December 19, 2014

TO: MEMBERS OF THE STATE BOARD OF HIGHER EDUCATION

The Oregon State Board of Higher Education will convene on Friday, January 9, 2015. This meeting will be held in accordance with the time, location, and schedule listed below:

**Friday, January 9, 2015**

9:00 a.m. – 3:00 p.m. Full Board meeting  
Western Oregon University  
Werner University Center, Columbia Room

Western Oregon University is located at 345 North Monmouth Avenue, Monmouth. If special accommodations are required, please contact the Board's Office at least 72 hours in advance.

Sincerely,

Ryan J. Hagemann  
Secretary of the Board
1. CALL THE PUBLIC MEETING TO ORDER/ROLL CALL/WELCOME

2. REPORTS
   a. Chancellor’s Report
   b. Presidential Reports
   c. HECC Outcomes-Based Funding Technical Workgroup Update
   d. Board Transition Report
   e. Presidential Search Report
   f. Tuition Setting Procedure

3. ACTION ITEMS
   a. EOU Advantage Tuition Proposal
   b. Oregon Tech Health Informatics Academic Program Proposal
   c. SOU Student Recreation Center XI-F Bond Request
   d. EOU and Oregon Tech Repurposing of XI-Q Bond Request

4. CONSENT ITEMS
   a. Annual Audited Financial Statement
   b. Periodic Management Reports
   c. Quarterly Audit Reports
   d. Investment Performance Reports: June 30, 2014 and September 30, 2014

5. DISCUSSION ITEMS
   a. EOU and SOU Metrics, Conditions and Guidelines Discussion

6. ADJOURNMENT
Chancellor’s Report

Attachment:

Excerpt from the Governor’s Recommended Budget
University Outcomes-Based Funding Technical Workgroup Update

The HECC, acting under ORS 351.735(3)(f) and 351.735(3)(b) to determine the allocation of state resources to universities, has undertaken an effort to redesign the funding allocation model to support its productivity agenda. The productivity agenda transitions university funding allocations from the current enrollment-based system to a student focused outcomes-based funding (OBF) model which invests the General Fund resources on high quality teaching and learning, student access, and completion. This focus is accomplished by rewarding degree completion, and providing incentives for institutions to support the neediest and hardest to reach students, and to serve the state’s economic development goals through increased funding for degrees in high-demand high-reward fields. Outcomes imbedded within the model, over the long-term, must be sufficiently funded so as to meaningfully reward institutions for their innovative ideas and efforts at meeting the needs of Oregon students. The Governor’s Recommended Budget (GRB) supports this effort through significant reinvestment in the Public University Support Fund. In June of 2014 the HECC formed an advisory technical workgroup to develop this model and make recommendations to HECC staff. The workgroup is convened by HECC staff and comprised of senior financial and academic leaders from each of the seven public universities, the President of the Interinstitutional Faculty Senate (IFS), and the ASPSU Student Body President representing the Oregon Student Association (OSA), and it is facilitated by HCM Strategists, national experts in the work.

This OBF model will align the investment of the Public University Support Fund with HECC’s and state of Oregon’s ambitious 40-40-20 degree attainment goal. The Governor has directed the HECC to develop and implement an OBF allocation model for implementation during the 2015-17 biennium. The workgroup has made efforts to learn from other state’s best practices, to anticipate potential unintended consequences and mitigate them either within the model or through outside structures. Specifically, this includes a that is unique to Oregon on academic quality, which has been discussed with the Provost’s Council and IFS and will function outside of the funding model and be developed separately with university academic leadership.

