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MINUTES

Committee members present included: Chair Kirk Schueler, Lynda Ciuffetti*, Allyn Ford, and Farbod 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, 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), Craig Morris (SOU), Monica Rimai* (PSU), Lon Whitaker (EOU), Eric Yanke (WOU), and Mary Ann Zemke (OIT); Randy Geller and Greg Strip (UO); Bill McGee (DAS).

*indicates participation by phone

1. CALL TO ORDER/ROLL CALL/WELCOME

Chair Schueler called the meeting to order at 1:01 p.m. and asked the Secretary to take roll.

2. CONSENT ITEM

a. Approval of Minutes, January 18, 2013

ACTION: With no comments or corrections provided the chair called for a motion to approve the January minutes as presented in the docket materials. Directors Farbod Ganjifard and Allyn Ford made the motion and second, respectively; motion carried.

3. AGENDA ITEMS

a. OUS, Managerial Reporting – Quarterly Management Report

Controller Mike Green called the committee’s attention to the “dashboard” report in the docket (Appendix B, page 591), noting that this was developed to provide the data points and

1 http://www.ous.edu/sites/default/files/state_board/meeting/dockets/ddoc130215-FA.pdf
analysis upon which the committee previously viewed in the more detailed reports, including realization and burn rates, percentage changes, and changes in the annual projections. Each campus report contains pertinent notes explaining the movement within the different fund categories.

**ACTION:** With no discussion offered pertaining to the information provided, Chair Schueler called for a motion to approve the quarterly management report as of 12/31/12. Directors Farbodd Ganjifard and Allyn Ford made the motion and second, respectively; motion carried.

b. **OUS, Report on Investments – As of December 31, 2012**

Prior to presenting the report on investments, Ms. Karen Levear, director treasury operations, announced that the Internal Revenue Service completed their audit of the 2004 OUS bonds with no change in the tax status of the bonds. Controller Green added that the IRS examined the arbitrage calculations, the spend-down policies and processes, private use calculations, contracts related to private use, and conducted visual inspections of several buildings to detect obvious private use within the buildings. The System was represented by bond counsel during these inspections who also served as the contact point with the IRS agent. Ms. Levear attributed the success of the audit to the efforts of staff at the universities as well as the System office. Chair Schueler noted that the success of the audit lends credibility to the controls and processes in place in the area of bond compliance.

In December, the Oregon Investment Council (OIC) conducted its annual review of the System’s pooled endowment fund. The report was made to them by State Treasury’s Investment Division and Treasury’s investment consultant. The consultant recommended no policy changes and that the expected long-term rate of return for the target asset allocation was just over 7 percent. This level of return exceeds expected inflation and the 4 percent spend rate so the portfolio is expected to grow slightly in real terms.

Ms. Levear explained that the OUS Fund is comprised of all the cash within the System and it is managed by Internal Bank. The OUS Fund had a positive total return of .4 percent for the quarter. Under the current treasury structure, the investment earnings distributed to the campuses during the quarter was 1.37 percent, annualized (totaling just under $2.3 million); however, under the old structure, the earnings would only have been a little less than $1 million or 0.60 percent, annualized.

Of note, Ms. Levear reported that the Internal Bank Oversight Committee recently listened to a presentation by a Southern Oregon University student on the topic of socially-responsible investing—specifically about the concerns that a group of students have regarding investments in fossil fuel extraction companies. They feel that these investments are misaligned with the missions of the universities. She indicated that, in response to the oversight committee’s query as to where the System falls in the socially-responsible investing spectrum, she will be conducting a review of the System’s portfolio and offered to provide that report to the F&A
Committee when completed. She indicated that “socially-responsible investing” usually means different things to different people and a policy decision will need to be developed that identifies what values (causes or issues) will be used to determine whether or not the portfolio has been created in a socially-responsible way. Vice President Morris added that this presentation was recently given at the OUS Sustainability Conference and the students at this conference developed six goals around sustainability and that socially-responsible investing was included as one of the goals. The students have begun to gather around an initiative to move forward for the institutions to make presentations to the university foundations and others that control investable funds. He confirmed that this is an initiative that is “getting some legs” with the students. Vice Chancellor Kenton added that students nationally are urging their campuses to move from using and investing in carbon-based and fossil fuels to more responsible forms of energy. He pointed out that there may be areas in the central bank and endowment funds, and potentially with the 403(b) and Optional Retirement Plans, that could be restructured to align with socially-responsible investing.

Controller Green clarified that, ultimately, the state Treasury has the final authority to manage the OUS portfolio; however, if the System committed to aligning investments with socially-responsible investment values, we could urge the state Treasurer’s Office to carry out that commitment. In response to the chair’s question concerning recourse if the Treasurer’s Office decided against the recommendation, Mr. Green advised that as the authority was established by statute, the System would not have the option to manage its own portfolio and would have to abide by the decisions of the Oregon Investment Council.

