



 The Board of Trustees of Oregon State University

Regular Meeting of the Finance & Administration Committee

October 15, 2015

 Guin Library Seminar Room, Hatfield Marine Science Center
 Newport, Oregon

MINUTES

Committee Members Present: Mark Baldwin, Darry Callahan, Glenn Ford (*ex officio*), Laura Naumes, Ed Ray (*ex officio*), Pat Reser (*ex officio*), and Kirk Schueler (*chair*)

Other Trustees Present: Rani Borkar, Michele Longo Eder, Paul Kelly, and Preston Pulliams

University Staff Present: Sherm Bloomer, Steve Clark, Debbie Colbert, Jon Dolan, Becca Gose, Mike Green, Becky Johnson, Dan Larson, Patti Snopkowski, Kelly Sparks, and Marcia Stuart

Guests: Monique Spyke (*Director, Asset Management, Public Financial Management*), Susan Musselman (*Director, Financial Advisory, PFM*) (*by phone*), and Thomas Toepfer (*Senior Managing Consultant, Financial Advisory, PFM*)

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

Committee Chair Kirk Schueler called the meeting to order at 12:45 p.m., asked the Board Secretary to call the roll, and noted a quorum.

2. VP for Finance and Administration/CFO Report

Vice President for Finance and Administration and Chief Financial Officer Glenn Ford provided an update on the FY2016 budget, noting that OSU enrollment for the fall term increased approximately 0.5% at the Corvallis campus, 5.2% at OSU-Cascades, and 13.1% for Ecampus. Ford noted that resident and nonresident undergraduate enrollments were down but offset by increases in other areas. Education & General (E&G) funds will receive an additional \$11M, mainly support for the Statewide Public Services and an additional \$2.9M through the Public University Support Fund, allowing for an additional \$1M to be applied as tuition waivers to resident undergraduate students.

Ford acknowledged the leadership of Mr. Brian Caufield, director of labor relations, University Shared Services Enterprise, in negotiating a contract agreement with SEIU for FY2016. Trustee Baldwin expressed his gratitude that this first negotiation with seven independently-governed universities was a “win-win.”

Ford reported that the seven public universities are working together to submit a collective budget request, rather than individual budgets, to the Higher Education Coordinating Commission for the development of the 2017-19 biennial funding request to the State.

TAB A

3. Consent Item

a. Minutes of the May 28, 2015 meeting

A motion was made and seconded to approve the May 28, 2015 Committee meeting minutes as presented; the motion carried.

4. Action Items

a. FY2016 Committee Work Plan

Chair Schueler presented the committee's work plan noting that each work plan item links to the committee's charter or policy obligations. He noted that it would be useful to review the committee's activities associated with each element of the charter to ensure the committee is fulfilling its responsibilities. Schueler also highlighted that two mid-period telephonic meetings are included in the work plan to provide for timely review of operating and investment reports.

A motion was made and seconded to approve the proposed FY2016 work plan; the motion carried.

b. FY2015 Q4 Operating Management Report

Ford and Associate Vice President for Finance and Administration Mike Green provided a detailed report for the fourth quarter of FY2015 for the three operating fund groups: Education & General, Self-Support, and Restricted. Ford advised that this is the unaudited end-of-the-year report, and noted that E&G funds ended with a 9.8% fund balance, which was approximately \$10.8M over projected and 16% over the previous year's ending fund balance.

Following the report, a motion was made and seconded that the Finance & Administration Committee accept the FY2015 Fourth Quarter Operating Management Report; the motion carried.

c. FY2015 Q4 Investment Reports

Ford introduced Monique Spyke, Director, Public Financial Management Asset Management, and asked Green to present the fourth quarter investment reports for FY2015. Green reviewed the Public University Fund (P.U.F.) operating assets, noting that the fund's total return for the fiscal year was 1.4%, although the fourth quarter was -0.1%. The Oregon Short-term Fund performed better than the quarter and current fiscal year-to-date benchmarks by 10 basis points (bps) and 50 bps, respectively, and bested the benchmark 3-year average by 40 bps. The Oregon Intermediate-term Fund performed better than its benchmarks by 30 bps for the quarter and year-to-date, and the Long-term Pool fund performed better than its benchmarks for the quarter by 70 bps, but lagged the year-to-date benchmark by 30 bps. It was noted that, with the closing of the University System, the remaining Chancellor's Office cash balances were distributed to the participating universities on July 1.

The OSU Endowment Assets were held in the P.U.F. and other investment vehicles pending transfer to the OSU Foundation on June 30. The total return on these assets bested their benchmark by 10 bps for the quarter and exceeded the benchmarks for all other periods with the exception of the 5-year average. Green said that, in the future,

endowment investment reports will be provided by Mr. Steve Schauble of the OSU Foundation.

Following this report, a motion was made and seconded to accept the FY2015 Fourth Quarter Public University Fund Investment Report and the FY2015 Fourth Quarter Oregon State University Investment Report; the motion carried.

d. Public University Funds (P.U.F.) Investment Policy Change

Ford and Green reported on the proposed changes set forth by the Oregon State Treasury and the Oregon Investment Council, which include the clarification of language on the credit rating index within the P.U.F. Long-term Pool and benchmark revisions for the Intermediate-term and the Long-term strategies.

