Board of Trustees
Finance and Administration Committee Meeting

Thursday, July 14, 2016
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 4:01 p.m. He welcomed SOU Foundation (SOUF) Vice President Marc Bayliss to the meeting and announced that incoming President Schott might view the live stream of the meeting but would not participate in the meeting. Chair Nicholson reviewed the agenda and noted that items would be taken out of order to accommodate presenters' schedules.

The following committee members were present: Paul Nicholson, Lyn Hennion, Jeremy Nootenboom, April Sevcik and Dennis Slattery. Trustee Les AuCoin participated by videoconference. Trustee Steve Vincent was absent. Trustee Joanna Steinman attended a portion of the meeting.

Other meeting guests included: Craig Morris, Vice President for Finance and Administration; Jason Catz, General Counsel; Dr. Susan Walsh, Provost and Vice President for Academic and Student Affairs; Liz Shelby, Government Relations; Marc Bayliss, SOU Foundation; Steve Larvick, Director of Business Services; Drew Gilliland, Director of Facilities Management and Planning; Chris Stanek, Director of Institutional Research; Gordon Carrier, Computing Coordinator; Shane Hunter, Senior Financial Management Analyst; Janet Fratella, Vice President for Development; Ryan Schnobrich, Internal Auditor; Vicki Forehand, SOU; Olena Black, League of Women Voters; Sabrina Prud'homme, Board Secretary; and Kathy Park, Executive Assistant.

Trustee Slattery moved to approve the June 16, 2016 meeting minutes as drafted. Trustee Sevcik seconded the motion and it passed unanimously.

Public Comment

There was no public comment.

HECC Update

Craig Morris introduced the item by briefing the committee on the process for building the HECC agency request budget and moving the proposed budget to the governor's office then ultimately to the legislature for the legislatively approved budget.

In their original budget submission, the seven universities increased the amount of money requested from $665 million to $765 million. The HECC's recommendation to the commissioners was $943 million. For SOU, this would be an increase of $12.5 million over the 2015-17 biennium. If the Public University Support Fund were increased to $943 million, SOU indicated it would continue expanding Hispanic-serving programs, work with regional high schools to implement accelerated and low cost degree programs for underrepresented populations, and engage faculty in collaborative efforts that focus on general education/gateway courses with high failure rates.

If SOU received more than the requested amount, Mr. Morris said SOU would continue to raise tuition in a conservative fashion but remit a portion of the increase back to resident students as long as the state continued to fund the universities. SOU's large WUE population would continue to pay 150 percent of the increased resident tuition rate. This would fulfill the legislature's intent of spending additional money on Oregonians, not out of state students. Also, by continuing to raise tuition even with additional state funding, SOU would benefit from the significant growth of tuition revenue in future years.

Discussion ensued regarding the possibility that the proposed corporate tax measure was the basis for the increase in the HECC's request, possible consequences if the measure passes and the need to protect SOU and its students in that event.

Liz Shelby addressed Policy Option Packages (POPs) and how they are used to develop the legislatively approved budget. POPs, which are done every two years, are a complementary part of establishing budgets for all state agencies. The Department of Administrative Services reviews the POPs and forwards them to the governor, whose priorities determine which POPs are included in her recommended budget. The legislature can accept the governor's budget or adopt its own. Ms. Shelby added that the board does not need to get engaged in any discussions at this point. However, when the governor's budget is shaping up, trustees may be asked to have conversations on behalf of SOU's legislative priorities.

Vice President's Report

Craig Morris provided an update on the testing for lead in the water on campus, saying samples have been drawn from all buildings on campus that were built before 2000 and approximately 80 percent of the tests are back. Of those received, there were problems in the Education/Psychology building (two water fountains were over the EPA standard and a sink in the preschool was at about 75 percent of the EPA standard) and Britt Hall (a sink in a laundry facility exceeded the EPA standard). All of the issues are fixture-related, not water source-related. All the necessary fixtures are being replaced and will be retested. Facilities Maintenance continues to communicate with the campus and posts test results on its website.

Turning to the financial dashboard, Mr. Morris said SOU is at target on operating cash and all other components are in line. All three components of selected E&G expenses (Labor, OPE and S&S) are below the burn rate.

Addressing the enrollment dashboard, Chris Stanek said he updated the chart with summer numbers, which are considerably smaller than fall, winter and spring data. The dashboard will soon be adjusted for fall. Degree applications were up over end of June last year. On the completions report, Mr. Stanek noted the large jump to 587 in the number of degree awards, saying this is the time of year when a large number of degree applications are submitted, processed and awarded. In the two weeks since the report was prepared, the number of degrees awarded increased to 800. There was a three percent increase in bachelor's degree applications compared to this time last year.

