1. CALL TO ORDER/ROLL CALL/WELCOME

Chair Don Blair called the meeting of the Finance and Administration Committee of the State Board of Higher Education to order at 9:05 a.m.

The following Committee members were present: Don Blair and Henry Lorenzen. John von Schlegell was absent due to a personal conflict.

The following Board members were also present: Bridget Burns (arrived at 9:24 a.m.), Kirby Dyess, Adriana Mendoza, Tim Nesbitt, Geri Richmond, Gretchen Schuette, Howard Sohn (arrived at 10:05 a.m.), and Tony Van Vliet.

OUS staff present included: George Pernsteiner, Michael Green, Ryan Hagemann, Nancy Heiligman, Jay Kenton, and Patricia Snopkowski.

Others present included: Presidents Dan Bernstine, Philip Conn, Martha Anne Dow, Khosrow Fatemi, and Elisabeth Zinser. OSU Vice President Mark McCambridge, UO Provost John Moseley, OHSU Provost Lesley Hallick, IFS President Bob Turner, and OSA Chair Adam Walsh were also present.

Meeting attendees also included OUS staff, faculty, institution representatives, the press, and interested observers.

2. APPROVAL OF MINUTES

• FBAPRE Committee Meeting, May 6, 2005

Before calling for a motion to approve the minutes of the May 6, 2005 Committee meeting, Chair Blair asked for one addition. He requested a specific reference to Portland State University's obligation to report to the Committee quarterly on University Place's financial performance be added to the minutes. With that addition, Chair Blair called for a motion to approve the minutes. Director Lorenzen moved approval of the minutes and Chair Blair seconded the motion. All in favor: Lorenzen and Blair. Opposed: none. Motion passed.
3. **ACTION ITEM**

   **a. UO, Conveyances of Real Property to Lane Transit District for Bus Rapid Transit**

**DOCKET ITEM:**

**Background:**
Lane Transit District (LTD) has received a federal grant to construct the first phase of a Bus Rapid Transit system (BRT) in Eugene and Springfield. This phase of the BRT includes construction on Franklin Boulevard and East 11th Avenue adjacent to the University of Oregon campus. LTD needs to acquire two parcels of property currently part of the University of Oregon campus so that it may widen Franklin Boulevard so that Franklin Boulevard can accommodate the BRT lanes as well as automobile traffic. Once construction is complete, these parcels will be conveyed to the Oregon Department of Transportation because Franklin Boulevard is a state highway.

The first parcel consists of 254 square feet on the north side of Franklin Boulevard at its intersection with Onyx Street. The second parcel is on the south side of Franklin Boulevard immediately east of Agate Street. The parcel consists of 21,000 square feet and is a long narrow parcel now the northern edge of a parking lot. The UO will receive approximately $400,000 in consideration for these two parcels.

In addition, LTD needs to acquire access through permanent right-of-way easements on the south side of East 11th Avenue. These easements will be either to LTD or to the City of Eugene. The first easement consists of approximately 1,252 square feet between Patterson and Hilyard Streets, the second 580 square feet between Kincaid and Franklin. The University will receive approximately $50,000 for these two easements.

Finally, LTD needs two additional temporary construction easements, both of which will expire approximately upon completion of construction. The first parcel consists of approximately 2,650 square feet on the south side of Franklin Boulevard between Agate and Moss. The second parcel consists of approximately 294 square feet on the south side of East 11th Avenue between Kincaid and Franklin. The UO will retain access to these parcels during construction and will receive no consideration for their temporary use.

OAR 580-050-0005 requires Board approval of all transfers of property and easements within campus boundaries except those related to underground utilities. OAR 580-050-0005 also requires conveyances of all real property be approved by the Assistant Attorney General assigned to OUS as chief counsel to the Board. However, because of the Department of Justice Work Allocation Policy, an Assistant Attorney General assigned to the Business Transactions section of the Department of Justice has represented us in this transaction. The University of Oregon and LTD have worked on meeting LTD’s needs related to the BRT for approximately two and one-half years. Negotiations involving the University of Oregon, the Oregon Department of
Transportation, and LTD over these transfers of property began in September 2004 and have just been completed, subject to the Board’s approval. LTD is prepared to begin construction within the next month.

**Staff Recommendation:**
Staff recommended the Board approve the transfers described above and authorize the Board President and Board Secretary to execute the necessary documents pursuant to ORS 351.060 and ORS 351.150.

**COMMITTEE DISCUSSION AND ACTION:**

Chair Blair called on UO General Counsel Melinda Grier to discuss the conveyances of real property to Lane Transit District (“LTD”). After describing the location of the parcels and explaining the need for Board approval, Grier noted that two pieces of property—on Franklin Boulevard—would be transferred to LTD and eventually to the Oregon Department of Transportation. She also observed that the two 11th Avenue easements described in the docket for either LTD or the City of Eugene would actually be conveyed to the City of Eugene. Grier added that the recommendation included two temporary construction easements for LTD, one on Franklin Boulevard between Agate and Moss, the other on 11th Avenue between Kincaid Street and Franklin Boulevard. She noted that UO had developed the proper form for the transfers and easements with the assistance of the Oregon Department of Justice.

Director Lorenzen moved approval of the conveyance as presented and Chair Blair seconded the motion. All in favor: Lorenzen and Blair. Opposed: none. Motion passed.

4. **REPORT ITEMS**
   
a. **Status of Sexual Harassment Policies**

   Chair Blair observed, consistent with previous notice, that the discussion of sexual harassment policies would be deferred to the full Board meeting.

b. **Internal Audit Division Staffing Plan**

   **DOCKET ITEM:**

   As a follow-up to the March 2005 Oregon State Board of Higher Education meeting, the Internal Audit Division (IAD) was asked to bring back a staffing plan to the Board. The March 2005 presentation compared IAD staffing to industry benchmarks noting current staffing levels are well below industry average. The following pages outline the goals to be accomplished with the revised staffing plan, the existing organizational structure, the planned structure for the next biennium, as well as how the planned structure accomplishes the list of goals.
**Goals of Staffing Plan:**

1. Provide routine and uninterrupted audit coverage of the audit universe.
2. Perform information technology audits over high-risk topics and units.
3. Hire a staff member dedicated to respond to special investigation reviews in a timely manner.
4. Hire and maintain managers to perform advisory engagements as requested by the Board and executive management.
5. Ensure audit office work meets quality assurance requirements set forth by the auditing standards, which have become more rigorous in recent years.