**ACTION:** With no further discussion offered, Chair Schueler called for a motion to approve the second quarter investment report as of 12/31/12. Directors Lynda Ciuffetti and Allyn Ford made the motion and second, respectively; motion carried.

c. **OUS, Risk Management Quarterly Update**

Chair Schueler called upon Ms. Ellen Holland, Chief Risk Officer, OUS Risk Management, to present the update. Ms. Holland began her presentation by thanking the campus vice presidents for finance and administration, Vice Chancellor Kenton, Chancellor’s Office staff, and the actuary (Kevin Wick from Price Waterhouse Cooper). Referring to the docket, she described the Risk Management Program Policy as having three key components and is the strategic umbrella portion of the risk program. The three key components consist of 1) the establishment of a Risk Oversight Committee (ROC)—headed by the Vice Chancellor of Finance and Administration, who is the de-facto non-voting member, and includes representatives for the vice presidents of finance and administration—and is the “deciding arm” of the policy; 2) formalizes and embeds the Risk Council into the program; and 3) the System Office of Risk Management to manage the program (including purchasing insurance, bind coverage, investigating claims when needed, and making claim settlements with the authorization of the ROC). The policy is designed to be broad and general in order to provide flexibility in the ever changing environment.
**ACTION:** Chair Schueler called for a motion to approve the Risk Management Program Policy. Directors Farbodd Ganjifard and Allyn Ford made the motion and second, respectively; motion carried.

The Risk Fund Policy discusses the need to protect the funds associated with the policy in order to have a sustainable program over time. The three subfunds protected under this policy include the casualty fund (e.g., general liability, employment claims), the property fund (specific to real property), and the workers’ compensation fund. Flexibility has been included in order to provide the opportunity to add other funds in the future.

It was explained that these policies and funds have been created as a result of the movement away from the Department of Administrative Services, as authorized under Senate Bill 242. In the past, DAS maintained reserves to cover risk management for all state agencies and these monies were transferred to OUS ($10.1 million). Discussion was held concerning the outstanding claims as determined by DAS prior to the transfer to OUS and how it is anticipated that the total cost of these claims will be reduced through management provided by the ROC and the System/campus legal counsel.

**ACTION:** Chair Schueler called for a motion to approve the Risk Fund Policy. Directors Allyn Ford and Farbodd Ganjifard made the motion and second, respectively; motion carried.

The Risk Allocation Model for the 2013-14 assessment was then explained. The model is based on the key assumptions that the model is: 1) fair and transparent, 2) utilizing proportionality for the campuses (noting the variances in size and make-up of the campuses), using exposure units as a portion of the allocation model, and 3) using the experience of the campus. The model was built around four budgeted areas: workers’ compensation, general liability, auto liability and property damage, and property. The amounts budgeted for the 2013-14 insurance funds were based on the final premium costs of 2012-13. For the expected claims cost, each campus cost represented is driven from their actuarially rated experience model, as reported by Price Waterhouse Cooper (based on a 5-year historical picture and a forward projection based on experience). The operations cost allocation of the model took into consideration the level of expertise available on each campus; however, to cover Chancellor’s office staff time, the following percentages were charged: 20 percent for workers’ compensation, 30 percent for property, and 50 percent for casualty and all other areas.

Dr. Kenton indicated that the data provided in each exhibit have been projected for 2013-14 and will be given to the campuses in order to be built into their 2013-14 budgets, and have the potential of affecting rates for housing, tuition, or other items. This information will be provided to the Committee for approval on an annual basis, most likely in the first quarter of the calendar-year. It is hoped that incentives will be awarded to the campuses, on the basis of performance, in the form of additional funding for loss control and will be decided by the Risk Council and the ROC.
During the discussion, Vice President Monica Rimai, PSU, expressed her support of the policies and the 2013-14 assessments, even though PSU’s contribution is increasing considerably. Property costs are high, due to the age of the university’s facilities, and she offered that, unless that reality is linked to funding for deferred maintenance and supporting the differences in the System campuses that drive up other costs, an impossible, vicious cycle is perpetuated at Portland State. “The more that we have to pay into insurance the less we’re going to have to maintain our facilities…and no amount of change in culture is going to change that reality.” Chair Schueler answered that “there’s no doubt that when you change some economics, you usually change some behaviors.” Ms. Holland acknowledged Ms. Rimai’s comments pertaining to property insurance and how it has raised awareness of the need for concerted deferred maintenance. Various assumptions were also reviewed in order to make it very fair for all of the campuses and then smoothed out any spikes that could be hid if a large loss was experienced by using a 5-year retrospective review on their losses rather than having to pay for a cost as it occurs.

**ACTION:** Chair Schueler called for a motion to approve the 2013-14 Risk Allocation Assessments. Directors Farbodd Ganjifard and Allyn Ford made the motion and second, respectively; motion carried.

