OFFICE OF THE BOARD OF TRUSTEES

**Public Meeting Notice**

May 11, 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 general updates. Trustees will receive investment reports on the endowment and Public University Fund for the third quarter. There will be discussions on the 2017-18 budget drafts for all fund types with a review of the pro forma; the 2017-18 auxiliary budget drafts for athletics and housing; and an update regarding Higher Education Coordinating Commission and next steps.

The meeting will occur as follows:

Thursday, May 18, 2017
4:00 p.m. to 5:30 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.**

Southern OREGON UNIVERSITY

# Board of Trustees
# Finance and Administration Committee Meeting
# May 18, 2017

# Call to Order and Preliminary Business

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

**Thursday, May 18, 2017**
**4:00 p.m. – 5:30 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.

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| | **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 April 20, 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 Review | |
| | 3.2 | General Updates | |
| 10 min. | **4** | **Third Quarter Investment Reports: Endowment and Public University Fund** | Penny Burgess, USSE, Director of Treasury Services |
| 30 min. | **5** | **Presentation of 2017-18 Budget Draft for All Fund Types and Review of Pro Forma** | Craig Morris; Mark Denney, SOU, Associate Vice President for Budget and Planning |
| 25 min. | **6** | **Presentation of 2017-18 Auxiliary Budget Drafts: Athletics and Housing** | Craig Morris; Mark Denney |

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

**Thursday, May 18, 2017**
**4:00 p.m. – 5:30 p.m. (or until business concludes)**
**DeBoer Room, Hannon Library**

**AGENDA (Continued)**

| | | |
|---|---|---|
| 20 min. | **Higher Education Coordinating Commission (HECC) Update and Next Steps** | Chair Nicholson; President Schott; Craig Morris |
| | **Future Meetings** | Chair Nicholson |
| | **Adjourn** | Chair Nicholson |

Board of Trustees
Finance and Administration Committee Meeting

**Thursday, April 20, 2017**
**4:00 p.m. – 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 4:00 p.m. He welcomed Tyler Takeshita and Noah Hurley to the meeting.

The following committee members were present: Paul Nicholson, Les AuCoin, Lyn Hennion, Jeremy Nootenboom, April Sevcik and Dennis Slattery. Trustee Steve Vincent was absent. 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 Affairs; Jason Catz, General Counsel; Janet Fratella, Vice President for Development; Mark Denney, Associate Vice President for Budget and Planning; Olena Black, League of Women Voters; Debbie O'Dea, SOU Financial Aid; Kristen Gast, Director of Financial Aid; Brandy Kinsey, SOU Financial Aid; Stephanie Hanigan, SOU Financial Aid; Treasa Sprague, Administrative Services Coordinator; Ryan Schnobrich, Internal Auditor; Shane Hunter, Senior Financial Management Analyst; Stephanie Hanigan, SOU Financial Aid; Steve Larvick, Director of Business Services; Tyler Takeshita, ASSOU; Joe Mosley, Director of Community and Media Relations; Scott Rex, SOU; Jennifer Fountain, SOU Student Life; Melissa Anderson, SOU Library; Alana Lardizabal, Director of Human Resources; Emily Pfeifer, ASSOU; Sherry Ettlich, STEM Division Director; John Stevenson, User Support Manager; Don Hill, Classroom and Media Services Manager; Sabrina Prud'homme, Board Secretary; and Kathy Park, Executive Assistant.

Trustee Nootenboom moved to approve the March 16, 2017 meeting minutes as drafted. Trustee Sevcik seconded the motion and it passed unanimously.

**Public Comment**
There was no public comment.

**Vice President's Report**
Craig Morris reviewed the financial dashboard, saying it has not changed significantly from last month. He pointed out some of the year-to-date expenses: labor is running slightly ahead of last year's burn rate; OPE continues to lag behind, which is good; and S&S is behind the burn rate and is close to last year's actuals, which is a reflection of the voluntary savings staff have been asked to implement.

Shane Hunter discussed the personnel costs of instruction per student credit hour by faculty type. This is part of a cost study SOU is conducting and will produce annually to help with management decisions. For example, in 2016, a tenured faculty member cost $169 per student credit hour taught. When SOU has a strategic plan, there will be targets for these figures. Dr. Karen Stone's presentation at the next day's board meeting will provide more information on faculty resource management.

Mr. Morris then addressed the governor's recent letter regarding potential increases in tuition and the HECC's authority to review increases greater than 5 percent. He enumerated the five criteria issued by the governor that universities must meet if recommending increases greater than 5 percent and the steps SOU has taken to meet those requirements.

1) *Evidence that the university gave serious consideration to alternatives that involved tuition and fee increases below the 5 percent threshold* – This committee has reviewed the pro forma numerous times, forecasting what the tuition rate might be like. There have been significant conversations in the committee and internally on campus regarding different tuition rates and the impact on the institution.

2) *Evidence of how Oregonians who are underrepresented in higher education would benefit more under the university's proposal than one that stays within the 5 percent threshold* – SOU will increase institutional aid from $3.5 million to $4 million and that increase will be used to help those students who are most at risk. SOU is not cutting specific student success initiatives that are helping students stay in school and move forward to graduation. Reductions in funding would negatively affect the services that support that student population.

3) *A plan for how the university's board and administration are managing costs on an ongoing basis* – The Finance and Administration Committee gets regular reports on SOU's budget and financial performance. Mark Denney's analysis of operating costs per student FTE indicates that SOU is the lowest of all the Oregon universities. This is a result of the retrenchment and ensuing sustainable cuts, reductions and processes.

4) *A summary of how students, faculty and staff were consulted on the proposed tuition increases* – SOU has excellent processes, far exceeding anything done in the past, which have been presented to the committee.

5) *A summary of how tuition will be affected should additional state funds beyond the number in the governor's recommended budget be appropriated* – The president's recommendation includes a breakout of how SOU would lower the tuition rate in that situation.

Mr. Morris mentioned the HECC's letter he received the previous day regarding all of the information it wants in the universities' submissions. Additionally, the HECC has requested a board presence at its Funding and Achievement Subcommittee meeting.

**Recommendation on Tuition and Fees**
Introducing this item, Chair Nicholson said the following day the board will vote on the tuition and fee increase for 2017-18. This is the committee's last chance to dig in to the proposal to make a recommendation to the board.

President Schott said the Tuition Advisory Council forwarded a recommendation to her for an increase and she concurs with that recommendation. If approved, this will increase the cost of attendance by 5.8 percent and includes a 12 percent tuition increase, which is sizeable. However, even after that increase, SOU remains one of the most affordable universities in Oregon.