**June 2005 Organizational Structure:**

- Oregon State Board of Higher Education
  - Acting Chancellor and Chief Operations Officer
    - George Pernsteiner
  - Internal Audit Director
    - Patricia Snopkowski
  - Office Support
    - Kambra Anderson
  - Regional Auditor/Supervisor
    - David Riley
  - IT Auditor/Supervisor
    - Kathy Berg
  - PSU Senior Auditor
    - Linda Eki
  - OSU Senior Auditor
    - Alan Bell
  - UO Senior Auditor
    - Mary Nickelson-Hill
  - Regional Staff Auditor
    - Vacant
Proposed 2006-2007 Organizational Structure:

Legend:
- Red: Total of six additional staff
- Gray: OUS auditors will report to different managers depending upon project.

Note: IAD also plans to hire student workers and interns to increase audit coverage.
**Accomplishments of Goals:**

1. Perform broad based audits of the organization over a 5-year cycle. Nine auditors would be needed to provide coverage (see chart below). The new structure of seven FTE provides over 78 percent coverage. Additional coverage can be obtained with the hiring of student assistance.

<table>
<thead>
<tr>
<th>Audit units</th>
<th>226</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum hours per audit</td>
<td>300</td>
</tr>
<tr>
<td>Total audit hours needed</td>
<td>67,800</td>
</tr>
<tr>
<td>Yearly hours for 5-year cycle</td>
<td>13,560</td>
</tr>
<tr>
<td>Available direct hours per auditor</td>
<td>1,500</td>
</tr>
<tr>
<td>Number of auditors needed</td>
<td>9</td>
</tr>
</tbody>
</table>

2. Perform information technology (IT) audits. One auditor with a .5 FTE supervisor will be devoted to IT audits.

3. Respond to special investigation reviews without disrupting the regularly scheduled audits. One auditor with a .5 FTE supervisor will be devoted to audit specialist and data analysis duties.

4. Perform advisory engagements as requested by the Board and executive management without disrupting the regularly scheduled audits. The audit management team will be assigned to these engagements.

5. Ensure the quality of audit office work in accordance with auditing standards. The management team will be devoted to ensuring compliance.

**Conclusion:**

Greater decentralization of financial responsibility to the campuses requires the Board to strengthen the Internal Audit Division and its function. The staff believes this staffing plan moves the Division in the direction of becoming a proactive versus reactive service by adding the resources needed in a decentralized environment.

It is important to note that if the current budget constraints and additional funding requests are not obtained, the Chancellor’s Office will need to further evaluate the current budget to meet this Board priority.

**COMMITTEE DISCUSSION:**

Chair Blair called on OUS Director of Internal Audit Patricia Snopkowski to discuss the proposed audit staffing plan. Snopkowski introduced the proposal for increased audit coverage, observing the office would initially concentrate on hiring an audit specialist
and information technology auditor. She noted the addition of campus auditors would then enable the office to provide routine coverage of the Oregon University System's 200-plus units. Snopkowski added that there was a budget request for the six additional positions proposed in the staffing plan.

Chair Blair asked Snopkowski about the OUS audit universe and whether she had assessed if some units warranted review more often than once every five years. Snopkowski explained Internal Audit's analysis does rank units as high-risk, medium-risk, and low-risk units. Snopkowski stated she believed the approximate breakdown was 24 percent of the units were high-risk, approximately 40 percent were medium-risk, and the remaining 36 percent were low-risk. Snopkowski also noted, after Chair Blair's clarifying questions, that she would like to cover high-risk units, at some level, annually, medium-risk units once every three years, and low-risk units on a five-year cycle. Chair Blair asked how many auditors would be required to accomplish that level of review and Snopkowski offered staff would likely have be doubled again beyond the current proposal. Snopkowski noted that the numbers provided offered benchmarks and the office would still audit the high-risk units according to the annual risk assessment. Chair Blair added that something had to give and with current staffing some low-risk units may be reviewed every ten years.

Chair Blair turned to the proposed information technology auditor and asked Snopkowski about data mining and other technological tools. Snopkowski offered OUS uses a data extraction and analysis software tool made by a company titled ACL, which is used throughout the internal audit industry. Snopkowski explained that OUS did not have the staffing to fully utilize the technological tools Chair Blair described, but it did use ACL and data analysis tools to develop audit plans in particular individual audits. Chair Blair continued with an examination of the audit requirements and asked Snopkowski about the average number of hours for audit duration. Snopkowski offered that it depends on the particular audit and the scope of the audit. She observed that a 300-hour audit would be an audit of a limited scope for a particular process, where a more global audit might be 400 to 1,000 hours. Chair Blair returned to the 226 auditable units and asked Snopkowski about the definition of the unit and the staff coverage of limited scope audits. Chair Blair, reiterating his earlier inquiry about coverage, asked if the staffing plan actually achieved less than 50 percent coverage and Snopkowski confirmed his assessment. Chair Blair inquired about the percentage of coverage accomplished by the staffing proposal and Snopkowski observed that it was somewhat difficult to pull out a percentage because of the differences between each individual unit.

Chair Blair turned to an "advisor engagement required by the Board of executive management" and asked Snopkowski for explanation. She replied they were audits that were not necessarily scheduled, but something the Board or executive management deemed important. Chair Blair asked if Snopkowski assumed that the proposed new staff would be hired as soon as possible and she replied that the staff would probably be hired in sets of two because of the difficulty of conducting more than two searches at a time. Chair Blair asked when she expected to be at full strength and Snopkowski replied within the next twelve months.
Director Lorenzen asked Snopkowski to what extent the universities assist and reduce expenses for audit staff involvement. She noted that campus cooperation does reduce the time commitment necessary for an audit. Director Lorenzen observed that audited entities frequently are asked to pay for the audit and that, in times when the Chancellor’s Office is facing budget reductions, the Board might have to look at new ways to fund the audit function. Vice Chancellor Kenton noted that the campuses are already paying for some of the audits through assessments and Director Lorenzen asked whether those assessments were based on individual audit functions or were a general assessment. Kenton confirmed it was a general assessment distributed on a pro rata basis across campuses and Snopkowski observed it was for external audits. Director Lorenzen noted he was speaking about possible assessments based on the individual workload required.

