**Public Meeting Notice**

February 9, 2017

TO: Southern Oregon University Board of Trustees, Finance and Administration Committee

FROM: Sabrina Prud'homme, University Board Secretary

RE: Notice of Regular Meeting of the Finance and Administration Committee

The Finance and Administration Committee of the Southern Oregon University Board of Trustees will hold a regular meeting on the date and at the location set forth below.

Topics of the meeting will include a vice president's report with a review of the financial dashboard and an update on the Joint Ways and Means Co-chairs Budget. Other topics include reviews of the budget pro forma, initial enrollment projections, and preliminary tuition and fees information.

The meeting will occur as follows:

Thursday, February 16, 2017
4:00 p.m. to 5:00 p.m. (or until business concludes)
Hannon Library, DeBoer Room, 3rd Floor, Room #303

The Hannon Library is located at 1290 Ashland Street, on the Ashland campus of Southern Oregon University. **If special accommodations are required or to sign-up in advance for public comment, please contact Kathy Park at (541) 552-8055 at least 72 hours in advance.**

Churchill Hall, Room 107 • 1250 Siskiyou Boulevard • Ashland, Oregon 97520-5015

(541) 552-8055 • governance.sou.edu • trustees@sou.edu

# Board of Trustees
# Finance and Administration Committee Meeting
# February 16, 2017

# Call to Order and Preliminary Business

# Board of Trustees
## Finance and Administration Committee Meeting

**Thursday, February 16, 2017**
**4:00 – 5:00 p.m. (or until business concludes)**
**DeBoer Room, Hannon Library**

## AGENDA

Persons wishing to participate during the public comment period shall sign up at the meeting.
Please note: times are approximate and items may be taken out of order.

| | | | |
|---|---|---|---|
| | **1** | **Call to Order and Preliminary Business** | Chair Nicholson |
| | 1.1 | Welcome and Opening Remarks | |
| | 1.2 | Roll Call | Sabrina Prud'homme, SOU, Board Secretary |
| | 1.3 | Agenda Review | Chair Nicholson |
| | 1.4 | Consent Agenda: Approval of January 19, 2017 Meeting Minutes (Action) | |
| | **2** | **Public Comment** | |
| ~ 5 min. | **3** | **Vice President's Report** | Craig Morris, SOU, Vice President for Finance and Administration |
| | 3.1 | Committee Dashboard | |
| | 3.2 | Joint Ways and Means Co-chairs Budget | |
| ~10 min. | **4** | **Review of Pro Forma** | Mark Denney, Associate Vice President for Budget and Planning |
| ~20 min. | **5** | **Initial Enrollment Projections** | Mark Denney |
| ~20 min. | **6** | **Preliminary Tuition and Fees Information** | Mark Denney |
| ~ 5 min. | **7** | **Future Meetings** | Chair Nicholson |
| | **8** | **Adjourn** | Chair Nicholson |

**Board of Trustees**
**Finance and Administration Committee Meeting**

**Thursday, January 19, 2017**
**4:00 – 6:00 p.m. (or until business concludes)**
**DeBoer Room, Hannon Library**

**MINUTES**

## Call to Order and Preliminary Business

Chair Nicholson called the meeting to order at 4:01 p.m.

The following committee members were present: Paul Nicholson, Les AuCoin, Lyn Hennion, Jeremy Nootenboom, April Sevcik, Dennis Slattery and Steve Vincent. Trustees Bill Thorndike and Linda Schott (ex officio) also attended the meeting.

Other meeting guests included: Craig Morris, Vice President for Finance and Administration; Dr. Susan Walsh, Provost and Vice President for Academic and Student Affairs; Jason Catz, General Counsel; Janet Fratella, Vice President for Development; Mark Denney, Associate Vice President for Budget and Planning; Ryan Schnobrich, Internal Auditor; Shane Hunter, Senior Financial Management Analyst; Tyler Takeshita, ASSOU; Emily Pfeiffer, ASSOU; Melinda Joy, ASSOU; Treasa Sprague, Administrative Services Coordinator; Steve Larvick, Director of Business Services; Julie McFadden, Director of Government Relations; John Stevenson, User Support Manager; Don Hill, Classroom and Media Services Manager; Sabrina Prud'homme, Board Secretary; and Kathy Park, Executive Assistant.

