Committee members present included: Chair Kirk Schueler, Lynda Ciuffetti*, and Orcilia Forbes*; Allyn Ford and Farbodd Ganjifard were absent due to business conflicts.

Chancellor’s Office staff present included: Vice Chancellor Jay Kenton, Doug Botkin*, Michael Green, Ellen Holland, Nathan Klinkhammer, Karen Levear, Jan Lewis, Di Saunders, Patricia Snopkowski, Marcia Stuart, Charles Triplett, Alice Wiewel, and Denise Yunker.

Others present included: Vice Presidents Mark McCambridge (OSU), Jamie Moffitt (UO), Craig Morris (SOU), Monica Rimai* (PSU), Lon Whitaker (EOU), Eric Yanke (WOU), and Mary Ann Zemke (OIT).

*by phone

1. **CALL TO ORDER/ROLL CALL/WELCOME**

Chair Schueler called the meeting of the Finance & Administration Committee to order at 1:04 p.m.

2. **APPROVAL OF MINUTES**

   a. Approval of September 2012 minutes
   b. Approval of October 2012 minutes

   **ACTION:** Chair Schueler called for a motion to approve the September and October 2012 minutes; Directors Forbes and Ciuffetti made the motion and second, respectively. Motion carried.

3. **ACTION ITEMS**

   a. **OUS, Managerial Reporting – Quarterly Management Report**

   Chair Schueler called upon Controller Mike Green to present the report. As a preface to his report, Controller Green introduced a new single page summary report that will be used in addition to an expanded version of the existing quarterly management report format.
**Systemwide** revenues and expenditures are projected to increase compared to Fiscal Year 2012 levels by 6 and 5 percent, respectively. Tuition and resource fees are projected to increase 8 percent over FY2012; this increase is a combination of rate increases, higher student enrollment, and a change in the mix of students between resident, nonresident, distance education, WUE (Western Undergraduate Exchange). The projected increase in total expenditures of 5 percent is primarily due to increases in salary, health costs, staffing for increased student enrollment, supplies and services and capital outlay spending related to increased student enrollment. Although year-to-date burn rates for personnel services, supplies and services, and capital outlay are consistent with the prior year. The projected increases indicates a $14 million decrease in fund balance from the prior year, with a projected ending fund balance for FY2013 of 12.8 percent of operating revenues compared to 14.6 percent in FY2012. It was noted that the federal government’s budgetary situation may impact System finances if sequestration occurs. With the sequestration, campuses may need to carry the costs of related research activities via loans of Education & General (E&G) funds and/or expenditure of E&G funds, further reducing fund balances in the process.

**Eastern Oregon University** total revenues are projected to increase by 4 percent over FY2012 due primarily to a 5 percent growth in projected tuition revenues (this growth is due to rate increases as enrollment is projected to be relatively flat). Overall expenses are projected to increase by only 1 percent over FY2012, through controlling personnel services expenses by implementing a new adjunct/overload pay matrix and workload management in winter term. The fund balance is projected to decrease $800,000 from the prior year (5.2 percent of operating revenues) and will be at the lower end of the Board policy range. The $1.8 million ending fund balance is approximately one-half month of projected expenditures. Auxiliary enterprises show a projected decrease of 2 and 5 percent in revenues and expenditures, respectively; unrestricted net assets are projected to be $2.7 million, a 5 percent increase over FY2012.

In response to Vice Chancellor Kenton’s question concerning EOU’s 2-year sustainability plan, Vice President Whitaker advised that the thrust of the plan has been to stay above the 5.2 percent ending fund balance. Through academic program restructuring and a new fee matrix, Eastern would like to increase their fund balance. EOU plans to stay within a 3 percent increase in tuition as Eastern’s students cannot afford higher tuition increases.

**Oregon Tech** tuition revenues are projected to increase 13 percent compared to the prior year mainly due to enrollment and tuition increases; overall revenues are projected to increase 10 percent. Overall expenses are projected to increase 13 percent over FY2012, mainly due to increased expenses for the Wilsonville operations and increases in S&S and capital outlay overall for FY2013 as the conservative spending experienced in FY2012 could not be continued. The fund balance is projected to decrease $3.1 million or 53 percent from the prior year ending balance. The projected ending fund balance is 6.9 percent of operating revenues, which is within Board policy; although the $2.7 million ending fund balance is approximately three-quarters of a month’s projected expenditures. Auxiliary enterprises revenues are projected to increase 2 percent and expenses projected to decrease 4 percent, mainly due to outsourcing bookstore operations.
**Oregon State University** tuition revenues are projected to increase 13 percent compared to the prior year, mainly due to a 3 percent enrollment increase projection coupled with rate increases and changes in the enrollment mix. Overall expenses are projected to increase 4 percent over FY2012; mainly due to projected increases in personnel services, new hires, and increased health benefit costs. The fund balance is projected to decrease $8.5 million from the prior year ending balance and is projected to be 8.5 percent of revenues, which is within the Board policy. The $39.0 million ending fund balance is approximately one month of projected expenditures. Auxiliary enterprises revenues and expenses are projected to increase by 8 percent. Revenues are increasing mainly due to enrollment-related activities and the new PAC-12 television contract; expenses are increasing due to projected personnel services impacted by last year’s mid-year raises, new hires, and athletic personnel costs previously recorded in Education & General.