Chair Blair asked Snopkowski how OUS integrates the external audit function with the internal function and how much coverage Snopkowski felt OUS was getting from outside vehicles. Snopkowski explained that internal audit meets with the external auditors on a routine basis and that, in fact, the external auditors, including the Secretary of State and Moss Adams, use Internal Audit’s work when conducting fiscal control audits. She noted that the Secretary of State has a performance audit division that conducts audits on the state as a whole. Snopkowski observed that there are times when external auditors choose to do audits that Internal Audit might not necessarily choose to do. Chair Blair asked if the nature of the work provides Internal Audit with something it could rely on from a control standpoint and Snopkowski observed that they do.

Chair Blair concluded, observing that the proposed increase in staffing was a move in the right direction, but that it was not the entire solution. He stressed the importance of sophistication in the use of technology. He also noted that it was critical to be quick, but not to hurry in the hiring of the new staff. Chair Blair highlighted the need for the right people in the positions. Snopkowski noted that she had just made an offer on the staff auditor position discussed at the previous Board meeting. Director Van Vliet added that it might be a wise idea to carry an Internal Audit staff plan to the Legislature’s Emergency Board for funding. Director Lorenzen agreed and Chair Blair asked staff to work through the suggestion.

Before moving to the next topic of discussion, Kenton added that if there were no add-backs from the Legislature, the staffing proposals would need to come out of existing budgets. Chair Blair asked if there was an "iron ring" around the Chancellor’s Office budget and Kenton explained, if adopted in a line-item format, there would be some semblance of a ring around the budget. Heiligman confirmed that it would be the case with General Fund monies. Kenton observed that another option would be to take it off the top across the institutions and Provost Moseley added that the institutions were facing several financial challenges, as well. Moseley suggested, with the proposed expansion of the audit function, that the Board examine data that measures the cost-benefit of the growth. Chair Blair replied that Internal Audit provides credibility to OUS
and is a core function of the Chancellor's Office and Board, which cannot be quantified. Chair Blair observed that there are also other intangible factors associated with having a strong system of accountability of internal control.

c. Change in Endowment Investment Management

DOCKET ITEM:

Background:
In 1998, the Board reestablished the Investment Committee to provide a more extensive review of the Oregon University System’s (OUS) investments and related policies. The Investment Committee met quarterly until September 2002 when it began to meet semi-annually. The Investment Committee was responsible for monitoring fund and manager performance and making recommendations to the Board for their approval and further recommendation to the Oregon Investment Council (OIC) when circumstances warranted change. To assist in these responsibilities, the Board retained a registered investment consultant. OUS staff also provided support.

The option of turning management of the OUS Pooled Endowment Fund (OUS Fund) over to Treasury and the OIC was addressed in 2002 as part of the Fiscal Accountability Framework Project. At that time, the Board felt that, given the relatively small size of the OUS endowment, the OIC would not closely monitor this fund and performance would suffer. Therefore, the Investment Committee retained its role in managing the OUS Fund.

At its May 6, 2005, meeting, the Board’s Finance and Administration Committee noted that continuing the current OUS Fund investment management structure likely does not generate sufficient additional investment returns given that the OIC and the Treasurer ultimately make the investment decisions with respect to the OUS Fund. Staff was asked to evaluate different options for carrying out these responsibilities.

Analysis:
Three options for managing the investment activity of the OUS Fund were evaluated. The first option was to discontinue the Board and staff work with respect to asset allocation, investment manager selection and monitoring, and performance monitoring and ask Treasury and the OIC, working with their investment consultants, to perform these functions (Treasury Option). The second option was to contract with one of the large OUS university foundations to perform the investment management function for the OUS Fund (Contractor Option). The third option was to distribute the OUS Fund to the respective university foundations to manage as a part of their endowment investment program (Foundation Option).

Treasury Option
The Treasury Option has been discussed with Mike Mueller at the Oregon State Treasury. Mr. Mueller indicated that management of the OUS Fund at Treasury and the OIC would function as follows:
The state’s investment consultant, Strategic Investment Solutions (SIS), along with representatives from Treasury, would analyze the Board’s investment objectives and spending policy to determine the optimal asset allocation model for achieving those goals. The OUS Fund’s current asset allocation would be reevaluated at that time to determine if adjustments are necessary. Adjustments, if necessary, would be made when financially prudent.

The OUS Fund would come before the OIC once each year for performance review and once every three years for review of the asset allocation. Because the OUS Fund is small in comparison to other funds managed by the OIC, it would be the responsibility of the Oregon State Treasury and OUS staff to make sure the OUS Fund receives the necessary attention of the OIC.

Treasury would meet periodically with fund managers to assess the managers’ investment teams and strategies. SIS would also put OUS Fund managers on their list of managers to watch and would notify Treasury should something come to their attention that needed further inquiry. When a manager search is deemed appropriate, Treasury and the OIC would conduct the interviews and make the decision on a new manager. Treasury would monitor and report on OUS Fund performance on a monthly basis. OUS staff would continue to perform the accounting and earnings distribution functions for the OUS Fund.

In order to evaluate potential investment returns under this option in the long term, we reviewed the investment performance of the Common School Fund, which should be managed with similar objectives. The return of the Common School Fund for the fiscal year ended June 30, 2004, was 16.78 percent compared to the OUS Fund return of 16 percent. The three and five year average fiscal year returns of the Common School Fund were 3.51 percent and 1.73 percent respectively. The three and five year average fiscal year returns for the OUS Fund were 4.3 percent and 3.7 percent respectively.

Transferring management of the OUS Fund to the OIC would have the following advantages:

- $5,000 net annual savings on investment consulting. ($20,000 saved by elimination of Board’s consultant – $15,000 cost for OIC’s consultant).
- $20,000 annual savings relating to approximately .25 FTE staff time.
- Savings of Board committee time.
- Streamlined decision-making process. (The final authority for investment decisions rests with the OIC. As the manager of the OUS Fund, the OIC could make decisions immediately, eliminating the current approval process of recommendations being sent to the Board from the Investment Committee and then from the Board to the OIC for final approval.)
- Ease of implementation – would not require contracting.
Disadvantages are:
- The OUS Fund will not receive as much attention under management by Treasury and the OIC, which may negatively impact fund performance over time.
- Should the OUS Fund receive significant new monies (unlikely), it could become a much greater contributor to the OUS operating budget, in which case greater control by the Board may be desired.

**Contractor Option**
This option would be similar to the Treasury Option, with the exception that the OIC would delegate the investment decision-making to the contractor foundation. The contractor foundation would be required to report to the OIC on investment management decisions and performance and would be required to meet performance objectives as delineated in the contract.