Trustee Sevcik moved to approve the November 17, 2016 meeting minutes as drafted. Trustee Slattery seconded the motion and it passed unanimously.

## Public Comment

There was no public comment.

## Vice President's Report

Reviewing the financial dashboard, Craig Morris said SOU is ahead of target on operating cash, primarily due to the timing of the receipt of federal financial aid dollars and disbursement of those dollars. Student credit hours are down as is total enrollment. Fund balance is on target. Revenues are behind last year, as they are tied to enrollment. On the expense side, SOU is running ahead of the burn rate on labor and down in OPE and S&S.

Mr. Morris discussed the governor's recommended budget of $667 million, which is the same level at which the PUSF is funded currently. The public universities requested $765 million and HECC requested $943 million for higher education. The co-chairs of the Ways and Means Committee released their budget, which may be slightly higher than $667 million. Responding to Trustee AuCoin's inquiry, Mr. Morris said there were two big items negatively impacting the general fund: PERS increases, which make up $1 billion of the state's $1.5 billion deficit, federal funding for the Oregon Health Plan.

Regarding capital requests, SOU's Central Hall project remains ranked at number 9 for $6 million. Considering Capital Improvement and Renewal, universities received $65 million for the current biennium but the governor's budget this year reduced that figure to $45.6 million. The universities will lobby for a return to the $65 million level as this is a significant part of the funding for infrastructure improvements.

The universities receive about $8 million per biennium in sports lottery dollars to help fund athletics. SOU receives $400,000-$500,000 per year, which is a large part of the athletics budget. The universities hope these dollars return in the co-chairs' budget; if not, they will lobby jointly for its return.

Mr. Morris introduced Julie McFadden, SOU's new Director of Government Relations.

**Revised Committee Meeting Schedule (Action)**
Chair Nicholson stressed that, during the budget process, he did not want to decrease the frequency of the committee's meetings but could do so during the rest of the year. Sabrina Prud'homme explained the proposed changes as detailed in the meeting materials. Chair Nicholson said the committee could reevaluate the meeting schedule after a year or so. Trustee Hennion expressed concern over the lack of meetings between July and September and recommended the committee members be open to a special meeting in the summer if warranted. Regarding the alternate meeting dates of September 29 and October 19, 2017, Ms. Prud'homme explained that boards currently are required to meet at least once quarterly and pending legislation may change this, so both dates are being reserved until further notice.

Trustee AuCoin moved that the Finance and Administration Committee adopt the revisions to the committee's meeting schedule as presented, with the understanding that a special meeting may be added as necessary. Trustee Nootenboom seconded the motion and it passed unanimously.

**Transfer of Property: Sale of Cascade Theatre to JPR Foundation and Related Bond Defeasance (Action)**
Jason Catz provided background information on this item. In 2011, OUS conducted an audit of the JPR network, which raised questions for OUS and SOU generally about how best to ensure the network maintains appropriate internal controls and how best to structure SOU, JPR and JPR Foundation (JPRF) resources to further each entity's mission. This caused a strain in the relationship between SOU and JPRF. As a credit to both parties, they worked out their differences in mediation requested by Governor Kitzhaber and their current relationship is positive on all fronts. After the mediation,

JPRF created a limited liability corporation, now known as Jefferson Live, which is wholly responsible for theater activities. In the mediated settlement agreement, SOU agreed to give JPRF an option to purchase the Cascade Theatre for the amount remaining on the debt service for the bonds used to buy the theater. Since the original purchase of the theater, JPRF has paid all the debt service on the bonds and, if it purchases the theater now, will completely pay off the remaining debt service. Mr. Morris added that SOU saw this as a positive step and willingly agreed with the terms of the agreement. SOU believes Jefferson Live should own the Cascade Theatre. Mr. Catz said the ultimate purpose of this item is to ask the board to formally approve all actions necessary to fulfill SOU's promise under the settlement agreement.

