Finance Committee
March 2, 2015
Meeting Notes

The meeting was called to order at 4:00 p.m. by Chair Paul Nicholson.

Nicholson stated this is the first meeting of the new Finance Committee. We are on a new journey. There is a lot of work ahead. The purpose today is to listen and learn. There are no specific action items today. The information today will help inform decisions to be made at the March 17 meeting.

Roll Call

Present:

Paul Nicholson, Chair
Les AuCoin - via phone
Lyn Hennion - via phone
Jeremy Nootenboom
April Sevcik
Dennis Slattery

Absent:

Steven Vincent

Guests:

Bill Thorndike, Board Chair
Craig Morris, VP for Finance & Administration
Mark Denney, AVP for Budget & Planning
Chris Stanek, Director of Institutional Research
Steve Larvick, Director of Business Services
Treasa Sprague, Administrative Services Coordinator, Finance & Administration

Overview of Today's Agenda

Craig Morris, VP for Finance and Administration, stated that today is educational and to provide information about the budget process, tuition setting process, and the outcomes based model. His staff will support part and interact with this committee regularly.

Budget Process & Timeline

Mark Denney, AVP for Budget and Planning, presented the enrollment projections and discussed how they aligned with the retrenchment plan.

Les AuCoin asked if there is a document for the retrenchment plan. It is on the budget website. Morris said we can put the retrenchment plan and metrics on the next meeting agenda.

Denney reported on the revenue process and setting tuition rates. The Tuition Advisory Council makes recommendations of the tuition rates for next year. The committee consists of 4 students, 2 faculty members, 3 administrative staff, and 1 classified staff. Students on the committee are ASSOU President, ASSOU Treasurer, and 2 students at large.

The Budget Committee receives the recommendation from the Tuition Advisory Council. The recommendation will be presented to ASSOU senate, UPB, and others. It will go to the Budget Committee on March 20th.

Nicholson asked who approves the rates.

Morris said the Committee needs to understand the internal process. The recommended tuition will be presented at the March 17 meeting. The Finance Committee will endorse and forward to the full Board for recommendation to the State Board of Higher Education.

Fee Book – this year it is proscribed by OUS. Going forward it will be up to the Board to determine how the fee book will look. We have to have Board approval for tuition and mandatory fees by April 10.

Denney went over the different fees and explained the process.

AuCoin said the rec center fee pays for the debt service and operating cost. And it has folded in some form of financial hedge for fluctuations on enrollment. Is that correct? Morris said that is correct. It is built into the pro forma. They have to fund the debt service. Students will have some flexibility to set the fee above the required debt service cost in order to fund operations. Every 3 years they are allowed to increase the fee by the rate of inflation. Administration will make a recommendation to the students on the range for the fee. They will know what it takes to fund the debt service and to fund the operation. Students can make decisions on how to staff the center, etc.

Room & Board is not a mandatory fee, but it goes into the fee book.

Building Fee – OUS books close on June 30. There is a recommendation is to pick an institution to put the fund on their books as an "off balance sheet" item. When the bigs became legal entities, they were allowed to leave that fund. They took their existing debt onto their balance sheets. Debt for the TRUs is still on the books. We have to continue to put the $45 per student per term toward the debt service. Could the amount be divided up among the 4 TRUs and they pay their own debt? Without the large reserve, the TRUs cannot afford to pay the debt.

AuCoin asked if there is a risk with the dissolution that the gives the legislature an opportunity to wash their hands and cut back the budgets to the institutions. We are not as strong as a central university system. It will weigh on the decisions going forward. Nicholson said we won't know funding from the HECC until the legislative session is over. Because we are now a true board, we have our own responsibilities to lobby legislators.

AuCoin said he doesn't see anything that gives us a flavor of the philanthropy fits in. Is that a discussion for later? Morris said the SOU Foundation is its own legal entity. It doesn't raise money for operating the institution. It raises money for scholarships and capital projects. Scholarships help our students and help them graduate with lower debt. There is no consideration for money from the foundation in our budget as we develop it.

Expenditures –

Labor – We budgeted only for approved positions. We used a conservative approach.

Benefits are budgeted at known rates. PERS sets the rates for retirement. PEBB sets the rates for health insurance. We do not have a choice to go out and find private health insurance. We are required to stay in PEBB.

We budget conservatively. When things are unknown we budget at the lower end of where we think they will come in for revenue and on the high end for expenditures. Labor is based on position control. We are going into bargaining and the outcomes of that are unknown. We set aside reserves for the affordable costs. We are conservative with state appropriations. This allows us to have a good model that fits together.

Nicholson asked if the legislature came in with more than anticipated, is it possible to have a two tier budget. If we get additional money, we spend up a certain amount on these other initiatives. Morris said we won't know the amount of state funding until well into the summer. We won't know outcomes of collective bargaining until that is finished. We won't know enrollment until late fall. We will come up with a budget, but we can't finalize until the end of October.

AuCoin said he thought the Foundation had something to do with the CVA. At a time when tuition is exceeding what states are giving to higher education, more private giving is important. If the Foundation doesn't help, does the Development office help? Who holds the proceeds? Morris explained that donations can be given to the Foundation or the institution. Different academic departments have received small donations over time and have small restricted gift funds. Grants are written by faculty for specific purposes. Fundraising efforts by the Foundation are around endowments and scholarships.

AuCoin said suppose the administration saw an opportunity to create an endowed professorship. The Foundation wouldn't raise the funds, the development office would. Who would manage these funds? The development office is the Foundation. We direct all fundraising to go into the Foundation to be invested and managed. We are not fundraising for operations. We are building an operating budget that can balance against known revenue streams.

State allocation is funded on Resident students.