<table>
<thead>
<tr>
<th>Potential Metrics</th>
<th>Potential Student Sub-Populations</th>
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<tbody>
<tr>
<td>Degree Completions</td>
<td>Under-Represented Minority Students</td>
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<tr>
<td>Baccalaureate</td>
<td>Low-Income Students (Pell Recipient)</td>
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<tr>
<td>Masters</td>
<td>Rural Students</td>
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<tr>
<td>Doctoral</td>
<td>Veteran Students</td>
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<tr>
<td>Certificates (Graduate)</td>
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<tr>
<td>High Cost – High Demand Fields (STEM and Health)</td>
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The workgroup has developed a set of meaningful metrics which support the HECC strategic plan and comport with the principles provided to the group. These include: that any funding model reflect the OEIB’s Equity Lens, that it focus on Oregon resident students, encourage completion of high-demand and high-reward degrees, and allow institutions with differing missions and scopes to be rewarded for their efforts, while maintaining clarity and simplicity. The model includes
student credit hour completion for resident students which closely matches the current funding system. This is a tool to allow for a deliberate and measured transition from enrollment to an outcomes-based funding system over a reasonable course of time.

The workgroup will continue to refine the functioning and details embedded within the model, while teeing up policy questions for the Commission’s consideration in early 2015. Policy questions include: the ultimate level of outcomes-based funding desired, the priority of student sub-populations, how to treat niche professional programs with very high costs, whether weighting factors for degrees should be adjusted based on the cost of degrees, among several others. The workgroup has provided for maximum flexibility within the model to allow for adjustments to meet the HECC’s policy priorities and support each institutions unique position, while being flexible over time. After receiving policy guidance from the Commission, the workgroup’s efforts will shift to implementing the HECC’s priorities through refinement of the model and structuring the transition process.

There is a real probability that over time the proportion of state funding will shift between institutions. The workgroup will, after receiving policy direction from the HECC, develop a transition plan beginning with implementation in the 2015-16 fiscal year, to phase-in changes over a reasonable period of time. The transition period and rate of change will reflect the relatively fixed-cost structure of institutions, the long life-cycle of student progress, and be a function of the amount of change endogenous in the model and the level of funding provided by the state. Included within the model is a stop-loss provision designed to mitigate downside risk to institutions.

Faculty, students and institutional leaders have each engaged around the issues of academic quality and productivity. The workgroup has affirmed that quality is of upmost and primary importance, and that the quality of education, in pursuit of higher attainment rates, cannot be sacrificed. The workgroup supported the tenor of a proposal by IFS President Jeff Dense to include a statement on academic quality in the OBF model process. This recognized the importance of quality and that it cannot be reasonably distilled to a single objective numeric measure necessary for incorporation into a funding model. This statement includes the recommendation that institutions report to the HECC on their efforts to ensure academic quality is maintained and enhanced. The Provost’s Council has committed to providing the HECC with a set of metrics already in use at the seven public institutions. Salam Noor, Director of Academic Planning and Policy will staff this work with leadership from Commissioner Kirby Dyess.

Policy direction from the HECC is expected in early 2015. This will allow for the workgroup to conclude refining the model and developing an implementation plan beginning in the upcoming fiscal year. The completed model and transition plan will be forwarded to the Executive Director for review and an eventual HECC staff recommendation to the Commission.
Campus Process for Tuition Recommendations for the Academic Year 2015-16 and Summer Term 2016

Summary

The setting of tuition rates for the 2015-16 academic year and summer term 2016 will occur as the EOU, Oregon Tech, SOU & WOU are transitioning from governance by the State Board of Higher Education to governance by institutional boards. This discussion will help to establish a framework for the Board to consider tuition and fee recommendations.

Background

The Finance and Administration Committee has provided general guidance and expectations to the institutions in the past. With the passage of SB 270, all public universities were exempted from state rulemaking requirements for the tuition and fee setting process. The universities must still engage enrolled students and student government in the process, but the Board may achieve this through a “standard process” instead of a state rule. Campuses have previously established processes and advisory committees that address student involvement (see Attachment A – OAR 580-010-0089) and seek to improve their methods of inclusion each year.

Per ORS 351.063 (4) (a) The State Board of Higher Education may not increase the total amount of enrollment fees by more than five percent annually unless the board first receives approval from:

(A) The Higher Education Coordinating Commission; or
(B) The Legislative Assembly.

(b) The State Board of Higher Education shall attempt to limit annual increases in enrollment fees for undergraduate students who are enrolled in a degree program at a public university listed in ORS 351.011 and have established residency in Oregon to a percentage not greater than the percentage increase in the Higher Education Price Index, as compiled by the Common Fund Institute.