Mr. Westhelle summarized the prior disagreement between SOU and JPRF. From SOU's perspective, he thought it resulted from mission creep that JPR was expanding into areas beyond the core vision SOU had for JPR. From JPRF's viewpoint, it was diversifying a public service portfolio that included community projects consistent with its mission and that could support public radio should funding be reduced. He believes the radio-side of JPR has benefitted from a focused mission following the mediation. Responding to Trustee Hennion's inquiry, Mr. Westhelle said JPRF has two primary missions: support and raise funds for JPR and oversee Jefferson Live. Mr. Morris added that JPR is a department of SOU and Mr. Westhelle reports directly to the president. Answering additional inquiries from Trustee Hennion, Mr. Westhelle verified the original bonds were issued in 2010 and followed in 2013, they would be defeased on the call dates of 2020 or 2023 and funds will be set aside for that purpose.

Mr. Catz added that, pursuant to the settlement agreement, JPRF agreed to pay all of SOU's reasonable costs associated with the transactions. Mr. Morris added, SOU has not put a penny into the Cascade Theatre since 1999 and will not be out of pocket in this transaction. It is a private transaction executed by Jefferson Live and there is no connection whatsoever with SOU on the bank loan. Mr. Morris reiterated that the JPRF board has taken all necessary legal actions to assure it will pay for defeasance of the bonds.

No trustee expressed disagreement about the proposed action. Regarding the resolution to be presented to the board for the sale of the Cascade Theatre and the related defeasance of bonds, Trustee Sevcik recommended that the Finance and Administration Committee refer the item to the full board for action or approval, with the committee's endorsement. Trustee Slattery seconded the motion. The motion passed unanimously, with Trustee Hennion abstaining from the vote citing a possible conflict of interest.

**Pro Forma Review**

Chair Nicholson reminded the committee members that the pro forma will be an important tool as they review the various assumptions and drive those assumptions in the desired direction. Mark Denney described an alternative use for the pro forma: using it as a communication tool for the campus regarding SOU's financial position and the impact of specific changes. Mr. Denney then demonstrated this alternative use, which is still being developed. He discussed the introductory tab and the input tab that allows users to make selections and learn about the options. This is an opportunity to get people engaged and give them a broader understanding of the financial process. Trustee AuCoin complimented Mr. Denney for his contribution to the university and the board. President Schott was also impressed by the excellent work, noting that she has never seen this level of transparency any other university. In turn, Mr. Denney commended his team.

Responding to Chair Nicholson and Trustee Hennion, Mr. Denney said he will add a button for users to provide feedback; he also explained the challenge of providing right the amount of information versus too much information.

Chair Nicholson appreciated the "EAB Daily Briefing" and found it provocative in how it underscored the unfairness of the current performance funding model. As a possible future agenda topic, he suggested a committee or board discussion on what can be done. Mr. Morris noted that SOU is not the only university that would like to see changes. The model can be reopened when it is six years old; it is two years old now. Trustee Thorndike added that the model was intended to be a transition over a number of years.

**Comparative Tuition Analysis**

Introducing the topic, Chair Nicholson expressed the gravity of the board's tuition decision in April. SOU is going to have to do something to make up the revenue loss and already made as many cuts as possible through retrenchment. One factor that can change is tuition and while Chair Nicholson did not presuppose what the increase might be, a reality is that it may be in double digits.

Mark Denney compared SOU's resident undergraduate tuition rates to those of thirteen comparator institutions. He analyzed the following rates: current FY17 rates; a 10 percent increase at Oregon institutions and a 5 percent increase at out-of-state institutions; and a 15 percent increase at SOU, a 10 percent increase at other Oregon institutions and a 5 percent increase at the out-of-state institutions. SOU rates were the fourth, fifth and eighth least expensive, respectively. In all comparisons, rates at SOU, EOU and WOU were within $10-$13 of each other. SOU is a bargain compared to the University of California institutions but close to the California State institutions.

