



MINUTES

Committee Members Present: Mark Baldwin, Patty Bedient (*chair*), Rani Borkar (*ex officio*), Julia Brim-Edwards, Mike Green (*ex officio*), Angel Mandujano-Guevara, Laura Naumes, Kirk Schueler, 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, Sherm Bloomer, Steve Clark, Debbie Colbert, Ed Feser, Becca Gose, Heather Hesano, Jan Lewis, Lauren Skousen, Patti Snopkowski, and Irem Tumer

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

Committee Chair Patti Bedient called the meeting to order at 9:01 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 context for the topics on the agenda. He spoke first about the items on the consent agenda, noting that the shortfall in tuition revenues identified in the quarterly management report would be discussed later in the meeting. Green also reflected on the financial condition of the university. He said the university has a strong financial foundation, with a low debt burden and adequate financial reserves, and has developed long-term plans to invest in student and faculty excellence. He added that Moody's Investors Service reaffirmed the university's Aa3 stable credit rating. Green also projected several challenges and opportunities that the university needs to consider in planning for the future, noting that the agenda presented an opportunity to discuss the university's future plans and priorities for capital investment and budget management in an uncertain revenue environment.

3. Consent Agenda

- a. Minutes of the October 25, 2018 Finance & Administration Committee Meeting
- b. FY2019 Q1 OSU Operating Management Report
- c. FY2019 Q1 Investment Reports
- d. Internal Bank Annual Report

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

4. Action Item

- a. Ten-Year Capital Forecast

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Bedient asked Green and Anita Azarenko, associate vice president for university facilities, infrastructure and operations to present this item. Green introduced the topic by saying the conversation about the Ten-Year Capital Forecast would provide context for the remainder of the items on the Committee's agenda. He reminded trustees that the Forecast is revised annually and provides a comprehensive view of the university's short- and long-term plans for investments in buildings, landscapes, and other infrastructure. The capital projects included on the Forecast are based on strategic criteria, including life safety and seismic and accessibility needs. Green explained that the Forecast is constrained by the university's overall debt capacity, currently estimated at \$270M. He also noted that it prioritizes projects for the next ten years, but the university has tentative projections beyond that period. Additionally, the Forecast provides flexibility to incorporate strategic opportunities, as they emerge, allowing for new projects to be added to the list, in consultation with the Board.

Next, Azarenko described the development of the Forecast, which she said supports the university's vision, mission, and strategic plan. Projects are prioritized in conjunction with the university's infrastructure work group. Azarenko said a variety of approaches are used to meet the university's capital needs, including renovation projects, building acquisitions, new construction, and demolition. She noted that the forecast makes several assumptions, including the university's continued investment in a capital renewal fund in \$5M annual increments, until reaching \$45M per year, and state funding of \$22M each biennium for deferred maintenance. Azarenko reviewed the capital projects in the Forecast, including estimated project costs and the anticipated mix of funding sources. A total of \$1.4B in projects are scheduled at Corvallis and Newport. University-paid funds are anticipated to cover 30% of these project budgets, with the remaining 70% met by state bonds, gifts, and potential public-private partnerships. At OSU-Cascades, a total investment of \$267M over ten years is 50% covered by state bonds and 15% paid by the university, with the remaining in gifts and other funds.

During the discussion, trustees asked how staff would ensure the proposed capital projects are aligned with the university's strategic plan and future business outlook. Azarenko explained that initial project proposals from colleges must include explicit ties to university and unit-level strategic plans. Because projects are initiated by faculty to meet current and anticipated future needs, plans include pedagogical and technological considerations. New buildings are considered where old buildings no longer have capacity or are beyond the ability to be cost-effectively renovated, and renovations have flexible spaces that can adjust to future demands. There was discussion of the need to invest in quality facilities that are attractive to faculty and students while also remaining mindful of space utilization and the need to keep the university's overall footprint in alignment with future enrollment levels. In particular, there was some concern about expansion due to two new STEM buildings included in the Forecast. Azarenko explained that, over the next decade, the university's total footprint would be reduced by approximately 300,000 square feet. The new STEM buildings will make it possible to move out of buildings currently in need of renovation and to demolish aging buildings that are impractical to renovate. Azarenko noted that the university had adopted more stringent space guidelines for different types of use. Additionally, staff in capital planning have started working more closely with the Office of the Registrar to evaluate utilization rates, and the data will inform future project and program planning.