President Schott said they are not recommending this lightly nor joyfully. They have had many difficult conversations and have run through many scenarios. They talked with faculty, staff, students, community representatives and legislators to help them understand how SOU is funded, what is driving increasing costs, how SOU is controlling its portion of those costs and how SOU can move toward greater financial sustainability. SOU has begun a strategic planning process that holds great promise; there is momentum on the campus and she wants to lead that forward but cannot if programs and personnel are cut significantly. President Schott said she told Governor Brown that SOU has heard and looked at her concern, but is still recommending a 12 percent increase. She and SOU leadership truly believe this is the best for SOU students and the university, as it gives SOU the best chance of actually growing forward into sustainability. Reluctantly, President Schott said she recommended the tuition and fee increase.

Mr. Denney then highlighted various factors impacting the recommended increase. The state's investment in higher education has declined for many years and this trend continues. Despite whatever the level of funding is to higher education, under the new funding model, it disadvantages the TRUs and SOU gets a smaller share of those funds even if they increase substantially. For example, Mr. Morris said if there were $780 million in funding (which he thought was very unlikely), SOU's allocation would increase only 6 percent.

Mr. Denney compared the universities' spending per student FTE in 2013 (before SOU's retrenchment) and 2016 (following adjustments from retrenchment), focusing on four functional categories: instruction, academic support, student support and institutional support. In 2013, SOU was the third lowest in operational costs. In 2016, SOU was the lowest. Mr. Morris emphasized that SOU went from third lowest to lowest because of the retrenchment plan and is the most cost efficient of the Oregon public universities. Mr. Denney said SOU is looking at a combination of using its fund balance and a tuition increase, but no cuts. SOU is making the point that it has already made cuts of $6.5 million in operating costs, which represents 10 percent of its operating budget, and that is why it is not offering any further cuts.

Mr. Denney addressed the tuition recommendation from the Tuition Advisory Council: a 12 percent increase for resident undergraduates and WUE students and a 6 percent increase for nonresident undergraduates and resident and nonresident graduates. Mr. Morris emphasized three key numbers: 12 percent tuition increase; 11.4 percent increase that SOU will present to the HECC for tuition and qualifying mandatory fees; and 5.8 percent increase in the cost of attendance for resident undergraduate students. Not lessening the impact of the tuition increase, Mr. Denney thought the 5.8 percent increase to the total cost of attendance is the number that should be stressed.

Responding to Trustee Sevcik's inquiry, Mr. Denney said the acting housing director made a conscious effort to keep housing and dining cost increases to only 2 and 3 percent, respectively. As one-time savings, the housing department also cut $600,000 out of its budget this year with no diminution in services, will spend down some of its fund balance for deferred maintenance and increased conference fees that are paid by individuals other than students. Trustee Hennion said the $600,000 savings was impressive and Chair Nicholson remarked on how sobering the savings of retrenchment have been.

Mr. Morris stressed that a 12 percent tuition increase will not fix SOU's financial problems. However, it does allow President Schott to have room to finish the dynamic strategic planning process and line up and implement her new ideas. This is what will help stabilize SOU's enrollment and contribute to sustainability. Trustee AuCoin hoped the representatives going to the HECC will lean on that point as it is crucial; this is not enrichment, this is a breath of air to enable SOU to get ready for the future.

Comments followed, praising President Schott and her leadership, discussing the best approach to take with the HECC, commending the recent Professional Learning Community expo and praising the hard work and good ideas of those on campus.

Trustee AuCoin moved that the Finance and Administration Committee approve the resolution for recommending tuition and mandatory fees for academic year 2017-2018 to the full board of trustees as proposed. Trustee Slattery seconded the motion and it passed unanimously.

Chair Nicholson added his appreciation for Mr. Denney, President Schott, Mr. Morris and everyone else who worked on the tuition and fees action.

**Third Quarter Forecast and Subsidies Report**
Steve Larvick walked the committee through the periodic management report, highlighting key elements.

In the Education & General (E&G) category, tuition revenue is still down 3.2 percent even though FTE grew by about 8 FTE. With the start of the spring term, that represents an estimated additional erosion of about $200,000, taking the projection to just under $34 million in net tuition revenues. A change in the enrollment mix was a large driver in that reduction; SOU saw more online students, but less WUE and graduate students who pay higher rates. In labor, there are some savings; actual OPE costs are coming in at average rates that are slightly lower than previously trending, resulting in estimates coming in line with budgeted levels. Spending in S&S expenses is trending slightly down by about 1 percent, due in part to an accounting change between housing and the general fund. An increase of about $180,000 in net subsidies is tied to that accounting change. Even though enrollment revenues are decreasing at higher rates, the effects of that are being offset by lower costs within both labor and S&S. As a result, the ending fund balance projection is in line with the previous quarter's projection of 11.8 percent.

In the Auxiliaries category, enrollment revenues increased by about $100,000, which was largely tied to reduced fee remissions issued by housing. There is a projected decrease of about $300,000 in S&S revenues; much of that is tied to lower athletic event revenues, which is then offset by lower travel expenses. There is a slight decrease in the labor projection ($80,000) tied to lower costs associated with positions being unfilled for longer than anticipated. The projection for S&S increased by $300,000, but $180,000 of that is tied to the previously-mentioned accounting change between housing and the general fund. As such, the overall increase to spending is less than a 1 percent growth, keeping total S&S spending at 3 percent below initial budget. The ending fund balance remains negative, by about $1 million. However, this is primarily a result of the ongoing deficit with the athletic programs and the remaining internal loan given to housing to address last year's BOLI obligation.

In the Designated Operations, Service Departments category, sales and services revenue reflects an increase of about $900,000 from the December projections. This is largely due to the timing of the transfer of $1 million from the JPR Foundation to fund construction of the new theatre/JPR building. This represents "pass-through" revenue that is then transferred to the construction project; the offset shows up on the Subsidies line, shifting it from a $300,000 net positive to a negative $700,000 transfer-out. Both Other Revenue plus S&S Expenditures are up about $600,000, which is connected to the sale of the Cascade Theatre to Jefferson Live for an amount needed to clear all remaining debt associated with that building. Absent that activity, both are still trending in line with prior projections. Overall, those two JPR actions have no impact on the bottom line. So, this category is still on the path to increase the ending fund position by about $400,000 by the end of the year.

Regarding the All Current Unrestricted Funds, the ending fund balance is holding at around 9 percent or averaging 8.7 percent. Mr. Morris directed committee members' attention to the line in the E&G category where the ending fund balance is reflected as months of expenditures. At the end of last year, SOU was at 1.5 months, compared to the budgeted amount of 1.7 months. The forecast is that SOU will remain at 1.5 months at the end of this year. Regarding Subsidies, Mr. Larvick said they have not changed from the prior report, except for the aforementioned housing-service center accounting change.