Drawing conclusions from the comparisons, Mr. Denney discussed price sensitivity ranges for resident and WUE students. For resident students, the lower end of the range is between the rates at Rogue Community College and SOU and the higher end is between SOU and the University of Oregon. Mr. Denney feels if SOU stays within this band, even if closer to the top, it would continue to see similar numbers in future enrollment. For WUE students, the price sensitivity range is between the California State institutions and the University of California institutions. SOU's growth in WUE students from California continues to grow but at a lower rate as SOU continues to increase tuition and the California institutions do not. Responding to President Schott, Mr. Denney said if California institutions continue to limit the number of in-state students and limit availability of courses, it works in SOU's favor.

Mr. Morris praised Mr. Denney's analysis. In the governor's recommended budget, for SOU to have a balanced budget going out several years, SOU is looking at a 10-15 percent tuition increase. Mr. Denney said conversations mostly have been about how new students make their decisions. For current students, any increase is an increase and a double-digit increase would be challenging for them. At 10 percent, the total annual increase (tuition, fees and housing) would be about $1,300 for residents and $1,600 for WUE students. Currently, residents pay about $20,000 per year and WUE students pay about $22,000.

President Schott said that no one likes this and everyone knows it is a burden on students. SOU can look at increasing aid to the most vulnerable students. She reiterated that SOU is still in retrenchment, already has made significant cuts, and doesn't have much room for additional cuts. She added that SOU is starting its strategic planning and everyone needs to think about how to invest in the future to keep SOU strong and competitive.

**Periodic Management Update: Quarterly Forecast**
Mr. Morris introduced this item, saying the big thing the committee members are seeing is the projection around tuition revenue. Last fall's periodic report was given at the very beginning of the term and FTE enrollment was projected to be down 2.1 percent. By the end of the fall term, it was actually down 2.7 percent. The most recent report for the winter term shows FTE enrollment is down 3.3 percent, although Advanced Southern Credit students have not yet been counted.

Steve Larvick presented he Education and General (E&G) category noting that tuition revenue is down because of the decrease in FTE enrollment. In the fall term, $34.7 million was projected on the tuition line, that estimate is now $34.1 million. E&G Other Revenue initially was budgeted to be down because the revenue from the North Campus Village land lease was projected to be less this year. However, some one-time monies, including an unanticipated court settlement will bring that revenue up to where it ended last year. Labor costs, largely tied to COLA and classified step increases are above budget slightly. The ending fund balance is projected at 11.8 percent.

Chair Nicholson said that, when the board set the budget for 2017, they directed staff to hold to 13.7 to 14 percent, as going below that level would have negative implications in the out-years. Mr. Morris mentioned the meeting President Schott had with her Executive Council where this report was discussed as were implications of an 11.8 percent ending fund balance. All academic division directors indicated they are doing everything they can to manage faculty loads, combine classes and cut back on adjuncts because of the enrollment decrease. Further, all directors are in the process of estimating what they think they can save in their Supplies and Services (S&S) budgets. This may not change the overall budget by a huge amount but any savings would be great. President Schott added that it was a great discussion. Division directors were not told what they had to do; instead, they volunteered the cuts. While numbers won't be huge, in terms of mindset, it should be reassuring that people are on board and doing the best they can.

Addressing auxiliary units, Mr. Larvick said the increase in the recreation center fee contributed to the increase in the enrollment revenues coming into the year. Projected enrollment fees were decreased based on student enrollment decreases. The S&S revenue largely is housing-related and is in line with prior projections, but still lower than budget expectations. Other revenue, primarily dining, is impacted heavily by enrollment and housing occupancy and the projection was reduced by roughly $300,000. Labor is in line with projections. Regarding S&S expenses, lower spending resulting from lower enrollments has resulted in some savings but a lot of the reduced spending is from reduced post season athletic travel. The ending fund balance remains negative for auxiliary units but the projections are better than anticipated in the prior periodic report.

Discussing Designated Operations and Service Centers, Mr. Larvick said noncredit course activities largely drove the increase in enrollment revenue. Labor costs are up modestly compared to the prior year. Overall, he anticipates growth in the ending fund balance to about $1.8 million by the end of the year. Regarding All Current Unrestricted Funds, he estimates the ending fund balance will be about 9.5 percent, up from the previous projection of 9.1 percent. Subsidies have not changed since the prior report.