Dr. Kenton asked whether or not the Committee desires to approve the annual allocations for delegate the approval authority to the ROC (similar to how the Internal Bank is operated); Chair Schueler opined that the Committee would appreciate an annual update but that the actual approval of assessments could be delegated.

Ms. Holland then provided an update on OUS claims (see exhibits 4A and 4B). She noted that the way in which money will be saved in the program is by tightening up the claims control areas; minimizing losses in frequency to begin with, and then tightening costs overtime.

**ACTION:** Chair Schueler called for a motion to accept the general risk management update. Directors Allyn Ford and Farbodd Ganjifard made the motion and second, respectively; motion carried.

d. **Oregon Tech, Approval of Restrictive Covenant for 1.75 MW Geothermal Power Plant Project**

Vice President Mary Ann Zemke, Oregon Tech, was called upon to provide background on this request.

**ACTION:** Chair Schueler called for a motion to permit Oregon Tech to obtain the necessary permits to construct the building and infrastructure for the 1.75 MW Geothermal Power Plant Project and to specifically authorize Oregon Tech to execute and enter into the Restrictive Covenant. Further, that the Committee specifically authorized Mary Ann Zemke, Vice President for Finance & Administration at Oregon Tech, to execute all the foregoing related documents.
on behalf of Oregon Tech. Directors Allyn Ford and Farbodd Ganjifard made the motion and second, respectively; motion carried.

4. **REPORT ITEMS**

a. **OUS, Senate Bill 242 One Year Later – Legal Services Update**

This item was postponed.

b. **OUS, Capital Projects Financial Analysis**

i. Comparison of OUS capital construction costs by component to typical commercial projects

ii. Comparison of OUS capital construction costs by type of project to other universities

Chair Schueler called upon Alice Wiewel, director of capital planning and construction, to present the capital projects financial analysis. She advised that, at the short legislative session in February 2013, questions were raised concerning the System capital project costs. In preparing for the session, two studies provided analyses. One study benchmarked costs across peer institutions for four building types and segregating the regional institutions from the large institutions. In comparison to the peers, 190 different individual projects were identified (with costs normalized and regionally adjusted) and revealed that System institutions tend to incur lower costs. This analysis was conducted by Sightlines, and cover projects during the period of Fiscal Year 2005 through 2012.

The second study, conducted in partnership with Fortis Construction and Skanska USA, looked at components of projects, comparing commercial projects to university projects (e.g., lifespan gained through component and material selections). This study also confirmed that System universities are appropriately utilizing state funds in the stewardship of the facilities.

c. **2013-2015 Budget Update**

Ms. Jan Lewis, assistant vice chancellor for budget operations, provided an update on the 2013-2015 biennial operating and capital budgets. She advised that the Legislative Fiscal Office routinely requests agencies to model reduction scenarios. The specific request this year was to model reductions to the Current Service Level of 5, 10, and 15 percent²; although these percentages are based on the total General Fund allocation, when allocated to the appropriations, these reductions are cannot be allocated to debt service as the System is legally obligated to pay debt service. In response to Director Ganjifard’s query concerning a reduction considered during the last legislative session and the potential for a reduction in the upcoming session, Pernsteiner advised that the economic forecast released that day substantiated the governor’s proposal and that there isn’t an imminent budget reduction due to the forecast.

² See table 1, page 36, of the docket.
However, the Governor’s Balanced Budget proposed a variety of changes to PERS and sentencing that, if not adopted, will create additional claims on the General Fund that could potentially trigger reductions later in the session.

Additionally, Ms. Lewis advised that Governor Kitzhaber announced his priority list for $242 million in capital construction projects and that the priority list for the System followed the recommendations put forward by the F&A Committee in January.

d. 2013-2015 Outcome-based Budget Update

Ms. Lewis advised that the newly formed workgroup with representatives from the seven universities held an organizational meeting with Dennis Jones, the consultant from the National Center for Higher Education Management Systems (NCHEMS), to determine the types of criteria to be included in the development of the model. At the next meeting, Mr. Jones will present an initial model with which the workgroup may use to create scenarios. The model will be based on factors that contain elements such as achievement compacts, research, economic development, and outreach, etc.

Vice Chancellor Kenton advised that the workgroup is currently comprised of three provosts, three vice presidents for finance and administration, and one vice provost for student affairs. A student from Western Oregon University is participating and the Oregon student Association has been approached to assist in identifying additional students who might also participate.

Significant amounts of money could be allocated through the outcome-based budget as the GBB proposed 30 percent of the university support fund be allocated through this vehicle. The university support fund is approximately $480 million; therefore, 30 percent translates into approximately $145 per biennia and $72.5 million per year. Discussions of stop-loss will be conducted in order to prevent disruption of the funding streams and to allow time for agencies to adapt. Chief Education Officer, Dr. Rudy Crew, has indicated that this process most likely will not be in use until the 2014-15 allocation.

5. ADJOURNMENT

With no further business proposed, Chair Schueler adjourned the meeting at 2:58 p.m.