Trustees considered the political implications of legislative decisions about funding higher education capital requests, noting in particular the present uncertainty about funding for capital projects. Additionally, there is uncertainty about whether OSU-Cascades will be considered separately for capital funding; however, Green emphasized that the university is serving a growing demand for higher education in central Oregon and has unique needs as a new campus. Given the complexities of capital needs, the legislature is considering delaying all university capital requests until 2020, after the Higher Education Coordinating Commission (HECC) has completed a study that would inform strategic allocation of funds by the state. In concluding their discussion, trustees asked at a future meeting to hear more about the new concepts being considered in the design of the two new STEM buildings, to see more explicit connections made between the Ten-Year Capital Forecast and the university's strategic plan, and to learn more about how the Forecast is aligned with enrollment projections. Following discussion, a motion was made and seconded to recommend to the Board acceptance of the 2019 Ten-Year Capital Forecast. The motion carried.

5. Education/Discussion Items

a. FY2018 Financial Statement Analysis & Financial Metrics Update

Bedient asked Green and Jan Lewis, acting associate vice president for finance and controller, to introduce this item. Lewis reminded trustees that the previous year's audited financial statement serves as the baseline for the Ten-Year Business Forecast. She also noted that the Board established the current acceptable operating ranges for the seven financial metrics to evaluate the university's financial health prior to new accounting standards going into effect. Because the new standards have substantial impact on some of the metrics, the university calculates the metrics both with and without the cumulative impact of the standards for comparison purposes. Lewis said that once a full five years of data are available, there would be an opportunity to reevaluate the target ranges. For 2018, Lewis noted that four of the seven key metrics were outside of the Board established range with the accounting standards fully implemented. However, when considered without the implementation of the accounting standards and over the longer horizon of the last five years, five of the seven key financial metrics have generally been within the operating ranges set by the Board. Chair Bedient emphasized the importance of setting new metrics once sufficient data are available. Green added that, when the Board established the current acceptable operating ranges, the university's financial advisory firm reviewed other public universities with an Aa3 credit rating to help identify the tolerances within which Oregon State University should be operating. This same research could be completed to inform discussions about new operating ranges.

b. Education and General Budget Planning and Preliminary FY2020 Tuition Outlook

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 Director of Budget and Fiscal Planning Sherm Bloomer to present this item. Bloomer began by reporting that current year undergraduate tuition revenues in Corvallis were \$7.2M short of initial budget projections, about 70% from resident enrollment shortfalls and 30% from less than projected growth in non-resident enrollments. Staff are refining the data used to predict enrollments to minimize the risk of a similar miscalculation in the future. At the same time, units were asked to make permanent budget reductions to account for the revenue shortfall. Moving to the FY2020 budget outlook, Bloomer explained there are two main cost drivers in the university's budget: inflationary costs, such as increases in salary, benefits, and supply costs; and costs related to long-term

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investment strategies. University revenues come significantly from tuition revenue and state funding, with state funding the greatest unknown in FY2020 planning. Underlying the FY2020 budget scenarios presented by staff are two versions of the Governor's Recommended Budget. One effectively reduces OSU's funding by \$12M, and the other results in a net positive of \$15M. Bloomer said that the change for the Corvallis campus between the Governor's Recommended Budget and the Investment Budget is approximately \$27M, adding that legislative decisions on funding for higher education are unlikely to be completed before June. He noted that, for the purposes of budget planning and stakeholder discussions, staff have been using a third scenario, based on historical trends, that assumes a \$40M biennial increase to the Public University Support Fund. Bloomer also summarized the enrollment outlook, noting the long-term demographic trends for high school graduates. He reported that current projections are for a reduction in headcount of 0.8% in Corvallis and an increase in headcount of 4.9% in Bend and 7.0% in Ecampus enrollments. Trustee Preston Pulliams asked about the connection between enrollment projections and the new academic programs being presented to the Academic Strategies Committee for approval. Provost Ed Feser said that proposals for new academic programs were primarily driven by colleges identifying ways to strategically grow enrollment.

