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

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

Others present included: President Mark Weiss*; 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 to order at 1:04 p.m. and Secretary Triplett called the roll to verify those participating by phone.

2. **ACTION ITEMS**

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

Chair Schueler called upon Controller Mike Green to present the item, who noted this is the fourth quarter for Fiscal Year 2012 and a recap of the year, with the presentation focusing on the significant variances between actual expenditures and the adjusted budget. As a footnote, the Committee was reminded of Senate Bill 1579 that repealed SB 939, which had allowed for a 54 percent draw of the biennial appropriation in the first year of the biennium. As a result of SB 1579, the first year draw reverted to the normal 49 percent appropriation, thus reducing the state appropriation by $29 million in FY 2012. This drawback caused the actual revenue amount to be under budget for each campus and the Chancellor’s Office; however, there is no impact on the biennium other than a cash-flow aspect. In addition, there was a $3.1 million incentive funding in the Chancellor’s Office state General Fund adjusted budget balance that was redistributed to the campuses during the second quarter.

**IN SUMMARY**

**EOU:** Tuition and fees were less than the adjusted budget mainly due to higher fee remissions, lower summer session enrollment, and reduced technology fees; ending E&G fund balance was
7.8 percent of revenues compared to the 5.8 percent anticipated in the adjusted budget, with the ending fund balance within the board policy range. Auxiliary enterprises revenues were less than the adjusted budget primarily due to lower housing occupancy and meal plan sales than budgeted.

**OIT:** Tuition and fees were higher than the adjusted budget mainly due to spring enrollment exceeding expectations; services and supplies were less due to delayed spending, an overall endeavor to conserve spending, capitalizable software purchases that were budgeted but expensed in capital outlay, and a change in account for expenses reimbursed by the Foundation from E&G to restricted funds. The ending E&G fund balance was 16.2 percent compared to the 9 percent anticipated in the adjusted budget and outside of the Board policy range. Auxiliary revenues exceeded budget mainly due to outsourced food services and bookstore revenues, rent income from Wilsonville, and gift & other revenues being greater than expected. Auxiliary expenses exceeded budget primarily due to the expenses relating to outsourced operations, the Wilsonville rental activity, Geothermal project debt service, and athletics playoffs being higher than expected.

**OSU:** Other revenues were higher than the adjusted budget as a result of cost recoveries, the sale of energy credits, student fees, reimbursements for energy upgrades, and the sale of the president’s residence. The E&G ending fund balance was 11.2 percent, and is within the Board policy range.

**PSU:** Due to a shift in the mix of students from WUE to nonresident and lower fee remissions, tuition and fees exceed the adjusted budget and other revenues were greater than the adjusted budget due to higher than anticipated distance learning and interest income. The E&G ending fund balance was 18.9 percent compared to the anticipated 17.1 percent and is above the Board policy range. This will be monitored during the second year of the biennium.

**SOU:** Tuition and fees exceeded the adjusted budget due to stronger enrollment growth in online courses and increased retention; other revenue was greater primarily due to the proceeds from the unanticipated sale of energy tax credits. The E&G ending fund balance was 8.1 percent compared to the anticipated 3 percent and is within Board policy range.

**UO:** Tuition and fees were less than the adjusted budget, primarily due to increased fee remissions, lower than expected summer enrollment, and an OUS Controller’s Division error in calculation of the amount of summer session revenues to be accrued. Services & supplies were less than budgeted mainly due to the delay in hiring of new faculty, which delayed the timing of related start-up expenses and departmental spending being under budget. Vice President Moffitt advised that with the significant growth over the past year (having added about 4,000 students), the University is in a “time of change” and investment is required for the long-term infrastructure to support this growth. The E&G ending fund balance was 15.6 percent compared to the anticipated 12.9 percent; this is above Board policy range and will be monitored during the second year of the biennium. With the “RCM” academic budget model, funds flow to the department level for discretionary spending and the anticipated hiring of new faculty during the second year of the biennium will result in the associated costs reducing the fund balance at that time.
**WOU:** Western’s E&G ending fund balance was 19.3 percent compared to the anticipated 17.8 percent; this ending fund balance is within Board policy range as WOU’s range is 10-20 percent due to their tuition Promise Program.