In order to evaluate potential investment returns under this option, we reviewed the investment performance of the University of Oregon Foundation endowment fund. The return of the University of Oregon Foundation endowment fund for the fiscal year ended June 30, 2004, was 15.50 percent compared to the OUS Fund return of 16 percent. The three-, five-, and ten-year average fiscal year returns of the UO Foundation endowment were 5.6 percent, 6.6 percent, and 12 percent respectively. The three-, five-, and ten-year average fiscal year returns for the OUS Fund were 4.3 percent, 3.7 percent, and 9.9 percent respectively.

The Contractor Option would have the following advantages:
- $20,000 annual savings relating to approximately .25 FTE staff time in investment management.
- Savings of Board time.
- Streamlined decision-making process.
- Elimination of duplication of management effort at OUS and Treasury.
- Improved endowment investment management expertise.

Disadvantages are:
- Potential incremental funding required to cover contractor costs — amount unknown at this time.
- Would require up-front implementation costs in contracting.
- Endowment funds of one university would be managed by another university’s foundation, which could create a conflict of interest, at least in appearance.

**Foundation Option**
Based on discussions with Treasury, current statutes require that the OIC manage OUS investments. However, staff is exploring a legislative concept with Treasury to transfer the current endowment funds to respective foundations and enable the immediate transfer of any future endowment funds to the foundations.

The investment return evaluation relative to this option would be the same as the Contractor Option.
Transferring the OUS Fund to the respective university foundations would have the following advantages:

- Transfer the fiduciary responsibility for management of the OUS Fund to the foundations.
- $20,000 annual savings in investment consulting.
- $40,000 estimated annual savings relating to approximately .5 FTE staff time in investment management and accounting.
- Savings of Board time.
- Streamlined decision-making process.
- Elimination of duplication of accounting and management effort at the foundations, OUS, and Treasury.
- Improved endowment investment management expertise.

Disadvantages are:

- Foundations generally charge a 1 percent administrative fee annually, which would be approximately $600,000. This charge would make it more difficult to grow the fund over time and decrease the amount available for spending.
- The smaller institutions may not be able to generate the investment returns that would be generated by a larger pooled fund.
- Would require statute change to implement.
- Would require up-front implementation costs in developing legislative concept.

Conclusion:
Given the budget challenges facing the Chancellor’s Office, staff will move forward with the Treasury Option for the next biennium as it provides the best near-term cost savings. Any savings that result from this change will help achieve the required $300,000 cut to the Chancellor’s Office Finance and Administration budget for the 2005-2007 biennium. Staff will work with Treasury, the OIC, and university and foundation management to develop a legislative concept to move the Foundation Option forward during the next legislative session.

COMMITTEE DISCUSSION:

Chair Blair recognized OUS Controller Michael Green to discuss changes to the endowment investment management. Green started with a brief historical perspective, explaining that, in the past, the Board’s Investment Committee utilized an investment consultant to make decisions regarding asset allocation and manager selection. After approvals, those decisions were forwarded to the Oregon Investment Council for final approval. Green framed the question as whether the current Finance and Administration Committee and Board would streamline the process and eliminate duplication.

Green outlined three options. First, he explained the option to move more of the direct decision-making to Treasury, with staff involvement and ultimate decision-making by the Oregon Investment Council. He noted there would be annual reporting to the Board under that option. Second, Green outlined the possibility of contracting with one of the
university foundations to manage the investments of the endowment, with, again, ultimate decision-making up to the Oregon Investment Council. Finally, Green explained that the Board could seek statutory authority to distribute the fund to the foundations based on the beneficiary of the endowment.

Green shared that staff recommended the Treasury option in the short-term and exploration of the third option for the long-term. Green outlined various concerns with Treasury's returns, including the fact that its returns were not as good as OUS returns. Green observed that one reason that OUS returns were better was because of the active management of both the S&P 500 and small mid-cap allocations versus an indexed approach. Green noted that in the discussions with Treasury, OUS staff would be involved in looking at asset allocation and manager selection, so the real risk of the Treasury option, if OUS was not able to work on asset allocation or manager selection, would be the movement to a more indexed return. In addition to the Treasury option, Green noted that staff was also recommending exploration of the statutory option. He observed that breaking up the fund and moving it to the foundations raises the issues of fees, although he believed negotiations could result in favorable fee structures.

Director Van Vliet asked if a larger universe of investment possibilities could be achieved if OUS were to go with Treasury. Green noted that OUS has worked with Treasury in order to be able to go with Treasury managers as appropriate. Director Van Vliet inquired whether the foundation route spelled disadvantages for the smaller foundations and Green noted that it would definitely have to be explored if staff were to look at that option. Chair Blair asked Green about the 1 percent charge assessed by the foundation, who was charged, and for what the charge was made. Green explained that the foundations were assessing all of the investments in the funds with which they have an under-investment. He noted it covered the administrative gamut, from the expenses of fundraising to administration. Director Lorenzen confirmed that the amount discussed was approximately $60 million. Director Lorenzen followed up, asking where OUS would have been if it had invested its funds with Treasury and Green explained, in recalling the pro forma, it would have been approximately 2 percent on a three-year and about 3 percent on a five-year basis. Green stressed that it was somewhat of a misnomer to say those would have been the returns because OUS was not there and did not have input on those decisions. Director Lorenzen noted that the Treasury option was probably the prudent thing to do. Chair Blair added that he was somewhat troubled by the gap and noted that he had discussed a couple pieces of the analysis with Green. Green noted that there was not pressure for a decision at this meeting and Chair Blair stated that he would like Director von Schlegell's input on this specific topic. Chair Blair offered that he would like to set the topic up as an action item for the next Committee meeting to allow for Director von Schlegell's opinion.

Provost Moseley acknowledged the 1 percent administrative fee, but noted that in virtually all areas over the past five years, the University of Oregon Foundation had beaten all relevant benchmarks. He stated that the UO felt its programs would have been better off if it would have been able to invest funds through its own foundation. Chair Blair noted Provost Moseley's point and observed that Green's report mentioned
that staff was unaware of all of the legal implications of breaking the OUS endowment and sending funds to respective foundations. Chair Blair asked Green to work through the legal implications of sending the funds to respective foundations so it would be on the table for consideration with the other options. Kenton observed that the larger foundations might be willing to invest on behalf of the smaller institutions and Chair Blair asked why staff did not include that option in the report. Green replied that staff was not sure about the savings and the fee structure. Chair Blair confirmed that it was not included because there was not enough information and Green acknowledged Chair Blair's characterization.

