

**Board of Trustees
Finance and Administration Committee Meeting
Thursday, October 20, 2022**

MINUTES

Call to Order/Roll/Declaration of a Quorum

Committee Chair Franks called the meeting to order at 4:01 pm. He welcomed all to the fall meeting and thanked the new trustees for their service on the committee: Katherine Cable, Andrew Gay, Christina Medina, and Liz Shelby.

Board Secretary Sabrina Prud'homme called the roll and a quorum was verified.

Committee Members:

Katherine Cable	Present	Christina Medina	Present
Sheila Clough	Present	Liz Shelby	Present
Shaun Franks, Chair	Present	Bill Thorndike	Present
Andrew Gay	Present		

Other trustees in attendance: Daniel Santos and President Rick Bailey.

Public Comment

No members of the public provided comments.

Consent Agenda (Action)

Trustee Thorndike moved to approve the consent agenda. Trustee Gay seconded the motion. Trustee Shelby abstained citing her absence from the meeting. With all other trustees present voting affirmatively, the motion passed.

Vice President's Report

Organizational Updates

Vice President Greg Perkinson announced that Bees Walker was promoted to Director of Sustainability. She is a part of the Institute of Applied Sustainability and provides expertise for the exciting activities happening at SOU including the recent award of a million-dollar grant, with others in process. Leon Crouch, who has been with SOU for 20 years, was promoted to Director of Facilities Management and Planning (FMP). He attributed the great FMP accomplishments at SOU to Leon's touch and intelligence.

Higher Education Coordinating Commission (HECC) Updates

Regarding the capital improvement and renewal funding as well as deferred maintenance funding, SOU typically receives about \$5 million in a biennium. Mr. Perkinson informed trustees that SOU can use those bonds at its discretion as long as it fits within "their guardrails." The HECC is allocating additional funds for SOU received in the short session, approximately \$2 million for cost escalation. There is also a repetitive discussion of real property and whose responsibility it is; while it is not totally certain, Mr. Perkinson thinks it has been determined that it is the state's property and therefore, the state's responsibility.

Transformations in Business Affairs

Mr. Perkinson referred to a model for transformation that includes people, processes, technology, and tools. Workday will improve and standardize processes that enable people to have the tools to transform work and he offered specific examples in payroll and other business services operations. The facilities and housing areas have touchpoints for maintenance and because of this, will work within a different platform; Workday does not support such activities and future integration will be necessary.

Vice Chair Clough was impressed with the re-engineering of the process as SOU transitions to Workday and emphasized the need to employ an equity lens. Tom Battaglia responded that this transition to Workday is a perfect time to focus on equity and processes intentionally. Workday will provide people-tracking and information such as pay equity, employee demographics, in a dashboard format. Vice President Perkinson committed to further exploration and updates to the committee.

Action, Information, and Discussion Items

Financial Sustainability

President Bailey introduced the item noting that cost management is only one part of the approach to financial sustainability. Within cost management there are two tiers: what are we going to stop doing or do more efficiently, like the Computer Information System Replacement (CISR) project and secondly, what are we going to stop paying for, or pay a lot less for, like energy and the solar project? The opportunity is to change the fiscal model of the institution as well as an opportunity for SOU to lead the nation in diversifying revenue and not relying on tuition as a primary source of it.

Mr. Perkinson provided an overview of Strategic Direction #5 which is to maintain financial stability and invest for institutional vitality. He added that financial sustainability requires attacking both sides of the revenue and expense equation.

Revenue Forecast

Josh Lovern reviewed the revenue streams, as presented in the meeting materials. Tuition and fees are expected to bring in 57 percent of SOU revenue, state funding is projected to bring in 39 percent, and miscellaneous revenues are projected at 4 percent. Because enrollment is down, state funding represents a larger portion of SOU's revenue than it has in the past. This does not mean SOU is receiving more state funding, it is just a larger proportion since enrollment is down.

Driving miscellaneous revenues, SOU refinanced debt in student housing to create liquidity by getting a lower rate and interest-only payments in first three years, resulting in about \$4.1 million. During the pandemic, bad debt allowance grew from about \$400,000 to \$600,000 for student debt and since then has doubled. As students repay debt, this will improve.