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. Additionally, the UBC is considering rate recommendations based in alignment with the Board's statement on expectations for tuition rate increases between 2% and 5%. Bloomer then summarized the preliminary tuition scenarios, which consider different levels of state funding and percentages for tuition increases. He noted that, under any scenario, the university would still need to identify strategies for increasing revenue and decreasing expenses.

Following the presentation, trustees discussed the scenarios, noting uncertainty about the trajectory of Legislative discussions. Trustee Darry Callahan said it would be important to be realistic about the material effects and the challenges of keeping tuition increases below 5% at the lower levels of state funding. Bloomer summarized the anticipated personnel and services and supplies reductions needed to address the \$7.2M budget reduction in the current fiscal year, noting that additional reductions would be needed to address any further budget deficits. In response to a question by Trustee Paul Kelly about the uncertainty of whether and when the Governor's Investment Budget might be realized, Bloomer said that, although the Governor would like universities to commit now to keeping increases below 5%, the UBC was considering a number of tuition scenarios. Trustees also discussed sensitivity in enrollment at different percentage increases and pressures on enrollment due to economic and other factors. Trustee Mike Thorne asked how the university's capital investments are influencing the need to increase tuition, and Bloomer noted the effect is minimal because of the way capital maintenance and operations costs cycle. Provost Feser added that the capital forecast represents baseline investments needed to facilities in order to recruit and retain faculty and students. Callahan asked what trustees should expect to receive in order to support a decision on tuition in April, and Bloomer said he anticipated a recommendation consistent with scenario B or C. Trustees also discussed how to balance the Board's expectation that annual tuition increases will be between 2% and 5% with the commitment to maintaining the long-term quality of the university's programs. It was also noted that even when financial aid increases accompany tuition increases, the university might experience a

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reduction in enrollment of students just outside the highest categories of need. Several trustees reiterated the Board's shared values and the university's land grant mission, stressing the importance of a commitment to offering a quality education at an affordable price. With these considerations in mind, trustees expressed a desire for future discussions about how enrollment, financial aid, and scholarships can be managed more strategically. Following the discussion, Bloomer said staff would incorporate trustee input into ongoing budget and tuition planning sessions and would bring a tuition rate proposal for the Board's consideration in April.

c. Biennial Review of Investment Policy and Strategic Treasury Management

Bedient asked Green and Director of Treasury Heather Hesano to present this item. Green said staff had taken advantage of the biennial review of the investment policy to consider how the university can manage its treasury functions and investments more strategically. Hesano presented options for different ways to invest funds, issue bonds, and manage the university's debt portfolio. She said the discussion was intended to understand the Board's tolerance for risk in investment strategies and establish a foundation of information to set the stage for the two remaining action items on the Committee's agenda.

First, Hesano said the university could consider setting aside a portion of its operating assets in a Board designated fund to create a long-term investment allocation strategy using 2% to 10% of the operating fund balance. This would provide some diversification and the potential for higher returns, but it also introduces some volatility and risk. Hesano noted that, were the Board to designate this fund, the university would then engage with investment managers to determine specific investment choices. She said staff recommended starting at 2%, or approximately \$5M, which is a small portion of the whole reserve fund. Trustees generally agreed that this was a good idea and would provide the university additional flexibility. Bedient reminded the Committee that no action was required during the discussion, noting that the following two agenda items included proposed recommendations for Committee action. She added that the options presented offer the university an opportunity to manage its treasury function in more strategic ways that present strong potential for gains and pose only minimal risk. In response to a question by Trustee Kirk Schueler about why the options had not been considered sooner, Green said the options were only made possible following a recent state constitutional amendment, and the hire of Hesano as the director of treasury provided the capacity to review and propose revisions to the current policy.