**Discussion of Ending Fund Balance**

Mr. Morris discussed the whitepaper the Oregon Council of Presidents developed for legislators to explain why the universities do not want them to touch fund balances. He highlighted the portion that said "[t]he Government Finance Officers Association recommends, at a minimum, that universities, regardless of size, maintain total fund balances of no less than two months of regular operating revenues." He added that the National Association of College and University Business Officers recommends four months and the State Board of Higher Education recommended 5-15 percent. SOU meets that percentage, but is still not making the two or four month standard.

Mr. Morris discussed the factors outlined in the whitepaper that a board should consider when determining the appropriate fund balance level: predictability of university revenues and volatility of expenditures; perceived exposure to significant one-time outlays; liquidity issues; commitments and assignments of funds; and the potential drain on E&G funds. He said those are factors the board should consider when deciding on a goal for SOU's fund balance.

Chair Nicholson said the committee has had many conversations about the pro forma and the impact on the fund balance. The considerations Mr. Morris mentioned are the other side of that coin, the other things that go on within a university in terms of budgeted losses or gains in the out years.

Trustee Hennion thought the two or four month reserve was modest from a business perspective. President Schott cautioned against having a fund balance that was too high and thought the campus should be educated on the purposes of the fund balance so it does not look like SOU is just hoarding money. Mr. Morris said that, to get to a three month reserve, SOU would have to double the fund balance, which would be an aspirational goal.

**Review of Pro Forma**

Mark Denney said the pro forma gives a context for the tuition and fees discussion. While it is too early to say the 2017-18 column will be SOU's budget, as the budget is

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coming together, it is looking pretty close to that. Working with the interactive pro forma model on the budget office's website, Mr. Denney plugged in various rates and explained how different figures affect the ending fund balance. Budget personnel believe SOU will come in between 8-9 percent at the governor's recommended budget and closer to 9 percent if at the co-chairs' budget. The challenges are that the retrenchment requires a fund balance better than 10 percent and the pressures impacting SOU are ongoing, not one-time. If SOU is not closer to 10 percent, it would be negative in the next biennium if no action were taken, which would not be the case. SOU leadership would rather take action strategically and with thought, rather than make an emergency slash. That is the reason why they are trying to move the 8.6 to 10 percent.

Responding to Chair Nicholson's inquiry, Mr. Denney said when the committee sees the budget draft, the goal is that it will be at 10 percent. Mr. Morris added that at the May meeting they will put preliminary budget numbers before the committee; the only way it will be at 10 percent is if the co-chairs' budget is used. In December, SOU has to satisfy to the HECC's content the conditions imposed on governing boards. One of the metrics is a fund balance that is 10 percent or better and SOU wants to be able to go to that meeting having met that metric.

Mr. Morris said the president's recommendation includes a breakout of the decreases in tuition rates if SOU receives more state funding. At $683 million (the co-chairs' budget), SOU's tuition will stay at 12 percent. If state funding is higher than that, every dollar will go to reducing the tuition increase but will not change the fund balance. Responding to Trustee AuCoin's comment, Mr. Morris said the legislature is struggling with raising revenue, which impacts how much is allocated to higher education.

**Future Meetings**

Chair Nicholson said the next committee meeting is May 18 from 4:00 to 5:30 or 6:00 pm. The committee will review the first draft of the budget. If committee members have issues for the agenda, Chair Nicholson asked them to let him or the board secretary know.

**Adjourn**

Chair Nicholson adjourned the meeting at 5:29 pm.

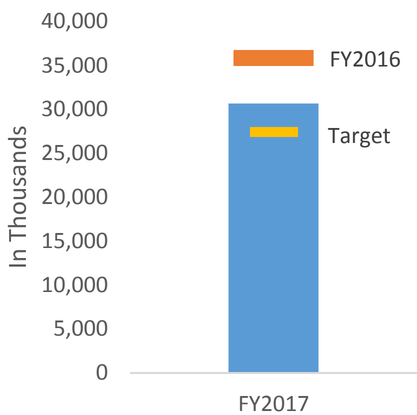
# Public Comment

# Vice President’s Report

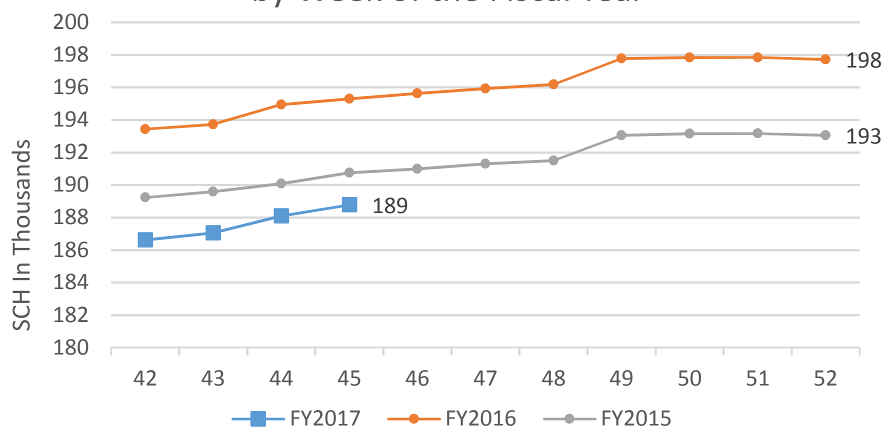
# Financial Dashboard

For FY17 period 10
As of April 30, 2017

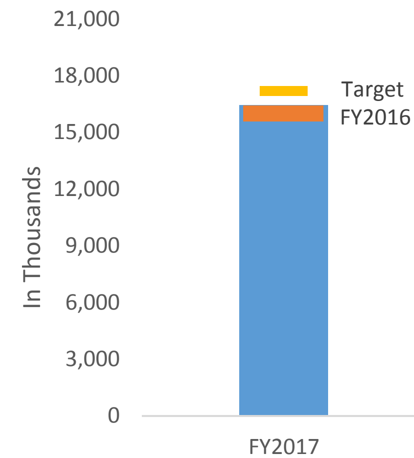
## Public University Funds Operating Cash