Regarding state funding Mr. Perkinson provided an overview of the work underway to maximize gains in the funding model and ultimately, in state funding. Mr. Lovern described the history and revisions made to the student success and completions (SSCM) funding model two years ago. He responded to several trustee questions noting that opportunities exist for SOU to increase funding through degree types are scored in

the SSCM, certificates, counting of bilingual students, and others. Responding to additional questions, President Bailey said the SSCM will not be used to drive decisions but will be optimized so that SOU receives credit for what it already is doing. Provost Walsh gave the example of issuing certificates, which are rewarded in the SSCM, instead of minors. Mr. Lovern gave another example of the Emerging Media and Digital Arts (EMDA) program: Those courses were coded as art courses but when evaluating the course description, it was determined that some could be coded better as *computer science coding* or *audio engineering* courses, which provide higher scoring in the SSCM.

President Bailey discussed alternative revenue streams. He celebrated the \$1M SOU received for solar energy production and noted that SOU continues to await a \$2M appropriation from congress. On the Cascade housing project, President Bailey and Mr. Perkinson will go to Tempe to visit a project at Arizona State. SOU will utilize state funding to demolish the Cascade facility responsibly and while doing so, will investigate the possibility of preparing the land to make the future project easier. He also reminded the committee of the University District Business Accelerator a Workday Training Center, and thanked Gene Pelham of the SOU Foundation Board for helping to make connections regarding the latter. Trustees engaged in further discussion of the benefits of the Cascade and Workday projects and their potential for credit-creating opportunities under the SSCM.

Cost Management Update

Mr. Lovern reviewed the Education and General (E&G) expense elements as presented in the meeting materials. Labor and other personnel expenses comprise 78 percent of the total expense portfolio and there is very little flexible spending available. At 22 percent, supplies and service costs have increased due to utilities.

Regarding the SOU realignment, President Bailey provided a review of the September 20th all-call breakfast and the strategies for cost management using guiding principles such as integrity; compassion; transparency; being student-centered; and equity, diversity, and inclusion (EDI). The university has pledged to look at everything through an EDI lens. The program analyses are of Academic Affairs, Enrollment Management and Student Affairs, Athletics, Finance and Administration, and University Advancement. The approach is to evaluate the areas using both quantitative and qualitative data. The data are being collected and posted to the President's webpage; more will continue to be posted when they are available. There have been no predetermined decisions, as it would be premature before analysis of the data.

President Bailey reviewed the timeline with a pledge to implement by June 2024. He shared his concern about being too rigid and coming up with an algorithm that will cause departments to compete with one another. He hopes to have a plan to the board by spring 2023 in order to work with those affected on a case-by-case basis.

Regarding changing the cost model and things the university can stop paying for or pay a lot less for including the solar energy and CISR projects, President Bailey answered Trustee Cable that he originally thought it would cost about \$1M per megawatt and that this has most likely increased due to inflation and supply chain. The goal is for SOU to produce 7.2 megawatts. Even with \$3M in grants, additional funding will be

needed. There was some discussion on the momentum and what is to come including the need to be nimble while focusing on the overall strategy.

Mr. Perkinson discussed the programmatic analysis for the Finance and Administration portfolio as presented in the meeting materials. He reviewed the quantitative and qualitative factors and the transformation of systems and processes that will be realized by Workday. There was some discussion among trustees regarding consistent approaches across divisions culminating in the same process, including collecting data, analyzing data, communicating, planning, making decisions, and deployment. Trustee Clough cautioned not to bank on CISR in terms of large savings in productivity.

Vice President Janet Fratella provided a brief overview of the qualitative and quantitative measures within University Advancement as presented in the meeting materials. She noted that a unique aspect of her division is that some employees are partially or fully funded by the foundation. She gave examples that included the Osher Lifelong Learning Institute, which is funded by an endowment and that about 50 percent of fundraisers' salaries are paid by the foundation. She pointed out that many of the departments have a single person and therefore, any reduction in staffing would mean that the program/department would be eliminated. On the qualitative side, she asked her team to think of their own performance indicators. She expressed her belief that by collaborating with others on campus, the impact would be bigger and provide cost savings. She stated that she is also looking at outsourcing.

Mr. Perkinson said the path forward includes continued austerity and transparency; long-term plans to bend the cost curve through innovation and transformation; stabilizing revenue post-pandemic; and developing alternative sources of revenue.

Budget Forecast and Review of Pro Forma

Greg Perkinson provided an overview on the budget forecast and the pro forma and pointed out a change to the pro forma structure of year-to-date actuals with "estimate to complete."