Periodic Management Report

Steve Larvick, Director of Business Services, walked through the Periodic Management Report. It excludes gifts, grants, student loans, etc. It is the unrestricted operating funds to run the institution.

Nicholson asked if FY 2015 is the year beginning July 2015. It is July 2014, ends in 2015.

Education and General is largest group, making up 70% of total revenue.

Tuition and fees are net of fee remissions (scholarships).

Other revenue includes interest on student loans, library fines, etc. The reason FY2015 revenues are so much higher was due to a couple of large one time resources coming in during the year that are not continuing in FY2015.

Is the determination of the amount of transfer discretionary? It is determined in the budgeting process. As we build athletics budget, there are commitments that university has made that we support. Try to balance their budget.

We are conservative in developing forecast. Transfers are one place we are being conservative. Part of the difference is $500,000 from the housing fund balance to the general fund. This has been done for several years. We need to stop doing that. In this forecast it is removed. We hope we will be in good shape at the end of the year so we don't have to take the money from housing. Auxiliaries represent about 24% of revenue. Auxiliary operations include Housing, Parking, Health Center, Athletics, and the Fitness Center as examples. We are managing North Campus Village for another entity. As such, it is not part of the formal Auxiliary Housing operations. It is formally recorded as "Agency" fund resources, representing funds belonging to an outside organization. However, given it represents almost half of the overall Housing operations, it was deemed important to include it for purposes of the Periodic Report, for management oversight purposes. For financial statement purposes we won't reflect North Campus Village as part of the Auxiliary operations.

We have not included fund balance associated with fixed assets. This represents excluding the underappreciated asset value associated with fixed assets, as well as the outstanding debt obligation. However, we do include the annual debt service payment within the "Additions/Deletions" line. As a result, this represents the fund balance that is available to support day to day activities.

Designated Operations is 6% of the total. This includes all non-credit course work, activities supporting community and public service (JPR, RVTV), print & copy, telecommunications, motor pool, etc.

Campus bookstore is not represented. We get a share of the revenue as a lease payment. It goes into the general fund.

There is a transfer from E&G supporting JPR and RVTV.

Ending fund balance is a standard set by the State Board of Higher Education to be between 5% and 15%. When we dropped below 5% we had to go into retrenchment. The retrenchment plan gets us to 10-11% by FY 2018. We are well on our way. The Plan called for us to be at 7.6% for FY15. We budgeted at 8.1% and it is projected we will be at 8.3%.

<u>Enrollment Report</u>

Chris Stanek, Director of Institutional Research, reported on enrollment. Enrollment starts at recruitment time. The funnel represents new students for fall term. That is where most of the new students come in.

We have a consistent yield and conversion rate over the past few years.

WUE students are non-resident. They pay 1.5 times the tuition rate of Oregon residents.

There are conversations about getting faculty and staff engaged in talking with admitted students to help get a better yield rate.

Jeremy Nootenboom asked what would happen if you admitted a larger portion of students. Stanek said his guess is it won't change the number of enrolled. You are just going to increase the upper brackets. Students make decisions where they are going to enroll not based on being admitted.

Slattery asked what the nature is of the people who have applied and are not admitted. Their stat scores are too low, GPA is too low, they are missing courses, etc. There is no cap on the number of admits.

AuCoin said retention is another key piece to the enrollment process. What is retention rate from freshmen to sophomore? Retention is based on first time, full time, degree seeking freshman who come in the fall. Do they come back the next fall? That is the retention rate. That is not a representative sample of students at SOU. We have just as many transfer students. Our retention rate was 73% for FY 14. FY 13 was 68%. We would like to see that maintained. It is not indicative of our general retention of students on campus which is between 75-80%. That is every admitted undergraduate student taking classes on campus who come back the next year.

AuCoin said whether we compare to UO or Tennessee, the better we do on retention, the more solvent we are going to be financially. It requires a cultural change at least as big as the governance change. It is the personal touch, engaging the faculty and staff, and other students in making the SOU experience a good experience.

Morris said we have an AVP for Recruitment and Retention. We will invite her to a future committee meeting to talk about recruitment and retention.

Overview of Financial Operations and Budgeting

Denney presented the timeline for tuition and fees and the budget process. The planning phase is completed. Right now we are reviewing tuition and fees.

At the March 17 meeting the Committee will approve tuition and fees. At the June meeting you will approve expenditures.

Outcomes Funding Model Update

Craig Morris, VP for Finance and Administration, presented information on the outcomes funding model. They have set a standard of funding based on 2007-09. HECC proposed a $629 million budget. Governor's recommended budget is $624 million. Co-Chairs recommended $670 million. The seven university presidents recommended a $755 million budget. The President's Council talks monthly about the legislative agendas. Vice Presidents of Finance and Administration and Provosts do the same.

The fixed line items are items that the legislature has laid out over the years as funding line items for institutions. They will roll forward as a base.

Activity funding is based on student credit hours (SCH).

Outcomes are about the values driven by the HECC. They will fund based on degrees.

The most recent proposed distribution shows EOU and SOU are low at 4.3%. If you take away stop loss and stop gain, EOU would be down 6% and SOU would be down 0.3%. There is concern over how we create a more equitable distribution of the increase. The Vice Presidents for Finance and Administration are going to try to figure it out. Morris will provide an update after the meeting. Please don't reach out to HECC or legislature until the Vice Presidents see if they can figure it out.

AuCoin asked if this is a fix that the institutions come to a consensus on or will it be a legislative remedy. The HECC has full authority on how to distribute the funds. The legislature can step in. The big question is what the transition looks like. The HECC would like to see it completed by 2020 (the full model).

Other

Next meeting March 17, 4:00 p.m., SOU Hannon Library DeBoer Room.

Adjourn – 6:04