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

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.

Date: May 18, 2017

Respectfully submitted by,

Sabrina Prud'homme

Sabrina Prud'homme
University Board Secretary