A brief discussion was held concerning the proposed change in the Long-term Strategy index from Bank of America Merrill Lynch 5-7 Year AAA-AA U.S. Corporate & Government Index to the Barclays U.S. Aggregate 5-7 Year Index. Green said that the change was recommended by the State Treasury to align its use of Barclays' analytic systems with a Barclays benchmark to gain administrative efficiencies. Following the discussion, a motion was made and seconded that the Finance & Administration Committee recommend to the Board that it approve the Resolution amending the Public University Fund Investment Policy as provided in Attachment 1; the motion carried.

5. Education/Discussion Items

a. IT Systems Infrastructure Pro Forma

Ford introduced Jon Dolan, assistant vice provost for Information Services, who assisted in the development of the IT systems infrastructure plan. Ford reminded the Board that the proposed project was approved in the 2015-17 capital plan at the May 2015 Board meeting. The project will allow the IT systems infrastructure to address areas of high need such as OSU Ecampus. The project calls for the issuance of \$10M in OSU revenue bonds to finance the infrastructure, which includes outside cable plant, in-building cable upgrades, and long-distance fiber optics, including fiber paths to Newport and Bend. The debt service on the 25-year bonds, conservatively estimated at \$800,000 per year, will be incorporated into the overall \$9M annual networking budget and is charged to University operating units based on FTE users. The bonds will be sold in conjunction with the OSU-Cascades construction bonds.

Staff noted that although there is no direct return on investment, both research and instructional activities (such as Ecampus) increasingly rely on a robust campus network and this project addresses the need for IT expansion as the campus is currently at capacity. Dolan shared his concerns for the resiliency and vulnerability of current IT operations. As a result of this project, capacity will be increased ten-fold.

Reser inquired whether IT infrastructure and security risk would be included in the listing of risks considered in the university risk management plan. Chief Audit Executive Patti Snopkowski assured her that these risks will be considered. Snopkowski also noted that an IT security audit was completed in 2015, and will be followed up in 2016.

TAB A

b. OSU-Cascades Residence Hall and Dining/Academic Center Pro Forma

Ford introduced the presenters including Becky Johnson, Vice President for OSU-Cascades; Kelly Sparks, Associate Vice President, Finance & Strategic Planning, OSU-Cascades; Dan Larson, Executive Director of University Housing & Dining; and Susan Musselman and Thomas Toepfer of Public Financial Management, Inc. (PFM). Ford reminded the Committee that the OSU-Cascades residence hall and dining/academic center project was approved in the 2015-17 capital plan at the May 2015 meeting.

Johnson explained the importance to the Bend community of having a residential, rather than commuter campus. She referenced research showing that a residential campus contributes to student success and the recruitment and retention of students. It also provides an additional assurance to parents of the safety of their children. Johnson noted that the City of Bend indicated a preference to issue a single-site certificate of occupancy that includes all three buildings, and community supporters encouraged OSU-Cascades to construct and open the three buildings during the same period. The integrated components of three buildings, along with related site work will contribute to the look and feel of a university.

Ford asked PFM Director of Financial Advisory Services, Susan Musselman, to review the pro forma for the Committee. She noted that PFM reviewed the financing plan and the impact of the project on key university debt ratios and determined that the assumptions in the pro forma were reasonable, given the projected housing demand in Bend. PFM judged the timeline for a December 2016 completion to be appropriate. Musselman noted that with a planned December 2016 completion, the project will have cumulative annual revenue losses after payment of debt service through Year 11, with the breakeven estimated to occur in Year 22. Musselman also noted that, due to the nature of the project, these projected losses were not unexpected and demonstrate the project could support costs and debt service over 30 years. Ford noted that the OSU Internal Bank (OSU-IB) will provide a long-term capital loan to fund the capital costs. The Committee was assured that a 14-month project timeline is typical for projects of this scale, and the timeline allows sufficient time for planning and completion.

In the discussion that followed, Johnson said that a 93% occupancy rate compares well with housing rates at COCC, OSU-Corvallis, and on other PAC-12 campuses. With a rental housing shortage on the west side of Bend, the residence hall rates will be competitive with COCC (whose occupancy is currently at approximately 78%).

Musselman described the impact on key university debt ratios, noting that each ratio remains within the Aa3 rating range of Moody's Investors Service. Ford reminded the Committee that OSU's debt burden threshold is set at 7% and, with this project, the debt burden would be 4%. In response to a question on debt capacity, Musselman said that the university's total bonding capacity can be driven either by the 7% threshold or by what the university is capable of repaying (i.e., using debt to fund projects of strategic importance may place the university in a lower rating category, but ultimately still be acceptable within the institution's capacity planning). Ford noted that the next step for this project is a bond sale in 2016.

Committee members expressed their support and consensus for this project. President Ray expressed his appreciation for the hard work of Johnson and Sparks during the past year in the development of this project.

6. Adjournment

With no additional business proposed, Schueler adjourned the meeting at 2:55 p.m.

Respectfully submitted,

Debbie Colbert
Board Secretary