President's Residence (Action)
Chair Nicholson introduced this item, saying $146,000 for renovations is significant, and stressed that the renovations are not cosmetic. The improvements will enhance the value of the house and increase the president's enjoyment in living and entertaining there. Some maintenance was handled after the Saigos moved in, but more remains.

Chair Nicholson stressed two points: 1) the committee's responsibility is to make recommendations without reference to the incoming president. The committee does not want to give a false impression that the incoming president requested any renovations. The board and staff involved can attest this is work that really needs to be done; 2) the renovations are long overdue and it is highly desirable to have it completed before the new president moves in rather than having people work around her and her family. The president is required, by contract, to live in the house and use it to host events and meetings on a regular basis. Chair Nicholson emphasized that incoming President Schott has not yet seen the house. This issue was discussed during a presidential search committee meeting and also comes with a strong recommendation from the search firm.

Trustee AuCoin was dismayed SOU let the presidential residence get to this state and said it seems it would impair the ability of a president to fully perform his or her function. Mr. Morris said President Cullinan gave a direct order that no work was to be done on the house and she did not want any possibility of accusations that she feathered her own nest. Responding to Trustee Slattery's concern, Mr. Morris said SOU receives a deferred maintenance budget from the state each biennium that can be used in the future on the presidential residence. The current list of recommended improvements takes SOU substantially down the road on the maintenance plan for the residence. Mr. Morris discussed the need for renovations with the incoming president only after she accepted the position. Jason Catz confirmed the repairs are need-based and were not part of the contract negotiations. Mr. Morris said the president and her family will temporarily reside in a furnished house and added that they have been very gracious about accepting the alternate living arrangements.

Responding to Trustee Sevcik's inquiries, Mr. Morris said the presidential residence appraised at $650,000 three years ago. Mr. Gilliland added, SOU would hire an interior designer then bid the project out to three on an approved list of contactors who often perform work on campus. Mr. Morris said deferred maintenance money, not the operating budget, would fund the improvements.

Trustee AuCoin moved that the Finance and Administration Committee approve an estimated budget of $140,000 to $150,000 for deferred maintenance, repairs and related renovations on the SOU president's residence. With this motion, the committee further authorized the vice president for finance and administration to take such actions necessary to complete this project within standard university procedures and contracting guidelines. Trustee Hennion seconded the motion and it passed unanimously.

Responding to Chair Nicholson's inquiry, Mr. Catz clarified that this does not require approval by the full board and that the delegation of authority is for contracts under $500,000. However, because of the prominence of the improvements and for transparency, Mr. Morris wanted to bring it to the committee.

Year-end Closing: Process and Timeline
Steve Larvick reviewed the timeline and process for year-end closing, highlighting the opening and soft and hard closing dates of the fiscal year, preparation of the financial statement and coordination with the external auditors. Responding to Trustee AuCoin's inquiry, Mr. Morris said he asked Mr. Larvick to present this information so the committee would understand how the process works and that the budget office does not just close its books on June 30.

Overview of SOU Foundation and Office of Development
Janet Fratella began the presentation by describing the office's organizational structure, her reporting relationships, and SOU's development philosophy that passion drives philanthropy and relationships are critical.

Ms. Fratella discussed the ten-year fundraising history and highlighted the incredible $3.1 million raised in FY16, compared to the $2 million goal. In FY16, the cost of a dollar raised was $.23, which is lower than the rates in the past three years. The national average is $.20. The more money raised in extraordinary gifts reduces the cost of a dollar raised. Trustee AuCoin praised this aspect of SOU's fundraising.

The fundraising priorities are for students, programs, faculty, and infrastructure. Historically, scholarships have been the largest. Only 8 percent of philanthropic support comes from alumni; 40 percent comes from other individuals, which shows SOU is largely supported by people in the community who care about the institution.

Marc Bayliss said SOUF is a 501(c)(3) nonprofit organization with a board of trustees but no employees and is required to have an arms-length relationship with the university. SOUF has strong affiliates, including Chamber Music Concerts, the Alumni Association, OLLI, Friends of Schneider Museum of Art, Friends of Hannon Library and Raider Club. SOUF's structure and the leadership it provides represent a diverse background and SOUF wants to increase its diversity as it moves forward. Their mission statement is: The [SOUF] exists to secure private philanthropic support to advance SOU and to invest and manage gifts responsibly to honor donors' wishes.