Note: the 2014 Higher Education Price Index (HEPI) preliminary forecast is for a 3% increase.

For additional context, these are the elements of institutional presentation that were requested in prior years:

1. Describe your institution’s tuition strategy. Describe how the strategy fits within the overall strategic plans of the institution and system.
2. Describe the process used to ensure student participation in the development of the proposed rates, include a summary of the feedback received from students on the proposed rates.
3. Provide benchmarks or peer group comparisons, if any were used to inform your process.
4. Describe how the proposed rates will impact access and affordability on your campus.
Include a discussion of how you intend to meet the Board’s policy of funding at least 12% of unmet need of resident undergraduate students.

5. Provide a summary of how this rate proposal will maintain campus financial sustainability over the fiscal year with projections of Education and General (E&G) fund balance at 6/30/16.

6. Provide the specific tuition and fee rates being proposed.
   - If any new differential tuition rates are being proposed include supporting documentation as specified in the Board’s Differential Tuition Policy.
   - If rate increases are being proposed, discuss how incremental revenues will be deployed.

Calendar

A draft schedule for developing the 2015-16 Fee Book is shown in Attachment B. While the exemption from state rule-making allows more flexibility in setting the timeline, the opportunities for student engagement and advice and for public comment have been retained.

Discussion

The following suggested guidelines are offered for discussion and consideration.

- Continue student participation practices that were established under OAR 580-010-0089.
- Provide written confirmation that the university’s nominated institutional board has reviewed and endorsed the proposed rates.

Considerations for the Fee Book Document

- Include background information on the governance transition and, show a link to PSU, OSU and UO websites for their tuition information noting that this is approved by their Boards.
- Reorganize the document as the Oregon Technical and Regional University Fee Book, with the State Board of Higher Education tuition and fee policies being applicable to EOU, Oregon Tech, SOU, and WOU. Place the tuition and fee info for each institution in the Appendix.
ATTACHMENT A

OAR 580-010-0089
Student Involvement in Development of Proposed Resident Undergraduate Tuition Rates
(1) The Board shall establish the tuition and fees to be assessed at each institution in accordance with applicable statutes and upon the recommendation of the institution president and the Chancellor. This section shall not impair the entities of student government or the Board under ORS 351.070(3)(d).
(2) Each institution will establish a process for student participation in the development of recommended rates for resident undergraduate tuition. The planned process will be communicated to the duly elected student government for discussion and input.
(3) Prior to the formal submission of proposed tuition rates to the Chancellor, or designee, the institution president, or designee, will provide an opportunity for the duly elected student government to consider and comment on the proposed rates. Efforts shall be made by both the appropriate student representatives and members of the university administration to accomplish this exchange in a timely manner that 1) provides for adequate student consideration and takes into account the academic calendar and 2) allows institutions to meet necessary deadlines for submission of proposals.
(4) As part of formally submitting rate proposals to the Chancellor, or designee, the institution president (or designee) will convey: 1) the process used by that institution to involve students in the development of recommended tuition rates and 2) the specific resident undergraduate tuition rates being proposed.
Stat. Auth.: ORS 351
Stats. Implemented:
Hist.: OUS 6-2012, f. & cert. ef. 6-18-12
Attachment B

OREGON UNIVERSITY SYSTEM
Schedule for Tuition Recommendations
OUS 2015-16 Academic Year & 2016 Summer Session Fee Book*

<table>
<thead>
<tr>
<th>Beginning</th>
<th>Campuses engage in student advisory processes in accordance with OAR 580-010-0089</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fall 2014</td>
<td></td>
</tr>
<tr>
<td>January 2015</td>
<td>Fee Book templates sent to Campuses</td>
</tr>
<tr>
<td>March 23-27</td>
<td>Spring Break</td>
</tr>
<tr>
<td>April 10</td>
<td>Campus tuition &amp; fee recommendations due to Chancellor’s Office</td>
</tr>
<tr>
<td>27</td>
<td>Draft fee book available for public review</td>
</tr>
<tr>
<td></td>
<td>Public comment period begins - electronic submission available</td>
</tr>
<tr>
<td>April-May</td>
<td>Individual campuses may hold public hearings</td>
</tr>
<tr>
<td>May 8</td>
<td>Last day for submission of electronic public comments</td>
</tr>
<tr>
<td>25</td>
<td>Submit fee book docket to Board Secretary for full Board meeting</td>
</tr>
<tr>
<td>June 5</td>
<td>President or designees present to Board</td>
</tr>
<tr>
<td>12</td>
<td>Chancellor’s recommendations present to Board for approval</td>
</tr>
<tr>
<td></td>
<td>Final Fee Book published on OUS website</td>
</tr>
</tbody>
</table>