Responding to Trustee AuCoin's inquiry, Mr. Morris said selling some of the property SOU owns has been considered but the options would not make a significant difference. President Schott added that, as SOU moves forward with its strategic plan, they will look at other potential revenue streams that can support core operations and students. Dr. Walsh added that SOU is ahead of retrenchment targets and when Advanced Southern Credit is recorded, SOU likely will beat the target by about 50 FTE.

**Pension Overview and Total Pension Liability**
Chair Nicholson reminded committee members that Jean Bushong from Clifton-LarsonAllen previously informed the board that SOU could expect to see a major negative impact on its balance sheet due to its independence from the system and the change in the Governmental Accounting Standards Board Statement Number 68. Mr. Morris added that all seven universities are dealing with the same issue.

Mr. Larvick said that, from FY15 to FY16, SOU had a $4.7 million net asset that shifted to an $11.4 million liability. Several factors contributed to this change: the Moro court decision which removed caps on COLA increases for retirees, investment earnings and changes to actuarial tables. The state calculates the PERS liability for all institutions. The change in total operating expenses due to the pension liability is $14.9 million.

**Future Meetings**
Chair Nicholson announced the committee's next meeting on February 16, where time will be spent discussing tuition, state funding and enrollment. As a possible future topics, Chair Nicholson mentioned an update on faculty loading from Dr. Karen Stone and an in-depth discussion on the desired fund balance level for current and future years. He invited committee members to send any suggestions to him or the board secretary.

**Adjourn**
Chair Nicholson adjourned the meeting at 6:01 p.m.

# Public Comment

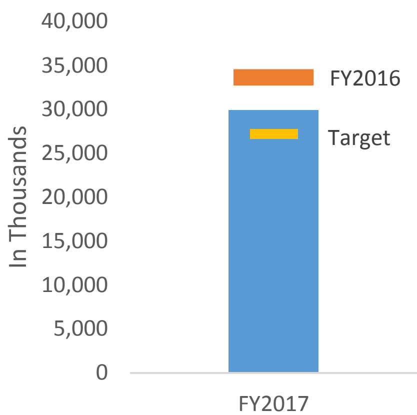
# Vice President’s Report

# Financial Dashboard

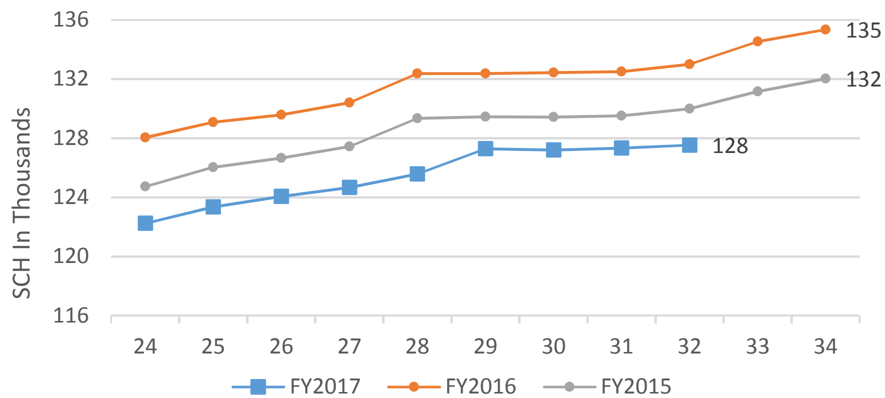
For FY17 before close of period 07

As of January 31, 2017

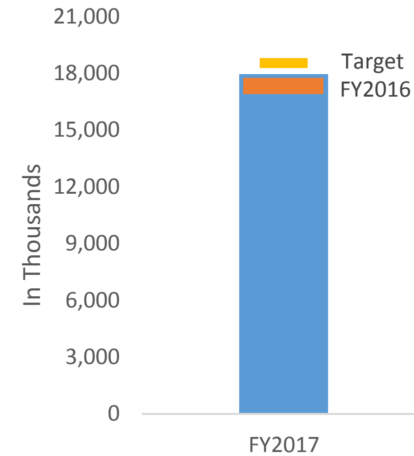
## Public University Funds Operating Cash