Chair Blair stated that information gathering was necessary on all of the options, particularly the last two in terms of requirements and cost structure. Chair Blair noted there might be an option 3-B, where larger foundations receive their funds and smaller foundations might contract with the larger foundations. Chair Blair summarized for what the Committee was asking: (1) clarity on how the Treasury option would work, (2) additional information on cost and the legal implications of having one of the larger foundations manage the endowment for OUS, and (3) examine both variants of breaking the OUS endowment apart, whether it be to give funds to each institution's foundation or give the larger foundations their funds and have the smaller foundations contract with the larger foundations for management.

d. OIT, Center for Health Professions Facility

DOCKET ITEM:

Policy Concerns Relating to Real Property Developed by Third Parties for Campus Use:

Background:
Due to State funding limitations, capital project process limitations (timing, cost, or other reasons) and the willingness and interest on behalf of affiliated foundations or other private individuals/entities to assist campuses with their physical development, campuses are exploring entering into creative arrangements for third parties to purchase or build facilities for campus use. These arrangements typically involve a foundation or other campus affiliate funding the purchase or design and construction of real property that is of interest to the campus. The campus may then enter into an agreement with the foundation or affiliate (e.g., lease, management agreement, etc.) in order to recoup some of the costs associated with the capital development. These agreements then form the basis of financial support or backing that is typically used by the affiliate to obtain lower interest rate and/or tax-exempt financing for the project.

The purpose of this informational presentation is to explore the policy implications of such arrangements and to provide guidance to those contemplating such actions.
Analysis of Policy Issues:

1. ORS 283.085 – 283.087 and Department of Administrative Services - Oregon Administrative Rules establish the authority to enter into “financing agreements” and distinguishes a financing agreement from an operating lease.

This set of statutes requires that financing agreements be approved by the State Treasurer and the Director of the Department of Administrative Services (DAS). In addition, if deemed a financing agreement under the definitions of this statute and associated rule the authorization for the debt must be granted by the Legislative Assembly. In conversations with both Treasury and DAS staff, it was clear that unless there were compelling reasons, they would likely require OUS to utilize existing traditional debt mechanisms (Article XI-G bonds, Article XI-F(1) bonds or Certificates of Participation [COP]) should a financing agreement be contemplated. These individuals stated that the only compelling reason to approve alternative financing other than these traditional mechanisms include lower costs due to better credit ratings, lower issuance costs, or other cost based factors. To staff’s knowledge, OUS has never requested or been granted such authority in the past.

In most cases, these traditional debt mechanisms work well for OUS. However, there have been occasions where due to timing issues or difficulty in obtaining capital budget approval from either the executive or legislative branches of government, these traditional debt mechanisms have not met the needs of the campuses. Any debt issued via these traditional debt mechanisms, or considered to be a financing agreement as defined herein, utilizes the state’s debt capacity and therefore has an impact on the State’s overall credit rating and credit limitations. (The issuance of bonds under Articles XI-F(1) and XI-G are each constitutionally limited to three-fourths of one percent of the true cash value of all the taxable property in the state.)

Operating leases do not count against the State’s debt capacity or debt limitations as 1) these agreements are not shown on the face of the State's financial statements, however, they are reported in footnotes, if disclosed; and 2) all leases and contracts that extend beyond the end of the current biennium contain a non-appropriations clause that allow the obligation to be cancelled in the event that sufficient funds are not appropriated to, or generated by, the agency. However, this non-appropriations language can frequently be an obstacle that must be overcome in order to use these non-traditional financing mechanisms.

According to DAS administrative rule (OAR 122-070-0010), the transaction is a financing agreement and not an operating agreement if it meets any of the following criteria:

(A) The agreement transfers ownership of property to the state or any of its agencies when the agreement ends;
(B) The agreement contains a nominal or bargain purchase option. A nominal or bargain purchase is a price less than fair market value at the time of purchase;
(C) The term of the agreement is 75 percent or more of the economic useful life of the property; or
(D) The present value of the minimum payments under the agreement is at least 90 percent of the current fair market value of the property. Minimum payments include any penalty for terminating the agreement.

Institutions must be cognizant of these rules when contemplating entering into agreements to lease or use facilities from foundations or other private parties. If the agreement is deemed a financing agreement as outlined above, the approval of the DAS Director and Treasury and possibly the legislature must be obtained.

2. Involving institutionally affiliated foundations in the acquisition and development of real estate that will benefit the institution also have some other policy implications that should be considered. It allows the foundation to grow its asset base and, as the associated debt is paid down, creates equity that the foundation can subsequently leverage for the future benefit of the institution. These arrangements also can create a significant debt burden for the foundation. However, if the debt is backed by the university, and the university experiences financial challenges such that it is unable to make its required payments to the foundation then the foundation would need to find other unrestricted resources to cover its debt obligations. Typically, foundation’s have limited unrestricted funds; thus, it would be prudent for the foundation to procure bond insurance for any transactions financed in this manner where the foundation does not have significant unrestricted assets or where the asset being constructed could not be either leased to another entity or sold in the short-term.

3. Obviously, these types of arrangements will result in institutions committing a portion of their finances to cover resultant lease obligations. Assuming these leases are determined to be operating leases and not a financing agreement as defined by the aforementioned rules, they will need to be disclosed in the footnotes of OUS’ audited financial statements. While not affecting the state’s, System’s or institution’s debt capacity, these are binding financial obligations that will be a factor in determining the institution’s financial welfare and as such these obligations should be carefully scrutinized to ensure that revenue and expense assumptions associated with the purchase or construction, operations, maintenance, and programmatic needs are conservative and comprehensive with sufficient expense allowances, repair reserves, and debt coverage ratios to minimize any downstream financial concerns.

4. These projects will be private projects, owned and financed by the foundations or other private/non-governmental entities and may or may not be located on state-owned property. However, from the public’s perspective, as staging and construction begins, these projects may appear to be just another capital project
undertaken by a given university. Thus, expectations will be that these projects have followed “normal” OUS/university procurement and contracting processes even though they may not need to as they will be owned and developed by a private entity. This is a challenging issue as some of the public procurement and contracting processes may result in added cost or rigor and thus will be viewed by the project owners as both costly and onerous and may defeat some of the reason and interest for wanting to assist a campus in this manner. In addition, some donors may condition their donations around the process or contractors they wish to use to construct the specified facility.