**Portland State University** tuition revenues are projected to increase by 1 percent compared to FY2012, mainly due to a slight enrollment decline, a change in student mix, and increased fee remissions offset by tuition rate increases. Total revenues are also projected to increase by 1 percent. Overall expenses are projected to increase 4 percent over FY2012, mainly due to projected increased personnel services related to salary/pay increases, new hires, and increases in health benefit costs. The fund balance is projected to decrease $11.6 million from the prior year ending balance and is projected to be 14.4 percent of operating revenues, which is within the Board policy. The $38.3 million ending fund balance is approximately 1½ months of projected expenditures. Auxiliary enterprises revenues and expenses are projected to decrease 7 and 5 percent, respectively. This is mainly due to the reduction in student health fee as insurance is no longer mandatory and the health premium is handled through an agency fund as a pass-through.

**Southern Oregon University** tuition revenues are projected to increase 6 percent compared to the prior year mainly due to tuition rate increases and student mix changes; enrollment is projected to decrease slightly. Total revenues are projected to increase 5 percent over FY2012. Overall expenses are projected to increase 2 percent over FY2012; this is mainly due to projected increases in personnel services costs. The fund balance is projected to decrease $300,000 (or 7 percent) from the prior year ending balance and is projected to be 7.2 percent of operating revenues, which is within the Board policy. The $3.6 million ending fund balance is approximately three-quarters of a month of projected expenditures. Revenues and expenses for auxiliary enterprises are projected to both decrease 2 percent.

**University of Oregon** tuition revenues are projected to increase 8 percent compared to the prior year, due mainly to nonresident enrollment projection increases coupled with rate increases. Total revenues are projected to increase 7 percent. Overall expenses are projected to increase 8 percent over FY2012 levels; due to projected personnel services increases for new hires, salary increases and higher OPE, along with increased S&S and capital outlay spending to support increased enrollments. The fund balance is projected to increase $9 million from the prior year ending balance. The projected fund balance is 16.7 percent of operating revenues, which is above the Board policy. The $71.9 million ending fund balance is approximately two
months of projected expenditures. Auxiliary enterprises revenues are projected to increase 4 percent over FY2012, due to increased Sales & Services for Global Scholars Hall and catering and athletic revenues, offset by decreases in budgeted revenues due to not budgeting for participation in post-season athletic events. Total expenses are projected to decrease 1 percent from FY2012, due mainly to not budgeting for post-season athletic events.

Vice President Moffitt updated the Committee on the UO’s fund balance. Since 2008, the UO has added close to 5,000 students and is working to get both the “human and capital structure in place” to support that increased student body. She indicated that most of the fund balance has been distributed to the schools and colleges and will be used to hire tenure-track faculty. Over 70 tenure-track faculty have been hired since 2008, but, in terms of the student: faculty ratio, there is a gap of about 60 faculty. Departments are currently in the hiring process, with a net of 18 new faculty hired within the past year. Not only are there on-going costs in terms of salary and benefits with the hiring of a new faculty member, but there are often associated start-up costs—particularly for faculty in the sciences. The University is anticipating a decrease in fund balance in FY2013 and FY2014 as these hires are put in place.

**Western Oregon University** tuition revenues are projected to increase 8 percent compared to FY2012, due mainly to tuition rate increases. Total revenues are projected to increase 7 percent. Overall expenses are projected to increase 6 percent over FY12; mainly due to projected personnel services increases for salary increases and higher OPE costs. The fund balance is projected to decrease $1 million from the prior year ending balance; and is 16.2 percent of operating revenues, which is within Board policy for WOU. The $9 million ending fund balance just under two months of projected expenditures. Auxiliary enterprises revenues and expenses are projected to increase 4 percent.

Vice Chancellor Kenton advised that this is the first year that WOU offered an alternative to the Tuition Promise program; offering in-coming students Promise (fixed rate) or variable tuition. Mr. Eric Yahnke, interim vice president for finance and administration, advised that 46 percent of new students chose the fixed-rate Promise and 54 percent the variable rate. It was anticipated that fewer students would choosing the Promise; this means higher revenue in the short term but challenges in the outlying years due to the fixed revenue stream. The majority of transfer students chose the variable rate as they have a shorter time to degree.