**Chancellor’s Office:** The Chancellor’s Office E&G ending fund balance was 22.6 percent compared to the anticipated 24.1 percent; transfers out were more than budgeted due to increased OMI transfers, EOU Promise funding, and a change in clinical education legal funds to be treated as transfers-out.

Overall, due to conservative spending, services & supplies, capital outlay, and transfers-out were lower than the adjusted budget in the first year of the biennium and other revenues were greater due to higher cost recoveries and sales of energy tax credits. The net result is the System fund balance ended at 14.6 percent compared to the 12.9 percent anticipated in the adjusted budget, after taking into consideration the change in state appropriations.

When discussing the variances in the ending fund balances—whether increased or decreased, anticipated or unanticipated—Chair Schueler noted that a trending must be over a 5-year period or more rather than using only a 1-year snapshot in order to have an accurate view of revenues and expenditure trends. Mr. Green agreed and noted that the campuses will begin providing a 5-year overview to the Committee in November.

**ACTION:** Following a brief discussion, Chair Schueler called for a motion to accept the quarterly management report for the fourth quarter; Directors Ciuffetti made the motion and Ford seconded, motion carried.

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

Chair Schueler called upon Ms. Karen Levear to present the annual investment report ending June 30th. She advised that FOMC (Federal Open Market Committee) met in August and announced that it will continue to provide support for the U.S. debt by actively buying up debt and, unlike QEI and QEII, QEIII will be for an unlimited dollar amount for an unlimited amount of time. This has met with mixed reactions with investors as investment returns will be kept on the lower-end. Also announced, the FOMC will hold short-term rates to at or near zero for the next three years.

With the new investment strategy instituted through the internal bank, returns were more than doubled—earning an additional $1,355,000 in investment earnings during the last quarter and investment earnings gained over $8 million during FY 2012 and was distributed to OUS institutions. Discussion was held concerning the declining System liquidity; however, this decline is being closely monitored and the level of liquidity is in the process of resetting to a “new normal.” As a result of changes, fiscal policies will be reviewed and amended as needed to ensure appropriateness.

She confirmed that, as the Western Asset Core-Plus Bond Fund is at 29 percent, the Oregon State Treasury will be rebalancing the OUS portfolio and sell $3 million of this fund and invest
the monies into the Morgan-Stanley Prime Property Fund, which is a hard-asset real estate fund.

In conclusion, Ms. Levear advised that the overall OUS investment performance remains in the top 1 percent of comparable-sized entities.

**ACTION:** Chair Schueler called for a motion to approve the annual report on investments; Directors Ganjifard made the motion and Ford seconded, motion carried.

3. **DISCUSSION ITEM**

a. **OSBHE Committee Work Plans, 2012-13**

Chair Schueler centered the conversation around the proposed 2012-13 work plan, as discussed and approved at the 2012 Board retreat. Staff and Committee members provided comments and added clarification/direction for the plan.

Ms. Snopkowski reported that the State Auditors have conducted a broadly-based performance-based objective audit of affordability, which she will provide the results of at the October meeting.

Triplett asked Chair Schueler and Vice Chancellor Kenton if four-hour monthly meetings should continue in 2012-13; Schueler requested that the work plan be reviewed to estimate how much meeting time and where in the calendar topics would fall prior to making the schedule determination.

4. **APPROVAL OF MINUTES**

**ACTION:** Chair Schueler called for a motion to approve the July and August 2012 committee minutes; Directors Ciuffetti made the motion and Ford seconded, motion carried.

5. **ADJOURNMENT**

With no further business proposed, Chair Schueler adjourned the meeting at 2:55 p.m.