Policy issues that should be considered in this regard are as follows:

- Requirements for public works projects, such as payment of prevailing wages, etc.;
- Compliance with OUS or university procurement requirements;
- Assurance that any properties that may be purchased meet environmental standards;
- Compliance with Americans with Disabilities Act (ADA) design standards;
- Use of minority, women-owned, and emerging small business contractors; and
- Compliance with State mandates regarding meeting sustainability standards and energy efficiency.

5. As mentioned earlier, these types of arrangements provide great flexibility for institutions to be more nimble in responding to opportunities in the short-run. Traditional debt financing via Article XI-F(1)/G bonds or COPs work well when there are long lead times available and where legislative approvals can be readily obtained in the course of the biennial capital budget adoption process. However, these traditional mechanisms do not work well when campuses are trying to respond to current opportunities or emerging needs in the short-run.

These types of arrangements also allow institutions to enter into creative arrangements with partners and can provide incentives for institutions to involve private donors or other creative partnerships that would be unavailable using traditional state financing mechanisms. This can help lower the overall cost of the project and as mentioned earlier can get the project approved and completed in an expeditious manner.

**OIT Concept for the Construction of a new Health Professions Facility:**

Oregon Institute of Technology is proposing to enter into an agreement with a Limited Liability Corporation (LLC) of the Oregon Tech Foundation for the design, construction, and lease of a new Center for Health Professions facility on its campus. Prior to moving forward with this work OIT would like to present the concept and proposed structure of the agreement to the Finance and Administration Committee of the OUS Board in order to discuss relevant assumptions, proposed terms and other considerations associated with this project.
OIT proposes the following five considerations and the supporting appendices as the most salient evidence in support of the need to proceed with Phase 1 of the Center for Health Professions. At the request of the Chancellor, we have consulted with Oregon University System finance staff and provided responses to their questions and comments. Due to private funds already secured and the prospect of even greater private support, it is the most opportune time to expedite efforts to bring this Center for Health Professions online on or about fall 2007. The support and participation of the Oregon Tech Foundation and its LLC is a tremendous advantage in completing Phase 1 quickly and efficiently.

1. **Demand for current Health Care Programs at Oregon Institute of Technology**

The current number of faculty, classrooms, labs, equipment, and supply budgets, can provide access for approximately 720 students. Demand for admission to the professional level of instruction annually exceeds capacity by over 120 students. The goal of Phase 1 is to increase faculty and facility capacity to provide access for 350 additional students or approximately 87 students for each year of the four-year programs. Planned growth will occur over a five-year period averaging 8 percent per year. Phase I target enrollment will provide only a portion of the graduates needed according to the Oregon Department of Labor's forecast of employment in these fields.

2. **Facility Assessment**

Currently all programs are suffering from a shortage of classrooms, labs, and faculty offices. Due to the inability of the State to provide adequate support for facilities in recent years, many of our facilities are in need of modernization and general renovation. Expansion of the health professions programs is not possible without additional dedicated square footage.

Using the industry standard of 144 square feet per FTE student, we are currently running a facility deficit of 45,000 square feet. Adding 350 students would increase that deficit approximately 90,000 square feet.

3. **Debt Analysis**

Oregon Institute of Technology has only one Education and General supported bond issuance that exists for the renovation of our Metro Center campus in Clackamas. The funds for retirement of this debt are already in escrow. We are also carrying bonded indebtedness obligations for auxiliary programs of approximately $1.5 million that is adequately supported from rent revenue and parking fees.

Based on the current level of Education and General expenditures ($24,000,000) and projected long-term lease of ($675,000) for the Center for Health Professions’ building, our debt service to expenditure (debt burden) ratio would be well within acceptable bond rating ranges.
4. **Advantages of a Public/Private Initiative**

In the interest of providing capacity and access quickly, the Oregon Tech Foundation operating through an LLC has agreed to build a facility in exchange for an operating lease. This operating lease agreement would be a triple net agreement with the annual rent indexed to the LLC’s costs for debt service and management fees. In addition, OIT will agree to pay all direct operating and maintenance costs associated with the facility.

The Foundation working with a developer, architect, and contractor can expedite the construction process thus lowering costs. Public works and prevailing wage concerns will be recognized as required. Private funds totaling, $3,030,000 have already been secured. Phase I is scheduled to be a $10,000,000 project with tax exempt financing to be secured by the LLC. We are free to use the $3,030,000 from private sources for design and construction costs, debt service, or operating costs as needed.

The Center will require specific roles of OIT and the LLC.

The role of OIT will be:
- Provide building site to the LLC thru a land lease-nominal fee agreement
- Participate in facility design specifications
- Participate in the establishment of operating parameters
- Approval of operating lease agreement with LLC
- Pay LLC (from other funds limited) for obligations under this lease agreement

The role of Oregon Tech Foundation LLC will be:
- Apply for, and hold debt instruments
- Responsible for maintenance of required reserves on debt instruments as required
- Contract with architect/developer/contractor
- Lessor of space or contract for leasing services
- Facility Owner

5. **Five Year Cash Flow Considerations**

An additional $2,481,407 in revenue will be required to support the faculty, equipment, supplies, operation and maintenance, and lease payment for Phase I expansion of access to Health Professions programs.

Sources for this revenue growth are proposed to be:
- 8 percent average annual enrollment growth
- 5 percent average annual tuition rate increase for all health professions majors
- Private support to date is $3,030,000
- Resource Fee for equipment, $100 per term per health major
Please note the attached revenue and expenditures plan does not call for an increase in State appropriation to be a self-funding project by year 2010. However, we would encourage a System priority for the allocations of funds for health programs to reduce the burden on students and provide the State with an adequate workforce.

We are investing considerable time and resources in an ongoing capital campaign for the Center for Health Professions. We expect to be successful but have not included future contributions in this revenue and expenditure plan. One of the major goals for the capital campaign is to continue pursuing matching funds for G-Bonds to complete the Center for Health Professions in Phase II.

We are confident this revenue and expenditure plan is sound and conservative. The plan is built on a differential tuition only for the Health Professions programs ignoring the resources of other programs. If the planned growth or tuition rate experience is less than projected, we have the flexibility to slow spending to match the actual growth. In our opinion it is tragic to continue turning away over 120 qualified applicants every year in face of the needs in the job market. Our goal is to make a major difference in the demand for healthcare workers in Oregon. Workforce shortages are one of the factors affecting healthcare costs and future economic development.