## Total Student Credit Hours by Week of the Fiscal Year




## E&G Fund Balance




## Medical Insurance Enrollment Change from FY16 to FY17

(from most expensive to least)

PEBB Statewide: -39

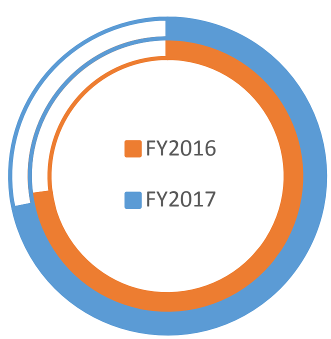
Moda Synergy: +7

Providence PPO: +37

AllCare PEBB: +3

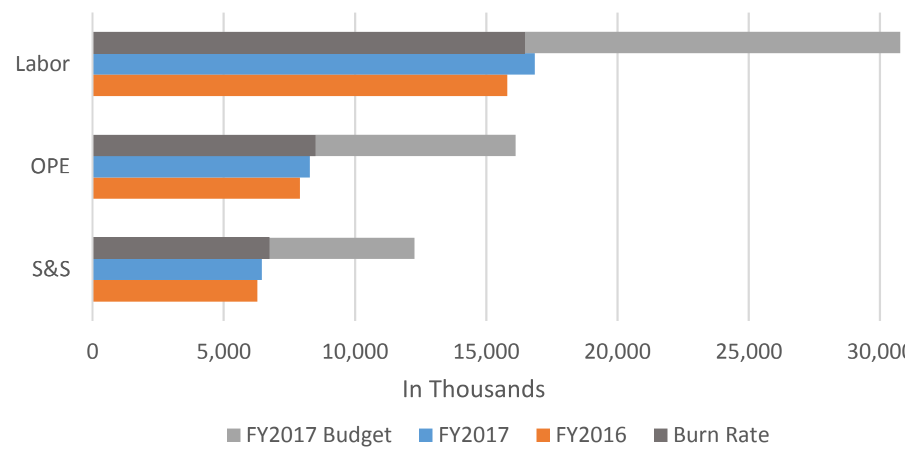
Overall, Health Insurance liability per employee increased 1% less than expected

## E&G YTD Revenues




FY2017 Collected 42,317,008
(72% of budget)