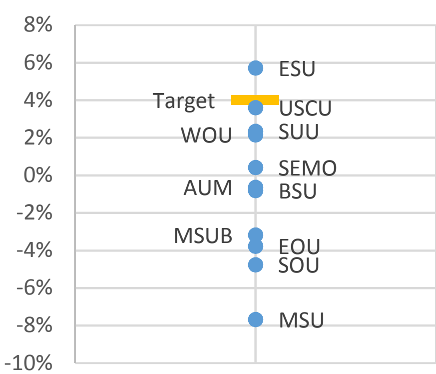

## Total Student Credit Hours by Week of the Fiscal Year



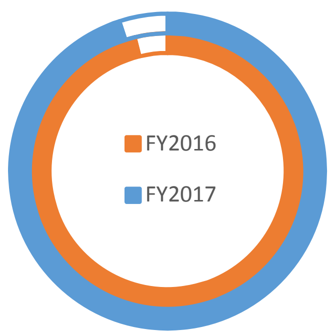

## E&G Fund Balance




## Net Revenue Ratio for FY2016 between comparable instutions

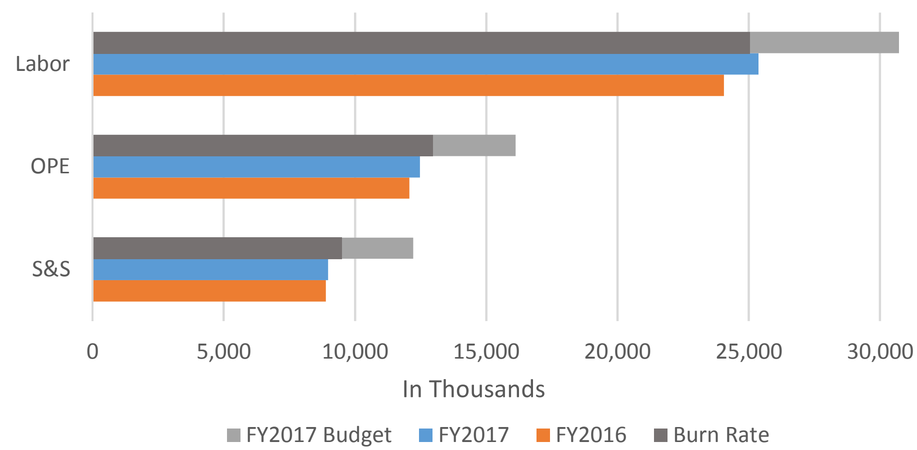



## E&G YTD Revenues




FY2017 Collected 56,077,033
(95% of budget)

## E&G YTD Select Expenses



# Third Quarter Investment Reports: Endowment and Public University Fund

# Report on Investments – as of March 31, 2017

## Market Background

*(Provided by Callan Associates, Oregon Investment Council consultant)*

## Macroeconomic Environment

The "risk-on" theme persisted through the first calendar quarter as improving economic data trumped elevated geopolitical uncertainty, both in the U.S. and abroad. Economies in the U.S. and Europe continued to gain traction and the U.S. entered its 93rd month of expansion. At the same time, important and potentially divisive elections in Europe, an impeachment in South Korea, heightened tensions with North Korea, innuendo around Russia, civil war in Syria, the Brexit (British Exit) trigger, and an unconventional and inexperienced administration in the U.S. did not rile investors. The Standard & Poor's (S. & P.) 500 Index surged 6.1 percent —its best quarterly performance since the fourth calendar quarter of 2015—as expectations for lower taxes, reduced regulation, and other pro-growth reforms helped propel U.S. equity prices to new highs. Non-U.S. stocks also posted strong returns, and emerging market equities beat developed markets. U.S. Treasury yields were range-bound leading to fairly flat returns, and the riskier sectors in fixed income posted the best results. Commodities were the lone area to deliver a negative return, hurt mostly by oil prices falling due to concerns over stockpiles in the U.S.

Economic data in the U.S. were generally strong in the first calendar quarter. Unemployment fell to 4.7 percent and private nonfarm payroll growth was robust. Consumer Confidence, as measured by the Conference Board, hit its highest level since December 2000. The fourth calendar quarter Gross Domestic Product was revised up to 2.1 percent (year-over-year). Personal consumption expenditures growth was revised up to 3.5 percent and before-tax corporate profits grew 9.3 percent year-over-year. However, dollar strength was reflected in trade figures as exports fell 4.5 percent. Housing data also continued to show strength; U.S. single-family home starts approached a 10-year high. The Composite Housing Market Index (National Association of Home Builders-Wells Fargo) jumped 9.2 percent during March, representing the largest gain since June 2005. Inflation edged up with February's headline Consumer Price Index (C.P.I.) figure at 2.8 percent (year-over-year), the fastest rate in five years, and core C.P.I. (excluding food and energy) at 2.2 percent. The Federal Reserve's (Fed) favored measure, the Personal Consumption Expenditures Price Index, grew 2.1 percent year-over-year, the most since April 2012. Excluding food and energy, the Index was up 1.8 percent (year-over-year), nearing the Fed's 2.0 percent target. Wage growth also picked up; average hourly earnings grew 2.8 percent (year-over-year) as of February. In a widely expected move, the Fed raised rates in March by 25 basis points, bringing the Federal Funds rate to 0.75 percent - 1.0 percent. The Federal Reserve Board expects two more rate hikes this year. Markets were unfazed and both stocks and bonds rallied.

The most notable events overseas were on the political front. On March 29, United Kingdom (U.K.) Prime Minister Theresa May officially notified the European Council of the U.K.'s intent to withdraw from the European Union (E.U.). Details of this withdrawal will be negotiated over the next two years. The U.K. has been part of the E.U. for more than 40 years and negotiating the terms of this "divorce" will not be straightforward. Trade and immigration are the thorniest issues and require resolution before the country's E.U. membership ends in March 2019. A high-profile election in the Netherlands ended with the mainstream ruling party retaining power and the anti-E.U. party falling short. Similarly, France's presidential elections will be held in April and May, with far-right contender Marine Le Pen making a bid for power. Additionally, the outcome of the German federal election to be held in September of this year is far from certain. Finally, South Korean President Park Geun-hye was impeached and removed from office in March; elections will be held in May.

Economic momentum appears to be picking up in the Eurozone. Inflation has been rising and hit a four-year high (2.0 percent) at the February reading. The fourth calendar quarter Eurozone G.D.P. was 1.7 percent (year-over-year) and, notably, positive in each country except Greece (-1.2 percent). Unemployment remained high at 9.5 percent, though down from its peak of 12.1 percent in July 2013. Outside of Europe, manufacturing growth in China was strong and its fourth calendar quarter G.D.P. came in at 6.8 percent, but concerns over excessive credit remain. In Japan, growth remained weak but positive at 1.2 percent year-over-year as of the fourth calendar quarter.