Based on the assumptions in this plan we request your approval to move into the project development phase in order to present to the Board a land lease agreement for approval at the earliest opportunity.
COMMITTEE DISCUSSION:

Before recognizing Vice Chancellor Kenton and OIT Vice President for Finance & Administration Bob Nettles, Chair Blair thanked OIT and the Chancellor’s Office for bringing the concept to the Committee early in the process. Vice Chancellor Kenton observed that he would review some initial policy matters and describe the transaction before turning it over to Nettles for demand analysis. Kenton noted there would be many variations on these types of transactions and they would be situational in nature, but, as a general matter, the structure would be similar to the Broadway Housing Project at PSU. Kenton described the structure as a third party entity interested in helping a...
campus develop real property. He stated it involved, typically, a foundation spinning off a limited liability corporation that would work with the campus to determine what its facility needs are, would seek financing in order to construct it with the understanding that there would be a lease or some other agreement necessary for the foundation to recover some or all of the costs associated with the project. With that brief description of the mechanism, Kenton turned to walk through some of the legal and policy implications.

Kenton first outlined ORS Chapter 283 and the definition of financing agreements, including the delegation to enter into financing agreements to the Director of the Department of Administrative Services and the Treasurer. Kenton noted that he spoke with both individuals and if the transaction met the four points outlined in the docket, it would be a financing agreement and would require their approval and bond limitation would need to be adopted by the Legislature. Kenton added the time that would be necessary to go through this process. After walking through each of the four points. Kenton stated that, more or less, the project would run through the typical capital budget process.

Kenton turned to issues involving the institutionally affiliated foundations. On the positive side, Kenton observed that it would allow a foundation to grow its asset base and when debt was paid down and equity created on the foundation's books, it would give the foundation more financial capacity to leverage for the institution's betterment. On the other hand, however, Kenton cautioned it places a large amount of debt on the foundation's books, largely backed by the institutions through the agreement. Because of that, Kenton added that he would recommend bond insurance.

Kenton also discussed the institutional commitment of the funds under the lease agreements. He noted that if it were to be an operating lease, it would contain a non-appropriations clause that would permit the institution to terminate the lease if adequate funds were not appropriated and that could be a point of contention with the foundations. Kenton advised that it created the need for the Board to carefully scrutinize revenue and expenditure assumptions that come forward with these projects.

He continued by stressing that the projects would be private projects that would be owned and financed by the foundation or other third party entity. Because the projects would be located on or near campuses, it might create the impression that they were subject to a variety of rules and laws pertaining to public projects. Kenton observed that the Board might want to examine those issues. Kenton also added that he would encourage the Board to look at these mechanisms because it represented a creative way to engage the private sector in developing facilities needed by campuses.

Director Lorenzen asked who would own the LLC and Kenton replied, in the specific case, the OIT Foundation. Chair Blair added that the foundation's financial statements would roll up into the OUS financial statement under GASB 39. Chair Blair noted that he wanted to discuss the structure and Kenton's conversations with Treasury. Chair Blair observed that most bond rating agencies would capitalize operating leases in order to
determine how much debt an entity was carrying, but Kenton did not believe that was the case in this instance. He noted it would impact the state's debt capacity if they were financing agreements. Kenton reiterated that it was the purpose of ORS Chapter 283 to protect the state's debt capacity and overall credit rating if a financing agreement was involved. Chair Blair asked if the foundations were consolidated into the OUS financial statement, would they not be consolidated into the state's financial statement. Green clarified that it was not a consolidation and that it was separately stated. Chair Blair asked why the debt would not be on the state's books and Green reiterated because it was not consolidated and was a component unit separately stated. Kenton added that the GASB 39 requirement was only a year old and the scenario might not have been contemplated.

Chair Blair asked why the structure might help lower the cost of the asset and Kenton replied, in the current situation, OIT had a donor willing to make a $3 million contribution. He also stated there were times when the foundation could get a better bond rating than the state. Chair Blair asked if it was likely if bond insurance was contemplated in this case and Nettles added that the LLC had been advised to purchase bond insurance. Chair Blair observed that there should be policy parameters that the Board should examine when these projects come up. Director Van Vliet asked what would happen if the foundation board gets angry with the University and decides to terminate the lease. Kenton noted that it would depend on the termination provisions, but that the bond insurers would examine that very closely. Director Van Vliet asked if the mechanism that would permit a private donor to place a donation into a state account that could be matched with bonds was considered and Kenton noted it was part of the capital budget proposal, but was not approved. Nettles clarified that there would be two leases involved in the project: the land lease and the lease-back, both of which would have termination clauses.

Director Lorenzen summarized two motivating factors for the funding mechanism, noting it was an avenue to finance projects that did not make into the capital budget proposal and an opportunity for another financing alternative, as long it was not characterized as a financing agreement under the statutes. Director Lorenzen recalled the daunting task of prioritizing capital projects and noted that this posed interesting questions for the Board because a long-term lease was, in fact, another substantial obligation. Chair Blair echoed Director Lorenzen's comments and observed that, even with the differences, the projects should be characterized as capital projects with a bond. Kenton observed, in the past, the Board approved leases longer than five years. Director Lorenzen added that it would be interesting to see the extent to which the payment of bond insurance would erode potential savings.

Director Nesbitt asked if the Committee was trying to understand the financing agreement as a general matter, or was examining the OIT project specifically. Director Nesbitt asked if the Board would be doing case-by-case determinations for the projects. Chair Blair turned to Kenton for a reply and Kenton offered that it would be a case-by-case determination because of the four factors outlined in ORS Chapter 283. Chair Blair noted that the rules were exactly the same as the accounting decision as to whether
something was a capital lease or an operating lease and Kenton replied it was. Chair Blair summarized that the rules were clear in characterizing whether something was a capital or operating lease, but the more difficult piece in these situations was how the transaction was structured. He noted that even though the financing mechanism was different, the cash-flow of the institution was paying for the bond. Chair Blair stated that the docket item was trying to address two things: the exploration of the policy issues with the new financing vehicle and the specific OIT project.