Next, Hesano discussed investment strategies for unspent bond proceeds. She said the short-term investment of unspent revenue bond proceeds could help mitigate debt service costs until the funds are spent for capital projects. Currently, unspent bond proceeds are comingled in the Public University Fund (PUF); however, the Board could designate a separate investment fund. Green added that the aim would be to match funds with their intended use in order to maximize revenue on investments while also meeting the capital needs of the university. Trustees had no objections to this concept.

Lastly, Hesano discussed revenue bond issuance strategies. Historically, to support its capital needs, the university has calculated the amount of general revenue bonds needed in each biennium and issued that amount. Hesano said the proposed approach would allow for more flexibility in considering market conditions by contemplating bond issuances to cover a five- to six-year window of needs. This longer-term approach to viewing revenue bond financing needs could also allow the university to lock-in historically low rates and

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reduce the potential impacts of prevailing market conditions. Trustees expressed general support for a new approach to structuring future debt issuances.

6. Action Items

a. Investment Policy Amendment

Bedient asked Green and Hesano to summarize the portion of the previous conversation on strategic treasury management applicable to the proposed investment policy amendment. Green reminded trustees that they were being asked to consider three concepts: establishing a board designated fund for investments in long-term fixed income and/or equities; amending the investment policy to allow for ownership in longer-dated bonds and municipal bonds; and contemplating bond issuances to cover the period through FY2024. He said endorsement of these concepts was being introduced with two actions, beginning with amendments to the investment policy to provide more flexibility in the university's asset management strategies. Board Secretary noted that trustees received a revised TAB M that also recommended minor policy edits and added clarity. Hesano then summarized proposed amendments to the investment policy, which include general maintenance items, updates to permitted investments, documentation of investment restrictions, and the addition of the requirement to report on unspent bond proceeds.

Trustees asked for clarity about a proposed 2% board designated fund. Hesano said the proposed amendment would take 2% of the PUF funds currently invested in fixed-income bonds and move it to long-term equity investments. Schueler questioned language included in Attachment 1, and Hesano clarified that the sentence should read, "Board designated funds shall not exceed investment in equities of greater than 2% of the total investment portfolio balance." Several trustees suggested that 2%, or \$5 million, was too low. Through discussion, the Committee expressed support for designation of a 5% pool, amending the language included in Attachment 1 to read, "Board designated funds shall not exceed investment in equities of 5% of the total investment portfolio balance." A motion was made and seconded to recommend to the Board approval of the amendments to the Investment Policy as provided in Attachment 1, and with modification to reflect designation of a 5% pool. The motion carried.

b. Issuance of OSU Revenue Bonds

Bedient asked Green and Hesano to summarize the portion of the previous conversation on strategic treasury management applicable to the request to approval the 2019-2020 General Revenue Bond Resolution, provided in TAB N, Attachment 1. Green said the resolution authorizes issuance of university revenue bonds to fund the costs of university projects and to pay the costs of bond issuance, noting that the Ten-Year Capital Forecast calls for approximately \$218 million in debt over the next ten years to fund capital projects. Trustees discussed the proposed debt issuance strategies and noted uncertainties with regard to interest rates. With a ten-year capital plan focused on necessary investments and low-yet-rising interest rates, trustees saw a clear need to fund \$140 million in the short term. Green confirmed that the financial metrics presented in the docket included the current version of the Ten-Year Capital Forecast and considered the impact of newly revised budgets. He also explained that, as taxable bonds, the funds could be deployed on a greater range of projects. Trustees also considered the fact that OSU has a stable credit rating, but the higher education industry overall has a negative rating overall, which is a difficult environment that creates future uncertainty. Following discussion, a motion was made and seconded to recommend to the Board Scenario 2, approving up to \$140M in the

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Bond Resolution provided in Attachment 1.

7. Adjournment

With no further business proposed, Chair Bedient adjourned the meeting at 1:14 p.m.

Respectfully submitted,

Jennifer M. Almquist
Assistant Board Secretary