* Effective July 1, 2015, EOU, Oregon Tech, SOU and WOU will manage their tuition rates under the governance of their own institutional boards, separate from the State Board of Higher Education. The OUS 2015-2016 Academic Year and Summer 2016 Fee Book will be transitional. For this transitional year, institutions are expected to prepare and submit Tuition and Fee proposals for both Academic Year & Summer Sessions commensurate with the process outlined in this document.

This schedule and the information requested from the institutions may be subject to change. This schedule and subsequent updates will be posted on the OUS website at: www.ous.edu/facts-reports/tuition-fees
EOU Advantage Tuition Proposal

Background

Eastern Oregon is a region that has median incomes below the state median. This region also has many children living in poverty and higher than average unemployment rates. However, being a rural area, people from this region are known for their character, which includes being hard-working and they understand the principals of an agreement whereby to get something you have to give something in return.

Given these factors and the fact that EOU needs a means to differentiate itself from other universities in the marketplace, EOU is proposing the following program, known as the “Eastern Advantage.” This program combines benefits to the students, their families and the institution and is premised on an implied agreement as described below.

Proposal for the Eastern Advantage Program

The Eastern Advantage program is an optional program available to first-time freshmen in Oregon, Washington and Idaho who qualify for in-state rates. The program is premised on the following sets of responsibilities:

EOU’s Responsibilities:
1. A fixed tuition rate for four years.
   a. Students pay a slightly higher tuition at the inception of the program, but save money over their four years at EOU.
   b. Required fees (incidental, health and building) are not part of the tuition guarantee, thus will change as determined by EOU student government,
2. To guarantee that all students who opt into this program can get the coursework needed to complete their program of study in four years.
   a. Students must hold up their end of the bargain as outlined below.
   b. Students changing majors may not be able to remain in the program.
3. To assist students in this program apply for financial aid from federal, state, institutional and private sources each year.
   a. The EOU Financial Aid Office will offer individualized planning on financing their education for Advantage students.
4. To assist students who are nearing graduation find employment in their fields.
   a. Help seniors find employment opportunities or assist with graduate school applications.
   b. Assistance writing resumes, interviewing techniques, preparing portfolios, etc.

Student Responsibilities:
1. Students must maintain academic eligibility.
   a. Enroll for the requisite courses each term.
1. Work with advisors and faculty to ensure schedule is completed correctly.
   b. Complete all coursework with acceptable grades.

2. EOU Advantage Alumni will be encouraged to:
   a. Donate 1% of their earnings (once they become employed) to an EOU scholarship fund to support future students, or
   b. Volunteer for the EOU Alumni association to assist in recruiting students or by working with admissions and the alumni offices.

The key benefits for this program are:
• Provides students with a specific advantage for attending EOU.
• Provides a financial and planning benefit for students and families.
• Differentiates EOU in the marketplace.
• Graduating in four years saves up to one year or more in tuition and living expenses.
• On-time graduation means faster access to the job market.
• Creates special cohorts that help student-to-student connections which can greatly assist with retention. This also facilitates streamlined curricular planning for the institution.
• On-time graduation means faster access to the job market.
• Drives student engagement with advisors, faculty and staff.
• Alumni start as freshmen and stay connected with EOU through graduation and beyond with an expectation for giving back to the institution.