Director Nesbitt continued with questions. He observed that the supposed merits of doing something more cheaply included the ability to avoid public contracting laws and prevailing wage requirements. Director Nesbitt counseled that he believed the Board, in a generic sense, should establish from the outset that it was not trying to bypass those laws and requirements. Chair Blair noted that it was one of the considerations that Kenton included in his outline. Director Van Vliet noted the additional issue of long-range cost of the building in terms of programs and personnel. Kenton replied that, in the specific case, OIT had projected the cost of faculty and additional students that would be served by the building. Kenton noted that OIT's presentation would demonstrate that tuition and other revenues accruing from the incremental students would cover those costs. Director Van Vliet observed that he was not speaking about those costs, but was more concerned with the long-range implications about approaching public financing for the entire System. Director Dyess echoed Director Van Vliet's observations and added that one of the criteria may be that no public funds are used to push these projects forward. Chair Blair acknowledged the point and noted that even the OIT proposal required some state funds, albeit indirect.

Director Nesbitt turned the discussion to the cash-flow projections of the OIT project. He expressed some concern about the 8 percent enrollment growth projection as a source of funding for the building. Chair Blair stepped in to structure the conversation and returned to the general policy considerations, observing that it would be helpful to examine the legislative perspective and the concept of Treasury's opinion if this were to be done on a larger scale. Chair Blair also observed that another significant policy issue to consider would be what the Board thought of the state's contracting rules and how that would effect the projects. Pernsteiner interjected that the reason for the discussion was because the last time the state was able to appropriate all of the funds necessary to build an entire building was 1985 and that it was critical that the System not restrict the ability to use this or other mechanisms to build because it might result in the situation of not being able to build at all.

Director Sohn added that he thought it important to encourage alternative mechanisms and to remove obstacles from innovative ways to fund buildings. Director Richmond concurred with Director Sohn, but added that there might be a problem if a private donor had substantial resources for a specific program that might impact long-range planning adversely. Director Sohn observed that would be why a case-by-case measurement against mission appropriateness would be important. Director Lorenzen reiterated Pernsteiner's comments on why the Board was considering these alternative-funding mechanisms.
Before turning to OIT, Chair Blair summarized the policy discussion and outlined some outstanding issues requiring consideration. He noted that staff should explore the policy questions raised by Kenton, the policy questions raised during the discussion, including aspects of the state and the state’s contracting rules. Kenton asked if he was to frame some recommendations and Chair Blair thought recommendations might be helpful. Kenton asked how to go about measuring the temperament of the legislature regarding the project and Director Van Vliet suggested conversations about the specific project.

Chair Blair turned the conversation to the specific project at OIT and recognized President Dow. She explained it was a creative way to provide access and capacity for students in allied health. President Dow noted that OIT tried to get the project on the capital construction list, but that it did not get on the allocation list. She added that there is a lead gift of $3 million and that OIT decided the best way to proceed with the project was in phases. President Dow observed that OIT was able to clearly demonstrate need and capacity limitations and turned the conversation over to Nettles to discuss fiscal and operational plans.

Nettles noted, at the outset, that OIT had not given up on getting the legislature to help with the project. He noted that one of the reasons OIT decided to do the project in phases was to demonstrate the need to the legislature. Nettles added that he asked OUS to explore what type of asset was necessary for a match. With that, Nettles reviewed revenue assumptions and observed the window of opportunity with the margin of tuition associated with the project. Nettles stated that the project is proposed on enrollment growth and a 5 percent average annual tuition increase for health profession majors. Nettles also discussed the proposed resource fee OIT had before the Board.

Chair Blair asked about the second phase and Nettles explained that it would be the second half of the project in that the first phase would be accommodating capacity for about 350 students, rather than the 750 for the total project. Chair Blair asked if the first phase was a stand-alone project and Nettles confirmed it was. Director Mendoza asked regarding the student promotion of the resource fee. Nettles explained that the students did endorse the resource fee and asked for involvement in the allocation in exchange. Nettles noted that students frequently complain about outdated equipment and observed that OIT only has one resource fee for the campus. Director Burns asked how students would be involved in the allocation discussion and Nettles replied through a committee run by the provost.

Director Lorenzen asked whether the enrollment growth used to fund the project was directly attributable to the project and Nettles replied it was. Director Lorenzen then asked whether the increase in tuition would be attributable to the increment of students attributable to the project and Nettles replied it was. Kenton clarified that OIT was proposing a differential tuition for health professional students and Nettles observed that the concept was not new to OIT. Director Nesbitt stated that he wanted to be clear about the key policy question of approving a certain differential tuition and future tuition increases. Chair Blair observed that with any projects there are projections and Kenton
noted it was true, but in this case, the proposal includes funding a project with incremental revenues from that enrollment growth. Chair Blair reiterated the concept that the Board makes a number of decisions that are based on many financial projections. President Dow added that OIT was also exploring additional private donations, particularly with the equipment and instrumentation areas. Director Nesbitt stressed that he was not questioning the need for the program, but that he wanted to be clear about the tuition implications and asked whether this proposal involved a 5 percent surcharge on the tuition of these students.

Director Nesbitt, OIT Vice President Nettles, and Chair Blair discussed the concept of a surcharge and annual tuition increases and clarified what the OIT project was proposing. After some confusion, Kenton explained that the 5 percent incremental tuition increases from pre-existing and new health professions majors would be dedicated to the building. Nettles explained that the growth and the 5 percent should be collapsed and dedicated to the building. Chair Blair asked Nettles about prevailing wage assumptions and Nettles replied that he was assuming prevailing wage would be the requirement. Chair Blair asked if it was part of the financial statements and Nettles said it was. Chair Blair asked what the management fees were as described in the docket item and Nettles explained it would be used by the LLC to manage the facility, legal costs, and operation and maintenance. Chair Blair asked about the triple-net lease and Nettles confirmed it was a triple-net-lease arrangement. Chair Blair inquired whether the $3 million gift showed up in two places and Nettles noted it would be for potential operating shortfalls and some of the equity requirement.

Director Lorenzen observed that he liked the concept generally but that he was somewhat uncomfortable with the revenue and expenditure projections. He noted that he would like to see additional information regarding the projections. Chair Blair echoed Director Lorenzen's comments and added that he would like to see more information on the financial parameters and how to benchmark them appropriately. He added, though, that he felt that the Board should find a way to make the project work. Director Richmond added that it would be important to make sure those on campus were comfortable with the project and involved in the planning. Director Dyess offered that the project would speak to the workforce shortfall in these areas.

5. **ADJOURNMENT**

Chair Blair adjourned the meeting at 10:55 a.m.

Donald W. Blair  
Chair, F&A Committee

Ryan J. Hagemann  
Secretary of the Board