## E&G YTD Select Expenses



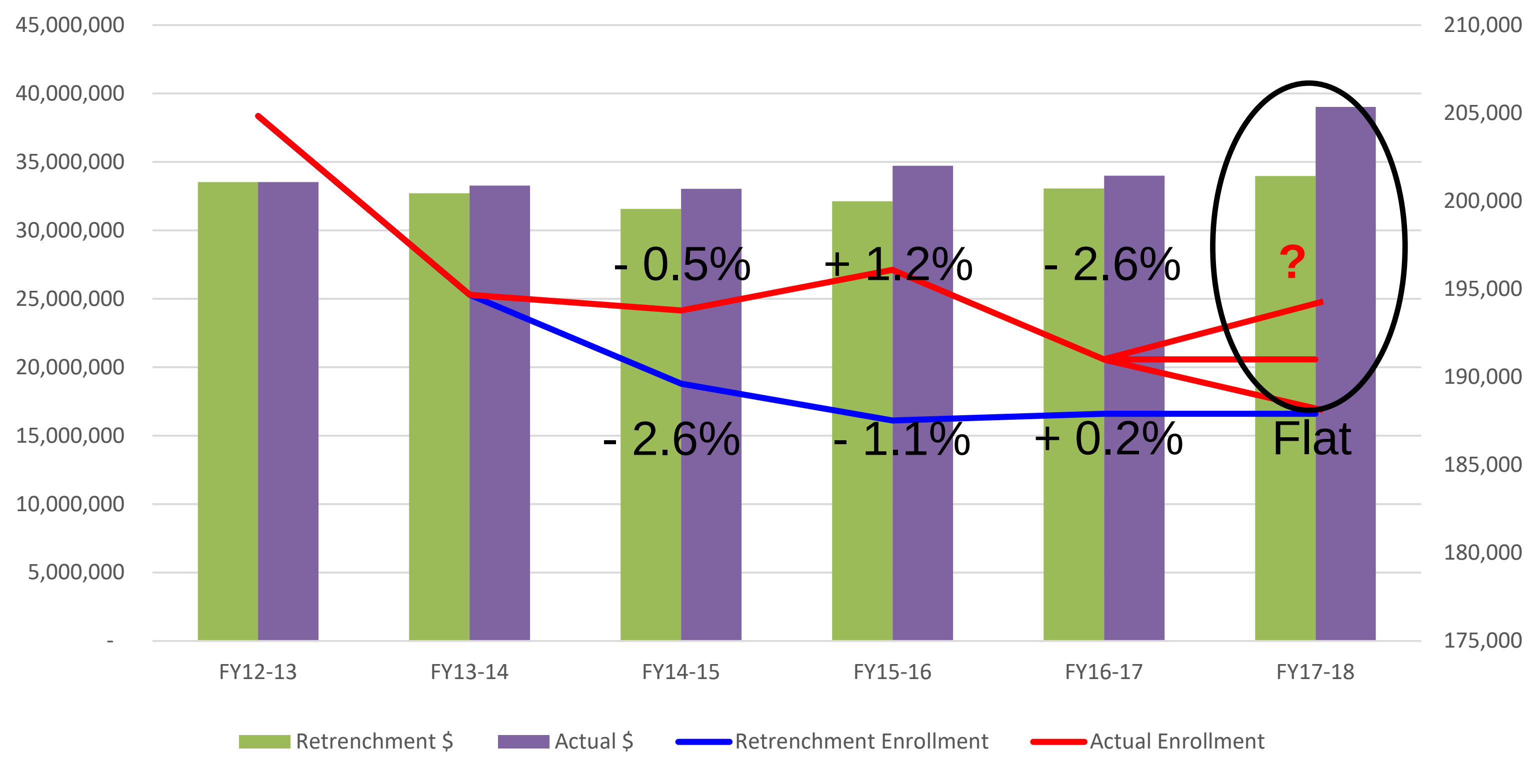
# Review of Pro Forma

# Initial Enrollment Projections

# Past Practice

- Traditionally:
  - OUS IR long range forecast
  - SOU IR review
  - Dean/chair input
  - Annual process
- Retrenchment:
  - Set projections
  - Not updated due to interconnectivity
- Is it time for a new approach?