Mr. Lovern highlighted key points: SOU saw growth in non-resident student credit hours as students transitioned back to in person classes; tuition revenue went up about 4 percent per credit and overall is slightly higher; expenses also have increased. Other changes in the model show Academic Partnerships (AP) as a separate line that is no longer included in Supplies and Services. Much discussion ensued on the AP relationship and modeling in the pro forma with questions from Trustee Cable; Vice President Perkinson suggested he and Trustee Cable consider this separate topic "offline" from the meeting; Trustee Cable agreed to this.

Mr. Perkinson reviewed the fund balance on the pro forma. He pointed out that the 10.92 percent forecast was slightly better than in June [at 8 percent] because in June, SOU assumed labor vacancies would be filled and many were not. Another contributing factor was the refinance in housing. Trustees discussed whether the assumption that a savings of \$3.6M is achievable in the fiscal year. Mr. Perkinson said it is still a manifest goal.

Core Information System Replacement Project (CISR) Update

Mr. Perkinson said CISR is transformative, as it will replace the outdated Banner system with Workday and will have two phases: HR/Finance/Payroll and Student Information Systems (SIS). This is a \$10M work effort that will drive continuous process improvement and workload reductions with a cost savings of \$800K per year. He later reviewed the implementation information presented in the meeting materials: project team, roles, approach and timeline, data security, and more. Tom Battaglia explained that the project currently is in the *architect and configure* period. A soft launch is scheduled for June 1, 2023, to allow for full launch with the new fiscal year. The implementer, Alchemy, was hired because of their expertise with both Workday and higher education. The SIS phase will begin around April 1, 2023, and is targeted to go live in May or June of 2025. Mr. Battaglia expressed appreciation for all who have been working on this project.

Fiscal Year (FY) 2022: Year-End Investment Review

Penny Burgess, Executive Director of the University Shared Services Enterprise (USSE) and Director of Treasury Management Services reviewed background information and financial results. Oregon State University (OSU) is the administrator of the Public University Fund (PUF) where assets are held for six of the seven universities and USSE is contracted to perform the majority of the administrative duties. There are short, intermediate and long-term holdings and the overall objective is to provide safety of principal and generate income by investing in quality securities, with a secondary objective to generate total return.

Ms. Burgess provided a summary of the results for the fourth quarter and a year-end summary for FY '22, assets in the PUF and endowment funds. The total return in FY '22 was 2.6 percent for an ending market value of \$20,327,555 on June 30. For the SOU endowment, which is managed in a separately held fund with the Oregon State Treasury, the total return in FY '22 was -16.3 percent for an ending market value of \$2,580,296 on June 30. The asset allocation is within the target range for this fund but the endowment assets and holdings are on watch. Per the investment policy, the annual spend is 4 percent computed on a 20-quarter trailing average of 5 years. Ms. Burgess reviewed numerous slides on the investments and assets, as presented in the meeting materials.

Facilities and Capital Projects Update

Central Hall Phase 1.a Contract Award and Phase 1.b Project Expenditures (Action)

Vice President Perkinson sought approval for Central Hall capital project expenditures. Regarding sources of funding for the project, SOU received authorization for \$6M in Q-series bonds to renovate Central Hall. He noted that a portion of the project would be paid for using capital improvement and renewal funding, which is awarded for deferred maintenance and allows for some flexibility on how it is spent. Mr. Perkinson asked the board to approve the additional spending of \$1.2M for hazard waste removal and demolition and \$2M for other project costs for Central Hall. He underscored that the project has no impact on the general fund.

Trustees had discussion about the likelihood for phase 2 funding from the state, which Mr. Perkinson is hopeful about, and they backup plans if that is not received. Leon Crouch added that the bids received to date are encouraging following on-site walk-throughs, which signals contractors' appetites for work.

Trustee Cable moved to approve the Resolution of Central Hall Phases 1.a and 1.b. Trustee Shelby seconded the motion. The motion passed unanimously.

Proposed 2023-2024 Meeting Schedule (Action)

Chair Franks presented the schedule, which is an extension of the committee's current schedule. However, he announced that one trustee who did not previously have a conflict with the schedule now does. Therefore, Chair Franks asked the committee if they could meet later in the evening, from 5:00 p.m. to 7:00 p.m. Trustees agreed.

Trustee Gay moved to approved the 2023-24 meeting scheduled as amended. Trustee Clough seconded the motion. The motion passed unanimously.

Future Meetings

Chair Franks reminded the committee that its next meeting will be on January 19, 2023 at 5 p.m. He asked that any requests for future agenda items be submitted to himself or the board secretary.

Adjournment

Chair Franks adjourned the meeting at 6:07 p.m.

Respectfully submitted by,



Sabrina Prud'homme
University Board Secretary

Date: January 19, 2023