparent that there was a need to adjust the room type to be all studio units, rather than a mix of types, in response to market demand. This required an increase in overall square footage. Additionally, construction cost escalations were not adequately projected in the initial budget. Azarenko said that the impact of these factors is that the housing project will cost more than the originally approved budget. Now that the project is at the end of the design development phase, the budget is more certain and the project is financially sustainable according to the pro forma provided in TAB N. She said that this budget amendment has a minimal impact on the Ten-Year Business Forecast, but the revised project does use a greater portion of available debt capacity. Therefore, the Board will see appropriate adjustments to the Ten-Year Capital Forecast in January.

Following the presentation, trustees discussed the change in scope. Trustee Julia Brim-Edwards asked about the effect on the total number of students served, and Azarenko said the original project budget assumed 200-400 traditional style double-occupancy rooms, while the revised project presents 288 studio housing units serving 288 to 325 occupants. Building all studio units requires more overall square footage than originally projected. At the same time, the studio units have a higher market demand than double rooms. In response to a question by Trustee Mike Bailey, Azarenko said this change would not increase the projected rent for the studio apartments. In response to a question by Brim-Edwards, Interim Associate Provost of Operations Steve Hoelscher estimated that the \$20M additional funding could be attributed to three main reasons: approximately \$8M is related to the square footage needed to accommodate the revised scope, \$1M is required for to cover the additional cost of constructing studio units exclusively, and about \$11M is related to cost escalations.

Committee members raised questions on a number of topics including the effect on the revenue bond debt capacity available for other future projects, the potential for further changes in scope that might reduce cost while maintaining the financial sustainability of the project, and the continued relevance of the market studies. Trustees also expressed concern about the cost of rent for the studio units and the overall availability of affordable housing for students. As a result of these questions and concerns, trustees decided to hold action to allow staff the opportunity to assemble additional information to present to the full Board at their meeting scheduled for the following day.

**d. Capital Projects Approval Policy**

Thorne asked Green, Azarenko, and Board Secretary Debbie Colbert to present this item. Green reminded committee members that they had discussed in May the way that capital projects are brought to the Board for approval. Historically, this was done on a calendar basis rather than based on the readiness of an individual project. This has resulted in the need for the Board to approve budget amendments in some cases, as the project scope and budgets were more fully refined. Green added that the Upper Division and Graduate Housing project discussed earlier is an example of what can happen when project budgets are considered too early in the life cycle of a capital project. Colbert provided an overview of the draft resolution and policy in TAB O, Attachment 1, adding that the policy would move the Board toward best practices where trustees approve each project based on its life cycle and readiness for consideration. She said the policy includes a purpose

statement, definitions regarding stage gates and the phases of a project, a process for advancing a capital project, a process for changes to the approved budget for a capital project, and language about emergency construction. Colbert also noted that there are proposed changes to the delegation to the university that reflect the language in this policy.

Azarenko described the process for advancing a capital project. She said that, under the proposed policy, the first gate is at or near the completion of schematic design, when the committee will be asked to approve a project to advance to the design development phase. At the first gate of schematic design, project requests will include project scope and program, an estimated total budget and timeline, an overview of risks and contingency plans, and a preliminary pro forma. Projects that require approval from the state legislature for funding may not proceed past the programming phase until legislative approval is secured. Azarenko said the second approval gate is at or near a project's design development phase. At this point, the committee will be provided with total project cost, funding, and timeline based on a final pro forma. At that point, the committee would review and recommend to the full board that the project advance and set the capital project budget. This two-stage approach requires the university to commit to preliminary spending on some projects during the schematic design phase that may not ultimately be approved.

Following the presentation, trustees discussed the approval thresholds in section five of the policy. As proposed, once the approved budget has been established by the Board, any increase(s) anticipated to cause the total of all increases to a capital project budget to exceed \$2M or 15% of the approved budget, whichever is greater, must be approved by the Board after review by the Finance & Administration Committee. In response to a question by Thorne, Colbert noted that these thresholds were consistent with policies in place at other universities. Several trustees expressed a concern that 15% was too high a threshold, and, after discussion, the committee reached consensus that capital project budget increases that total either \$5M or 10% over the Board approved budget must come before the Board for additional approval. In response to a question by Brim-Edwards about Board oversight and reporting, Green said the committee will receive each fall a status report of major capital projects underway and would receive each winter an updated Ten-Year Capital Forecast. He said this combination of reporting provides accountability at both the project scale and the big-picture level. Baldwin asked about the president's authority related to emergency construction, and Colbert said that the language was intended to account for emergency situations when the president might need to act quickly to address immediate threats to the safety, security, or viability of a building. She added that this language was consistent with policies in place at other universities. Following discussion, a motion was made and seconded to recommend to the Board that it adopt the resolution and policy establishing the process for approving capital projects as provided in Attachment 1, and with section five modified to reflect that approval is required for capital project budget increases that total either \$5M or 10% over the approved budget. The motion carried.

**5. Education/Discussion Items**

- a. **Capital Project Status Report (including risk management report on research space needs)**

Due to time constraints, and because the committee will receive an updated capital forecast in January, Thorne asked trustees to send Colbert any questions they may have about specific projects.

**b. Biennial Review of Investment Policy and Strategic Treasury Management**

Due to time constraints, and because the committee is scheduled to discuss this topic further in January, Thorne asked staff to cover this item and any related policy adjustments at the next committee meeting.

**6. Adjournment**

With no further business proposed, Vice Chair Thorne adjourned the meeting at 12:28 p.m.

Respectfully submitted,

Jennifer M. Almquist  
Assistant Board Secretary