**Chancellor’s Office** Overall revenues are currently projected to be 24 percent higher than FY2012 due to the CO currently having $3.2 million in state funding that will be reallocated to campuses for incentive funding and regional support. Adjusting for this, total revenues are projected to be basically flat compared to FY2012. Overall expenses are projected to decrease 4 percent over FY2012; mainly due to reduced S&S expenses from lower statewide assessments and less spending on OMI and ETIC, offset by projected personnel services increases for new hires and the cost of health care. The fund balance is currently shown to increase $2.6 million. However, $3.2 million is earmarked for campuses and the fund balance projection will be changed once the funding is allocated. Adjusted for this, the fund balance would be projected to decrease by $600,000. The resulting $2.5 million balance is approximately 14.9 percent of
revenues, down from 22.6 percent in FY2012 and 26.9 percent in FY2011; this is a little more than two months of projected expenditures.

Vice Chancellor Kenton acknowledged that there is a potential for a federal sequestration impact on System finances, affecting many research projects, supplemental educational opportunity grant program, and college work-study programs. If no action is taken by Congress, the funding agencies will translate how sequestration is applied and what activities are suspended or reduced. It is estimated that this could have a $33.2 million impact on OUS. If universities decide to go forward with current aid and work-study plans and sequestration occurs, then the universities will need to backfill the expense from Education & General funds. In that event, fund balances will help alleviate the negative impacts. At Director Schueler’s comment that the impact will be felt most at the larger research institutions, Vice President McCambridge estimated an impact of $18 to $19 million at Oregon State.

**ACTION:** Following the discussion, Chair Schueler called for a motion to accept the quarterly management report dated September 30, 2012. Directors Lynda Ciuffetti and Orcilia Forbes made the motion and second, respectively; motion carried.

**b. OUS, Report on Investments – As of September 30, 2012**

Chair Schueler called upon Ms. Karen Levear, Director of Treasury Operations, to present the investment report. During the quarter, risky assets performed well due to the Federal Reserve’s policy shift to encourage further stimulation; however, as a result of the recent elections, that has had a turn-around. The Higher Education Endowment Fund returned 4.7 percent for the quarter; annualized, that’s close to 20 percent. At the end of September, the Oregon Treasury placed $3 million with a new property fund manager, the Morgan Stanley Prime Property Fund. She opined that this was a positive decision and will have a positive effect for the System. Assets have been pooled for investment purposes and $2.7 million in investment earnings were paid during the past quarter.

She indicated that, at her last report, she reported timber land was scheduled to be sold and the funds given to the OUS portfolio; however, the lands were subsequently sold and the monies given directly to the OSU foundation instead.

A refunding bond sale is available in January 2013, which is approximately $90 million and, if refunded, about $9 million savings can be realized over the life of the bonds. The System has approximately $50 million in existing bond authority that can be sold during this sale for projects upon approval by the Committee in December. The Committee had consensus for the bond sale be presented at the December 21 meeting for approval.

**ACTION:** Following the discussion, Chair Schueler called for a motion to accept investment report dated September 30, 2012. Directors Forbes and Ciuffetti made the motion and second, respectively; motion carried.
c. Senate Bill 242 Recommendations and Reports: Optional Retirement Plan and Health & Welfare Insurance Plan Options

**Optional Retirement Plan (ORP) Options:** Vice Chancellor Kenton introduced the item noting that this item was reviewed by the full Board in October. At that meeting, the full Board delegated authority to the F&A Committee to accept the report and draft the transmittal letter to the legislature. Subsequent to the October Board meeting, Kenton, Ms. Denise Yunker (Chief Human Resources Officer), and Mr. Nathan Klinkhammer (Retirement Plans Administrator) held meetings with various constituent groups (faculty senates, benefit fairs, labor unions, etc.) to present the reports for public comment. Following those open sessions, both committees met to consider the public input received and, as a result, minor changes were made. The ORP recommendations include establishing a new fourth tier with a contribution of 8-4-4 percent. Discussion focused on the possibility of existing tiers becoming disadvantaged by future changes to contribution rates and the possibility of rolling existing tiers into the new Tier 4.