## Equity Market Results

The S. & P. 500 Index has lodged gains for eight consecutive calendar years, and the first calendar quarter continued on that trajectory. The Index climbed 6.1 percent while the tech-heavy National Association of Securities Dealers Automated Quotations index (N.A.S.D.A.Q.) gained 10 percent. In the Technology sector, the "FANG" collective drove results: Facebook (+24.0 percent), Amazon (+18.0 percent), Netflix (+19.0 percent), and Google (+8.0 percent). Solid quarterly earnings and expectations that President Trump's pro-growth agenda will be executed underpinned strong investor sentiment. Growth stocks outperformed value by a wide margin across the capitalization spectrum; the most pronounced difference was in large caps (Russell 1000 Growth +8.9 percent vs. Russell 1000 Value +3.3 percent). Large cap stocks also broadly outperformed small (Russell 1000 +6.0 percent vs. Russell 2000 +2.5 percent). Small cap value was the only segment to post a negative return (Russell 2000 Value -0.1 percent) for the calendar quarter after leading in 2016 (+31.7 percent). Within the S. & P. 500, the Technology sector performed the best (+12.6 percent). Health Care—the worst performer in 2016—rebounded with a positive (8.4 percent) return. The worst performing sectors for the calendar quarter were Energy (-6.7 percent) and Telecom (-4.0 percent). Pre-tax corporate profits grew sharply in the fourth calendar quarter at 9.3 percent year-over-year, the fastest gain since 2012.

The equity market's subdued volatility in the first calendar quarter was also noteworthy. The S. & P. 500 Index had more than 100 days without a one percent decline prior to March 21 when the Index sank 1.2 percent—the longest stretch since 1995—and only two days during the quarter saw such moves. The Volatility Index, which measures the implied volatility of S. & P. 500 Index options, closed the quarter at 12, well below its long-term average (since 2004) of roughly 20. At the same time, valuations are lofty (as measured by several oft-cited metrics), potentially painting a scenario for rocky times ahead.

Overseas, the Morgan Stanley Capital Indices (M.S.C.I.) Europe, Australasia, Far-East Index (+7.2 percent) modestly outperformed U.S. markets. Dollar weakness bolstered results; in local terms, the Index gained just 4.7 percent. Gains spanned multiple countries including Spain (+14.8 percent), Germany (+8.4 percent), the U.K. (+5.0 percent), France (+7.3 percent), and Japan (+4.5 percent). Emerging markets bested developed (MSCI Emerging Markets USD: +11.4 percent; MSCI Emerging Markets Local: +7.8 percent) and were helped by dollar weakness. Countries with the top performance included India (+17.1 percent), Mexico (+16.0 percent), Korea (+16.8 percent), China (+12.9 percent), and Brazil (+10.4 percent). Russia fared the worst (-4.6 percent), pulling back from a 55.0 percent gain in 2016.

## Fixed Income Market Results

U.S. Treasury yields were relatively range-bound in the first calendar quarter despite a Fed hike in March. The 10-year U.S. Treasury hit an intra-quarter high of 2.62 percent on March 13 and closed the quarter at 2.40 percent, five basis points lower than at year-end. Treasury Inflation Protected Securities (T.I.P.S.) performed relatively well as expectations for future inflation climbed. The 10-year breakeven spread (the difference between nominal and real yields) was 197 basis points as of quarter-end, and the Bloomberg Barclays T.I.P.S. Index gained 1.3 percent for the calendar quarter. The Bloomberg Barclays Aggregate Index earned 0.8 percent; within the Index, corporate bonds outperformed like-duration Treasuries, with BBB-rated credit (+1.7 percent) posting the strongest returns. Mortgages underperformed Treasuries on a duration-adjusted basis, as expectations that the Fed would begin to trim its reinvestment in the sector weighed on the market. The Bloomberg Barclays High Yield Index gained 2.7 percent, with lower-rated bonds again outperforming higher-rated issues.

Overseas, rates were generally modestly higher. However, broad-based dollar weakness boosted returns. The U.S. dollar lost nearly five percent versus the yen and depreciated to a lesser extent versus other developed markets currencies. The Bloomberg Barclays Global Aggregate Index returned 1.8 percent (unhedged) versus 0.4 percent for the hedged version. Consistent with the risk-on theme evident across asset classes, emerging markets debt outperformed developed markets. The J.P. Morgan Emerging Market Bond Global Diversified Index ($ denominated) gained 3.9 percent and the local currency J.P. Morgan Global Bond Index – Emerging Markets Global Diversified Index was up 6.5 percent.

The Bloomberg Barclays Municipal Bond Index gained 1.6 percent. Consistent with other sectors, lower-quality issues outperformed. Relatively light issuance and strong demand provided a solid technical backdrop. Concerns over the impact of potential tax reform were assuaged by the Trump administration's focus on health care and its struggles executing on planned agenda items. While troubled credits remain (Illinois, New Jersey, Puerto Rico), fundamentals more broadly remained stable to improving.

## Other Asset Results

After rising more than 50.0 percent in 2016, Brent crude prices fell seven percent to $52.83 in the first calendar quarter. The S. & P. Goldman Sachs Commodity Index lost 5.1 percent. However, Master Limited Partnerships (M.L.P.s) posted positive returns for the quarter (Alerian M.L.P. Index +3.9 percent). Real Estate Investment Trusts (R.E.I.T.s were essentially flat (M.S.C.I. R.E.I.T.: +1.0 percent) and gold was up nearly nine percent. U.S. T.I.P.S. also did well (relative to nominal U.S. Treasuries) as expectations for future inflation climbed. The Barclays U.S. T.I.P.S. Index returned 1.3 percent for the calendar quarter.

## Closing Thoughts

We entered 2017 with U.S. stock markets at record highs, interest rates rising, and historically low volatility. The first calendar quarter saw a continuation of most of those themes. While economies in the U.S. and Europe continued to gain traction, investors exhibited a high degree of complacency. Valuations are stretched by many measures across asset classes and markets have experienced extraordinarily low volatility, relative to historical norms. However, many risks lurk and there is no certainty that the pro-growth policies envisioned by enthusiastic market participants will come to fruition. Given the sanguine view reflected in market prices, we encourage clients to temper expectations for returns and brace for more volatility, which we expect to increase from current levels. Much uncertainty remains with respect to the scope, implementation, and timing of Trump’s agenda, and myriad other geopolitical issues are confronting the world, as well. As always, Callan encourages investors to maintain a long-term perspective and prudent asset allocation with appropriate levels of diversification.