Mr. Bayliss said SOUF's goal is to be a $5 million-a-year foundation by 2021. It took a big step in that direction by realizing a year-long effort that helped raise $3.1 million without any extraordinary gifts and with only eight full-time employees.

There's a reciprocal relationship between the Office of Development and SOUF – the former raises the money and the latter invests and manages the money. Trustee AuCoin asked how decisions are made to draw from and use the funds for different purposes for the institution. Ms. Fratella said much of that is determined by donor intent and direction; 96 percent of the money raised is for restricted purposes and 4 percent is used for operations and needs in the president's office.

Responding to Trustee AuCoin's comment about variables affecting the budget, Mr. Bayliss explained the philosophical shift in Oregon universities. For the University of Oregon and the growth in its foundation, much of the money available, especially from corporate support, is based on the university's classification as a research institution. In comparison, SOU is a teaching university. The payoff depends on the type of university at issue. Trustee AuCoin stressed the need to raise funds to cover budget-relieving expenses, such as named professorships. Ms. Fratella said a prior SOU president charged SOUF with raising scholarship funds. However, once SOU develops its strategic plan, SOUF will follow suit. Since donors support what they are passionate about, it is not likely their donations will be budget-relieving. In contrast, alumni donations are most likely to be budget-relieving; SOUF will be nurturing those relationships but it will be three to five years before efforts are realized.

The contract between SOU and SOUF addresses the use of the university's name and logo; identifies who has voting rights on the SOUF board; details gift acceptance and management; details the flow of funds between the organizations; clarifies that both organizations will comply with university and SOUF policies; and details the support each organization provides. This contract is reviewed every year.

Ms. Fratella then discussed the $27.6 million in SOUF assets, operating revenue and the budget model. Responding to Chair Nicholson's inquiry about who decided how much money SOU would provide and how it is split, Mr. Morris said it has been the organizational structure for many years and there has never been enough in SOU's operating budget to increase number of staff in the Office of Development yet, to decrease the number of staff would decrease fundraising capabilities. Pursuing the issue further, Chair Nicholson said one could argue that a good employee would generate 2-4 times more than his or her salary in contributions. Ms. Fratella concurred and added that it takes about three years for a new portfolio to start producing.

SOU and SOUF have a combined endowment of $26 million - $2 million for SOU and $24 million for SOUF. Responding to Trustee Steinman, Ms. Fratella said donors like to see a large endowment. Discussions about endowments show donors that you believe in the long-term health of the institution. On the other hand, if you ask for operating dollars, donors think the institution is in trouble. Ms. Fratella then discussed the steady growth in SOUF's endowment over the past six years, the investment management component, and endowment performance. There is steady monetary support from SOUF to SOU.

Ms. Fratella discussed the peer comparison study she conducted last fall, comparing three-year averages in private support and ten-year growth in endowment. She then discussed SOU's aspirational peer group, institutions that raise $5-$10 million annually, and what those institutions are doing that SOU is not. The most interesting aspect is the alumni solicitations, an area in which SOU has a lot of room for growth.

Ms. Fratella offered several observations and conclusions from the peer comparison studies. She found a direct correlation between fundraising revenue and sustained investment in external relations; the level of staffing impacts fundraising results; alumni can impact long-term fundraising success significantly; as people age, they give more often and larger amounts; and that campaigns motivate but must be funded.

To more than double the funds raised, Ms. Fratella discussed opportunities and threats. In planning the path forward, several resources are needed: solid development infrastructure; a funding model that addresses growth; a vision; a set of donor-sensitive fundraising priorities; and active and engaged boards.

In FY15-16, the focus has been on updating alumni records and other data, assigning major gift prospects and recalibrating the annual giving program with interest-area solicitations. In the gift and pledge area, the focus has been: the forecasting model to track proposals and corresponding gift revenue; pipeline development; and raising donor sights. Additional focus has been on The Raider publication sent to alumni and on reinvigorating the President's Circle recognition program. To reach the five-year fundraising goal of $5 million, Ms. Fratella noted that the university would need to increase its investment in the development operation. She also reviewed the budget model for growth and predictable versus unpredictable sources of revenue in order to achieve a balance.

Adjourn
Chair Nicholson adjourned the meeting at 6:04 p.m.

Date: September 15, 2016

Respectfully submitted by,

Sabrina Prud'homme

Sabrina Prud'homme
University Board Secretary