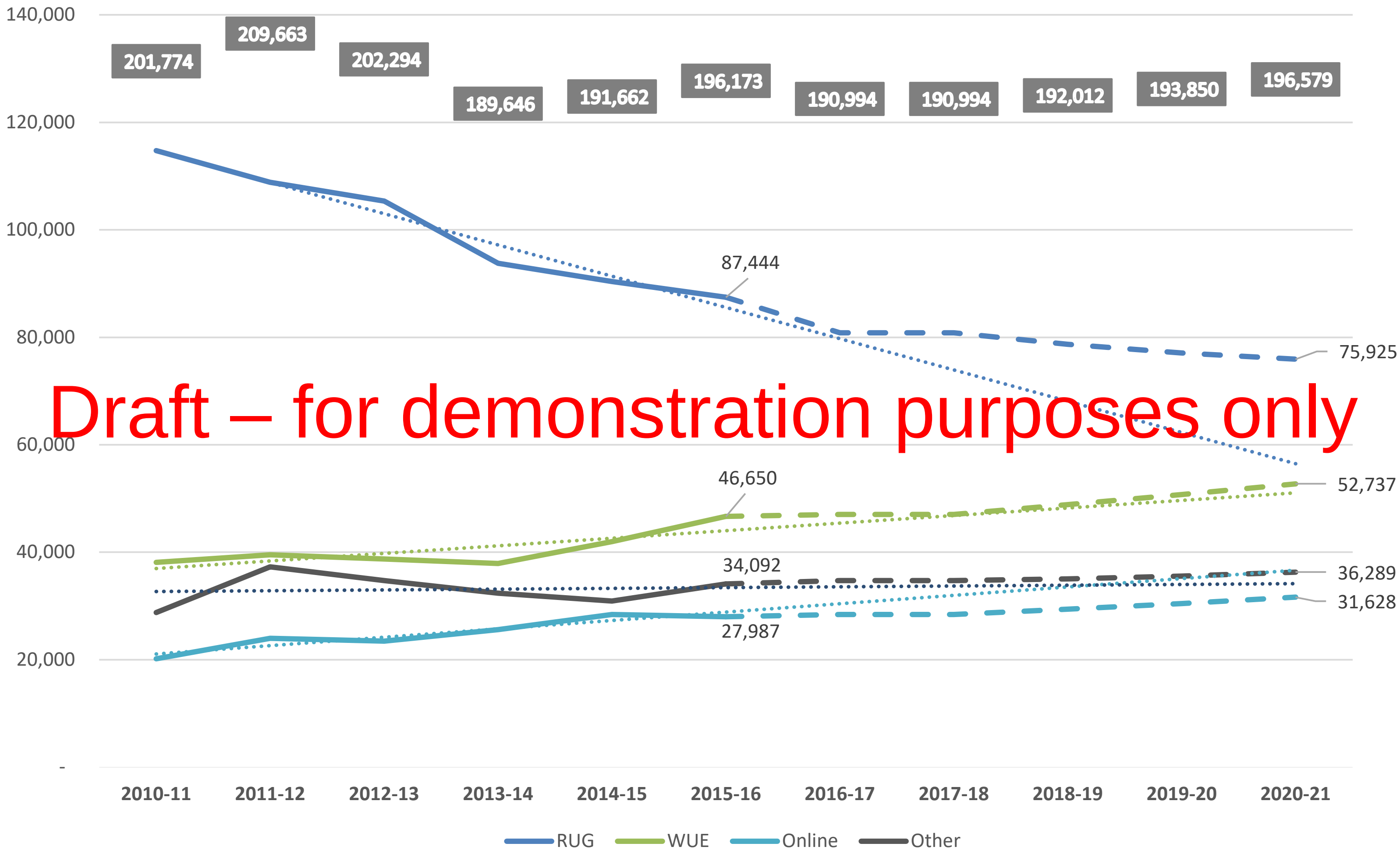
# Enrollment & Tuition Revenue: Projections vs. Actual Projecting FY17-18 Enrollment and Tuition Revenue



# Moving to a Market Elasticity Model

- Recognizes current trends and factors influencing those trends
  - Demographics
  - Price differential
- Recognizes impact of our own actions
  - Tuition strategy
  - Recruitment/retention initiatives
  - Remissions strategy

# Enrollment (SCH) Trend by Fee Category



# Preliminary Tuition and Fees Information

# Tuition and Fee Update

- Tuition
  - ➢Tuition Advisory Council
- Mandatory Fees
  - ➢Incidental Fee – Student fee process
  - ➢Health Fee – University
  - ➢Building Fee – Legislatively set
  - ➢Rec Center Fee – Rec Center Steering Committee

# HECC Approval Reminder

- Total increase to Tuition and Mandatory Fees greater than 3%:  HECC Review
- Total increase to Tuition and Mandatory Fees greater than 5%:  HECC Approval

# Change to What is Included

- HECC Definition of Mandatory Fee
  - All Students pay it
  - Students do not determine the rate
  - Students do not determine what it is spent on

# Change from 2017 to 2018

- Mandatory Fees included in HECC calculation

| Old | New |
|---|---|
| Incidental Fee | |
| Health Fee | Health Fee |
| Building Fee | Building Fee |
| Rec Center Fee | |

# How that Changes the Math

| Fee | 2016-17 | 2017-18 | % Increase | Counts toward 5% | % Increase |
|---|---|---|---|---|---|
| Incidental | $320 | $336 | 5% | No | |
| Health | 130 | 136 | 5% | Yes | 5% |
| Building | 45 | 45 | -- | Yes | -- |
| Rec Center | 75 | 95 | 27% | No | |
| Total: | $570 | $612 | 7% | | 4% |

Note: 2017-18 rates are “DRAFT” and have not yet been proposed

# Future Meetings

# Adjourn