## Public University Fund

*(Prepared by the Public University Fund Administrator)*

The Public University Fund gained 0.6 percent for the quarter and 0.3 percent fiscal year-to-date, through March 31, 2017. The Oregon Short-Term Fund returned 0.3 percent for the quarter and 0.8 percent fiscal year-to-date, outperforming its benchmark for the quarter and year-to-date by 20 and 50 basis points, respectively. The Oregon Intermediate-Term Pool returned 0.7 percent for the quarter and 0.3 percent fiscal year-to-date, performing in-line with its benchmark for the quarter and outperforming by 90 basis points fiscal year-to-date. The Long-Term Pool returned 1.0 percent for the quarter and declined 0.2 percent fiscal year-to-date, outperforming its benchmark by 20 basis points and 120 basis points, respectively.

In April, Oregon State Treasury fixed income portfolio manager, Tom Lofton, conducted a quarterly performance review with University staff and its investment advisor. The corporate bond segment of the Intermediate-Term and Long-Term portfolios supported each pool's strong quarterly returns. The Short-Term Fund benefited from investor attraction to the floating-rate sector. Floating-rate bonds tend to gain investor favor when interest rates are forecast to rise. The Long-Term pool ended the quarter with a 9.4 percent cash position; Mr. Lofton anticipates reinvesting the funds into Government securities during the fiscal fourth quarter.

During the quarter, investment earnings distributed to Southern Oregon University totaled $129,272. The market value of SOU's allocable share of the P.U.F. was $31,795,994 on December 31, 2016.

## Southern Oregon University Endowment Fund

*(Prepared by USSE Staff)*

The SOU Endowment Fund returned 5.4 percent for the quarter, outpacing its policy benchmark by 45 basis points. The Fund ended the quarter with a balance of $2.27 million, up from $2.16 million at the beginning of the quarter.

The majority of the Fund's assets (72 percent) are allocated to an equity index strategy while 28 percent of the portfolio is allocated to an "actively" managed fixed income fund. For the three months ended December 31, the Western Asset Core Plus Bond Fund returned 1.9 percent, outperforming the Bloomberg Barclays U.S. Aggregate Bond Index by approximately 80 basis points. The Blackrock All-Country World Index outperformed its benchmark by 10 basis points, up 6.9 percent for the period.

# Southern Oregon University

## Investment Summary

### as of March 31, 2017

(Net of Fees)

| | Quarter Ended 3/31/2017 | Prior Fiscal YTD | Current Fiscal YTD | 3 Yr Avg | 5 Yr Avg | 10 Yr Avg | Market Value | Actual Asset Allocation | Policy Allocation Range |
|---|---|---|---|---|---|---|---|---|---|
| **SOU Operating Assets Invested in Public University Fund** | | | | | | | | | |
| Oregon Short - Term Fund | 0.3% | 0.5% | 0.8% | 0.7% | 0.6% | 1.3% | $ 11,260,831 | 35.4% | 1 |
| Benchmark - 91 day T-Bill | 0.1% | 0.1% | 0.3% | 0.2% | 0.1% | 0.7% | | | |
| Oregon Intermediate - Term Pool | 0.7% | 1.7% | 0.3% | N/A | N/A | N/A | 13,020,963 | 41.0% | 1 |
| 2 Benchmark - Bloomberg Barclay's U.S. Aggregate 3-5 Yrs. | 0.7% | 2.5% | -0.6% | 1.7% | 1.5% | | | | |
| 4 Combined Historical Returns | | | | 1.8% | 2.2% | | | | |
| P.U.F. Long - Term Pool | 1.0% | 2.9% | -0.2% | N/A | N/A | N/A | 7,514,199 | 23.6% | 1 |
| 3 Benchmark - Bloomberg Barclays' U.S. Aggregate 5-7 Yrs. | 0.8% | 4.2% | -1.4% | 2.9% | 2.1% | | | | |
| 4 Combined Historical Returns | | | | 2.5% | 2.5% | | | | |
| Total Public University Fund Investment | 0.6% | 1.4% | 0.3% | | | | $ 31,795,993 | 100.0% | |
| **SOU Endowment Assets** | | | | | | | | | |
| BlackRock A.C.W.I. I.M.I. B | 6.9% | -4.6% | 14.4% | 5.4% | 8.9% | N/A | $ 1,633,596 | 71.9% | |
| Benchmark - M.S.C.I. A.C.W.I. I.M.I Net | 6.8% | -4.9% | 14.2% | 5.1% | 8.5% | | | | |
| Western Asset Core Plus Bond Fund | 1.9% | 3.6% | 1.2% | 4.3% | 4.1% | 5.5% | 633,201 | 27.9% | |
| Benchmark - Bloomberg Barclays Aggregate Index | 0.8% | 3.7% | -1.7% | 2.7% | 2.3% | 4.3% | | | |
| Cash | 0.3% | 0.5% | 0.8% | 0.7% | 0.6% | 1.3% | 4,230 | 0.1% | |
| Benchmark - 91 day T-Bill | 0.1% | 0.1% | 0.3% | 0.2% | 0.1% | 0.7% | | | |
| | | | | | | | $ 2,271,027 | 99.9% | |
| Arrowstreet Tax Reclaim Receivable | | | | | | | 1,797 | 0.1% | |
| Total SOU Endowment Assets | 5.4% | -1.8% | 10.4% | 5.6% | 8.3% | 4.8% | $ 2,272,824 | 100.0% | |
| 5 Recommended Policy Benchmark | 5.0% | -2.1% | 9.2% | N/A | N/A | N/A | | | |

1 The Public University Fund (P.U.F.) policy guidelines define investment allocation targets based upon total participant dollars committed.
Core balances in excess of liquidity requirements for the participants are available for investment in the Intermediate-Term Pool and the Long-Term Pool.
Maximum core investment allocations are determined based upon anticipated average cash balances for all participants during the fiscal year.

2 The Oregon Intermediate-Term Pool's benchmark was changed from the Bank of America/Merrill Lynch U.S. Aggregate 3-5 Years on June 30, 2015.

3 The Long-Term Pool's benchmark was changed from the Bank of America/Merrill Lynch U.S. Aggregate 5-7 Years on October 15, 2015.

4 The historical returns presented combine the investment returns from the predecessor fund with the investment returns of the P.U.F.,
for investments with an identical mandate. The predecessor fund commingled all public universities operating assets into a cash and investment pool.

5 Recommended Policy Benchmark Composition: 70% Morgan Stanley Capital Indices All-Country World Investable Market Index Net , 30% Bloomberg Barclays Aggregate Bond Index.

Note: Outlined returns underperfomed their benchmark.