In response to Director Ciuffetti’s question concerning the possibility of an action suit if the Board decided to move a tier into Tier 4, Klinkhammer advised that this action should not be taken unless a tier was going to be clearly and significantly disadvantaged. Director Ciuffetti expressed concern about the generality of the language and the possibility that actions could be taken to move a tier into Tier 4 in order to save money; Kenton noted that legal actions have prevented actions of this nature in the past. He advised that the Committee could recommend to the ORP committee the amending of the language to place clear boundaries on when the tier movement could occur. Director Schueler speculated as to what criteria would be required to make the determination as to the level of “disadvantagement” to a tier of employees.

The Committee was advised that the transmittal letter and not the ORP committee report could be modified to include the proposed language. Kenton advised that Senator Haas has agreed to include this proposal.

**Health & Welfare Insurance Plan Options:** As the Board directed at the October meeting, the Chancellor wrote a letter to the Governor requesting that $20 million be added to the System’s 2013-2015 operating budget. Minor changes were made to the committee’s recommendation: 1) In response to the Board’s concern, recommendation #3 was amended to reflect “align costs” rather than “normalize costs.” 2) During campus conversations, it was noted that the time lines included within the report and statute are overlapping and conflicting; in the report, the proposed time line for establishing an alternative plan was moved to affect an implementation date of January 2015 (originally proposed as January 2014), thus allowing an adequate time for thoughtful study and implementation plans. Dr. Kenton advised that meetings have been held with the Governor’s staff, the Governor’s healthcare advisor, with the PEBB director, and a PEBB board member about the creation of a System PEBB council/work group to consider the recommendations. The next step is for the Governor to issue an executive order commissioning the council. A proposed charter or charge for the council has been submitted for consideration. The Committee expressed their pleasure that the letter included a sentence stating the System’s plan to stay in PEBB if the costs increases that
translate into tuition increases are abated and the service deficiencies are redressed for OUS employees.

**ACTION:** Following the discussion, Chair Schueler called for the following two motions:

1) To accept the committees’ reports and recommendations on the Optional Retirement Plan and on Health and Welfare Plan Options on behalf of the Oregon State Board of Education; Directors Forbes and Ciuffetti made the motion and second, respectively. Motion carried.

When Director Ciuffetti reiterated her concern about the inclusion of the ORP tier movement into Tier 4, Dr. Kenton recommended amending the last sentence in bullet point #3 of the transmittal letter to reflect that this option for tier movement of preexisting employees would be exercised by the Board of Higher Education only within certain parameters and situations when contribution rates fall below an established contribution-rate floor. Mr. Klinkhammer advised that, due to the structure of Tier 3 (created in 2004), the rate volatility is inherently much lower than the Tiers 1 and 2. Tier 4 is a defined contribution rate plan and, as such, will not move from the statutorily proscribed 8+4+4 percent and will not change unless the legislature took an action to amend the statute. During final discussion, agreement was reached to include a more general “should they be disadvantaged” language.

2) To approve the amended transmittal letter to accompany the reports to the legislative leadership prior to December 1, 2012, with the recommended change and the subsequent review by the full Board for comment; Directors Forbes and Ciuffetti made the motion and second, respectively. Motion carried.

4. **DISCUSSION ITEM**

a. **2012 ROPA (Return on Physical Assets) and Capital Renewal Presentation**

Chair Schueler called upon Ms. Alice Wiewel, Director of Capital Planning, to present the item. Ms. Wiewel then introduced the consultants Ms. Gina Matsoukas and Mr. Colin Sanders, regional account executives with Sightlines1, a nationally-respected real estate asset management firm, collecting data from over 300 universities. The System has contracted with Sightline since 2006 to measure, monitor, and benchmark System facilities (specifically the E&G facilities across the campuses). A database was created that allows the comparison of OUS facilities with those of similar universities nationally. The 2011-12 report includes the new, updated deferred maintenance inventory report, which is the first time this has been accomplished since 2001. Despite significant challenges of the facilities—older, denser, and many difficult conditions—the campuses have been excellent stewards of the facilities. Monies appropriated by the legislature have been appropriately invested.

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1 See the report provided in [http://www.ous.edu/sites/default/files/state_board/meeting/dockets/ddoc121116-FA.pdf](http://www.ous.edu/sites/default/files/state_board/meeting/dockets/ddoc121116-FA.pdf)
In conclusion, the consultants shared with the Committee two issues of concern: 1) measuring the impact of the OUS facilities profile with the continuation of monitoring how the age, density, and technical complexity impacts operational and capital demands (e.g., analyze the building energy consumption based upon the age and complexity to highlight potential investment savings opportunities), and 2) identifying the capital renewal and ROPA database to identify capital project investments that decrease the backlog of need and reduce reactive operational costs.

Chair Schueler thanked Ms. Wiewel and the consultants for their report and recommendations.

5. **ADJOURNMENT**

With no further business proposed, Chair Schueler adjourned the meeting at 3:47 p.m.