# Public University Fund Investment Returns

| SOU Operating Assets Invested in the P.U.F. | Quarter Ended 03-31-17 | Prior Fiscal YTD | Current Fiscal YTD | 3 Year Avg. | Market Value | Asset Allocation |
|---|---|---|---|---|---|---|
| **Oregon Short Term Fund** | 0.3% | 0.5% | 0.8% | 0.7% | $ 11,260,831 | 35.4% [1] |
| **Benchmark - 91 day T-Bill** | 0.1% | 0.1% | 0.3% | 0.2% | | |
| **Oregon Intermediate Term Pool** | 0.7% | 1.7% | 0.3% | N/A | $ 13,020,963 | 41.0% [1] |
| **Benchmark – Bloomberg Barclay's U.S. Aggregate 3-5 yrs.** | 0.7% | 2.5% | -0.6% | 1.7% | | |
| **Combined Historical Returns [2]** | | | | 1.8% | | |
| **P.U.F. Long Term Pool** | 1.0% | 2.9% | -0.2% | N/A | $ 7,514,199 | 23.6% [1] |
| **Benchmark – Bloomberg Barclay's U.S. Aggregate 5-7 yrs.** | 0.8% | 4.2% | -1.4% | 2.9% | | |
| **Combined Historical Returns [2]** | | | | 2.5% | | |
| **SOU Operating Assets Invested in the P.U.F.** | 0.6% | 1.4% | 0.3% | | $31,795,993 | 100.0% |

[1] The Public University Fund (P.U.F.) policy guidelines define investment allocation targets based upon total participant dollars committed. Core balances in excess of liquidity requirements for the participants are available for investment in the Intermediate-Term Pool and the Long-Term Pool. Maximum core investment allocation are determined based upon anticipated average cash balances for all participants during the fiscal year.

[2] The historical returns presented combine the investment returns from the predecessor fund with the investment returns of the P.U.F., for investments with an identical mandate. The predecessor fund commingled all public universities operating assets into a cash and investment pool.

# SOU Endowment Investment Returns

| SOU Endowment Assets | Quarter Ended 03-31-17 | Prior Fiscal YTD | Current Fiscal YTD | 3 Year Avg. | Market Value | Asset Allocation |
|---|---|---|---|---|---|---|
| BlackRock A.C.W.I I.M.I. B | 6.9% | -4.6% | 14.4% | 5.4% | $ 1,633,596 | 71.9% |
| Benchmark – M.S.C.I A.C.W.I I.M.I. Net | 6.8% | -4.9% | 14.2% | 5.1% | | |
| Western Asset Core Plus Bond Fund | 1.9% | 3.6% | 1.2% | 4.3% | $ 633,201 | 27.9% |
| Benchmark – Bloomberg Barclay's U.S. Aggregate Index | 0.8% | 3.7% | -1.7% | 2.7% | | |
| Cash | 0.3% | 0.5% | 0.8% | 0.7% | $ 4,320 | 0.1% |
| Benchmark – 91 day T-bill | 0.1% | 0.1% | 0.3% | 0.2% | | |
| Arrowstreet Tax Reclaim Receivable | | | | | $ 1,797 | 0.1% |
| Total SOU Endowment Assets | 5.4% | -1.8% | 10.4% | 5.6% | $ 2,272,824 | 100.0% |
| Recommended Policy Benchmark [1] | 5.0% | -2.1% | 9.2% | N/A | | |

[1] Recommeded Policy Benchmark Composition: 70% Morgan Stanley Capital Indices All-Country World Investable Market Index Net, 30% Bloomberg Barclays Aggregate Bond Index.

# Public University Fund updates

- January 2017 - Investment Policy changes approved by the OSU Board
- January 2017 - OSU establishes a framework to guide future P.U.F. investment policy change requests
    - Changes require consent by the majority of participating universities prior to approval
- April 3, 2017 - Core Bond Fund initiated, includes fossil fuel divestment

# Presentation of 2017-18 Budget Draft for All Fund Types and Review of Pro Forma

# Goal: Alignment Between the Pro Forma and the 2017-18 Budget

- Pro Forma = proxy for the Budget
- Degree of trust in the Pro Forma
- Decisions have been made on the Pro Forma
- First opportunity to validate Pro Forma

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Southern OREGON UNIVERSITY

| SOUTHERN OREGON UNIVERSITY EDUCATION AND GENERAL | | | | | |
|---|---|---|---|---|---|
| **Code** | **Title** | **FY17 Adopted** | **FY18 Draft** | **Proforma** | **Variance** |
| **REVENUE** | | | | | |
| 1000 | Enrollment Fees | 35,614,499 | 38,374,145 | 38,048,000 | 152,873 |
| 2500 | Resource Redistribution | 21,522,508 | 20,304,196 | 20,095,000 | 208,900 |
| | Total Misc. Other | 1,860,343 | 1,937,293 | 1,988,000 | (50,707) |
| SUBTOTAL REVENUE | | 58,997,350 | 60,615,634 | 60,131,000 | 311,066 |
| **LABOR** | | | | | |
| 10100 | Unclassified Salaries | (20,377,562) | (22,060,470) | (22,920,835) | 894,730 |
| 10200 | Unclassified Pay | (2,823,257) | (2,965,841) | (2,097,977) | (856,314) |
| 10300 | Classified Salaries | (6,161,146) | (6,356,794) | (6,673,982) | 318,782 |
| 10400 | Classified Pay | (155,922) | (153,046) | | (153,046) |
| 10500 | Student Pay | (1,273,751) | (1,298,595) | (1,311,964) | 17,763 |
| 10600 | Grad Asst/Res Phys/Dent/Clin Fellws | (145,413) | (145,413) | (162,005) | 16,592 |
| 10700 | Benefit Compensation | (5,000) | (5,000) | | |
| 10900 | Other Payroll Expenses (OPE) | (16,195,910) | (18,164,607) | (17,908,081) | |
| | Vacancy Factor | | 1,275,141 | 1,068,000 | 207,141 |
| SUBTOTAL LABOR | | (47,137,961) | (49,874,625) | (50,006,844) | 132,219 |
| **DIRECT EXPENDITURES** | | | | | |
| 20000 | Services & Supplies Expense | (12,031,934) | (11,823,179) | | |
| 26000 | Debt Investment Related | (414,636) | (415,949) | | |
| 40000 | Capital Outlay (Capitalized) | (140,704) | (140,704) | | |
| 79000 | Internal Sales Reimbursement | 3,470,398 | 3,082,550 | | |
| SUBTOTAL DIRECT EXPENDITURES | | (9,116,876) | (9,297,282) | (9,010,000) | (287,282) |
| **TRANSFERS** | | | | | |
| 91000 | Transfers In | 298,663 | 130,142 | | |
| 92000 | Transfers Out | (2,144,687) | (2,185,073) | | |
| SUBTOTAL TRANSFERS | | (1,846,024) | (2,054,931) | (1,901,000) | (153,931) |
| Net Change in Fund Balance | | 1,196,489 | (611,204) | (786,844) | 2,072 |
| Beginning Fund Balance | | | 6,876,000 | 6876000 | |
| Ending Fund Balance | | | 6,264,796 | 6089156 | |
| Percent of Revenue | | | 10.3% | 10.1% | |

# Presentation of 2017-18 Auxiliary Budget Drafts: Athletics and Housing

# Housing

- Elements of Housing Operations
  - Residence Halls
  - Rental Housing
  - North Campus Village
- How they roll up

# Residence Halls

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| | Res Halls | NCV Sett | SOU Dining |
|---|---|---|---|
| Category | | | |
| Tuition, Fees | (300,000) | | - |
| State Aid | - | | - |
| Misc Oth | 4,817,750 | 211,400 | 1,023,500 |
| Total Revneue | 4,517,750 | 211,400 | 1,023,500 |
| | | | |
| Labor | (1,456,900) | | (180,040) |
| S&S | (2,782,015) | | (1,032,503) |
| Total Direct Exp | (4,238,915) | - | (1,212,543) |
| | | | |
| Trans In | 340,704 | | 394,228 |
| Trans Out | (355,704) | | (394,228) |
| Net Trans | (15,000) | - | - |
| | | | |
| Net of Ops | 263,835 | 211,400 | (189,043) |

# Residence Halls + Rental Housing

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| | Res Halls | Rental Housing |
|---|---|---|
| Category | | |
| Tuition, Fees | (300,000) | - |
| State Aid | - | - |
| Misc Oth | 6,052,650 | 1,932,490 |
| Total Revneue | 5,752,650 | 1,932,490 |
| | | |
| Labor | (1,636,940) | (292,106) |
| S&S | (3,814,518) | (1,429,229) |
| Total Direct Exp | (5,451,458) | (1,721,335) |
| | | |
| Trans In | 734,932 | 323,615 |
| Trans Out | (749,932) | (323,615) |
| Net Trans | (15,000) | - |
| | | |
| Net of Ops | 286,192 | 211,155 |

# Res. Halls + Rental + North Campus Village

**DRAFT**

| | Housing | NCV |
|---|---|---|
| Category | | |
| Tuition, Fees | (300,000) | - |
| State Aid | - | - |
| Misc Oth | 7,985,140 | 6,196,000 |
| Total Revneue | 7,685,140 | 6,196,000 |
| | | |
| Labor | (1,929,046) | - |
| S&S | (5,243,747) | (6,178,583) |
| Total Direct Exp | (7,172,793) | (6,178,583) |
| | | |
| Trans In | 1,058,547 | 4,816,616 |
| Trans Out | (1,073,547) | (4,816,616) |
| Net Trans | (15,000) | - |
| | | |
| Net of Ops | 497,347 | 17,417 |

< Includes $1.4 M Land lease paid to Housing & General Fund

< Includes $1.4 M Land lease paid to Housing & General Fund

# Total Housing

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| | Total Housing |
|---|---|
| Category | |
| Tuition, Fees | (300,000) |
| State Aid | - |
| Misc Oth | 14,181,140 |
| Total Revneue | 13,881,140 |
| | |
| Labor | (1,929,046) |
| S&S | (11,422,330) |
| Total Direct Exp | (13,351,376) |
| | |
| Trans In | 5,875,163 |
| Trans Out | (5,890,163) |
| Net Trans | (15,000) |
| | |
| Net of Ops | 514,764 |

Southern OREGON UNIVERSITY

# Athletics: Sources of Support

**DRAFT**

| | Sources of Support | | | |
|---|---|---|---|---|
| | General Fund | Activity Courses | Housing | Student Life |
| Category | | | | |
| Tuition, Fees | | 391,149.00 | | 1,217,546.00 |
| State Aid | | 127,070.00 | | - |
| Misc Oth | | - | | - |
| Total Revneue | | 518,219.00 | - | 1,217,546.00 |
| | | | | |
| Labor | | 141,769.00 | | - |
| S&S | | 5,000.00 | | - |
| Total Direct Exp | | 146,769.00 | - | - |
| | | | | |
| Trans In | | - | | - |
| Trans Out | (1,400,644.00) | (371,450.00) | (50,000.00) | - |
| Net Trans | (1,400,644.00) | (371,450.00) | (50,000.00) | - |
| | | | | |
| Net of Ops | (1,400,644.00) | - | (50,000.00) | 1,217,546.00 |

# Breakout of General Fund Support

**DRAFT**

| General Fund breakdown | | | |
|---|---|---|---|
| Prior Year base: | 764,560.00 | | |
| Assumption from housing: | 50,000.00 | New Base for 2017-18 | |
| 1/2 COLA/PERS/Etc. increase | 148,108.00 | | |
| Sports Band | 35,000.00 | | |
| Travel Reserve | 200,000.00 | < adjusted annually | |
| Post season Travel | 202,976.00 | < adjusted annually | |
| | 1,400,644.00 | | |

Note: Reserve and Post Season travel were included in prior year General Fund support. However, they are adjusted annually, so they are not considered part of the "Base," but are not new inclusions to the total support to Athletics.

# Athletics Operations

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| | Athletics Operations | | | |
|---|---|---|---|---|
| | Des Ops | Auxiliary | Gift Ops | Total |
| Category | (sports camps) | | | |
| Tuition, Fees | - | 1,217,546.00 | - | 1,217,546.00 |
| State Aid | - | 401,824.00 | - | 401,824.00 |
| Misc Oth | 105,000.00 | 99,000.00 | - | 204,000.00 |
| Total Revneue | 105,000.00 | 1,718,370.00 | - | 1,823,370.00 |
| | | | | |
| Labor | 10,157.00 | 2,349,134.00 | - | 2,359,291.00 |
| S&S | 74,343.00 | 1,445,325.00 | - | 1,519,668.00 |
| Total Direct Exp | 84,500.00 | 3,794,459.00 | - | 3,878,959.00 |
| | | | | |
| Trans In | - | 1,842,594.00 | - | 1,842,594.00 |
| Trans Out | (20,500.00) | - | - | (20,500.00) |
| Net Trans | (20,500.00) | 1,842,594.00 | - | 1,822,094.00 |
| | | | | |
| Net of Ops | - | (233,495.00) | - | (233,495.00) |

Note: Net of Transfers Out from Support funds + Sports Camp transfers out = Total Transfers In to Athletics:
$1,400,644 + $371,450 + $50,000 + $20,500 = $1,842,594

# HECC Update and Next Steps

# Future Meetings

# Adjourn