To implement this program, EOU needs authorization from the State Board of Higher Education and the HECC to increase tuition beyond the 5% annual threshold. For the Fall 2015, EOU proposes to increase EOU Advantage Tuition rates by 10% over that charged currently. As noted above, this results in a savings for participants over the four year term of this program (see analysis below).
EOU Advantage Tuition Compared to Regular Tuition

Current 2014-15 Tuition - 15 credits per term/45 credits per year $6,030

EOU Advantage Tuition - 10% higher than 2014-15

2015-16 $6,633
2016-17 $6,633
2017-18 $6,633
2018-19 $6,633

Four Year Total $26,532

Non-Advantage Tuition with 5% Annual Increases

2015-16 $6,332
2016-17 $6,648
2017-18 $6,980
2018-19 $7,330

Four Year Total $27,290

Advantage Savings* $758

* additional savings likely from staying in school fewer years, etc.

EOU is requesting Board authorization to:
1. Increase tuition for students opting into the Eastern Advantage program for Fall 2015-16
   by 10% as noted above; and
2. To seek approval for such from the HECC at its next meeting.

Staff Recommendation

Staff recommends the Board approve EOU’s proposal for the Eastern Advantage program as
outlined above and authorize EOU to seek approval for a tuition increase in excess of statutory
limits from the HECC at its next meeting.

(Board Action Required)
Oregon Tech Health Informatics Academic Program Proposal

Oregon Tech seeks Board approval to offer an instructional program leading to a B.S. degree in Health Informatics.

1. *Describe the purpose and relationship of the proposed program to the institution’s mission and strategic plan.*

The U.S. health care system is in the midst of a technology transformation, moving from paper-based records to integrated electronic health information systems. Technology transformation, specifically electronic health records, data warehouses and integrated health information systems, is changing the face of health care organizations and the delivery of care. The B.S. in Health Informatics supports this transformation and prepares students to find employment as health informatics professionals and specialists. Currently, Oregon Tech offers a B.S. degree in Information Technology with an option in Health Informatics. Given the above changes in the U.S. health care system, a stand-alone B.S. in Health Informatics will ensure that students continue to receive extensive training in computer science, and also ensure increased exposure to statistics, biology, and medical sociology, disciplines central to the Health Informatics field.

This program aligns well with both Oregon Tech’s mission and its strategic plan which emphasize offering innovative and rigorous applied degree programs while also providing statewide educational opportunities for the emerging needs of Oregon’s citizens. Oregon Tech’s focus on engineering, engineering technologies, health technologies, management, and programs in the arts and sciences further complements the B.S. in Health Informatics.

2. *What evidence of need does the institution have for the program?*

The changing role of health informatics professionals is the result of the convergence of information management and information technologies. Health informatics professionals are being called upon to design and use emerging information technologies with the goal of helping providers and patients access and utilize key information in both clinical and business management. As computer systems evolve to help support clinical decision making, research, financial and revenue cycle management, and personal health management, demand for health informatics professionals will also grow to meet those needs. Health informatics professionals may expect to work in operational and management positions throughout the healthcare industry in such locales as hospitals, clinics, and managed care organizations, as well as with software vendors and government agencies.

More specifically, the Bureau of Labor Statistics (2010) estimates that demand for the Computer and Information Technology occupational group will increase by 22% over the next eight years and that jobs in the healthcare industry will grow, on average, by 29% over the same time period.
3. Are there similar programs in the state? If so, how does the proposed program supplement, complement, or collaborate with those programs?

In the Oregon University System (OUS), a joint degree exists between Portland State University and Oregon Health & Science University. This joint degree is a 4+1 designed for students who wish to pursue a B.S. in Computer Science and a M.S. in Biomedical Informatics. The B.S. in Health Informatics provides a different avenue for students that may not wish to pursue a master’s degree but still want a job in Health Information Technology, while also acting as a stepping stone for associate’s degree transfer students.

Outside of the OUS there are similar degrees offered by a few private institutions. The University of Phoenix and Western Governors University offer an online program that is similar to the proposed degree. This degree program, however, will be the only bachelor’s degree in Health Informatics in Oregon. In the northwest there are a number of Associate’s degree programs in Health Informatics, all of which allow students to complete an Associate’s degree and then transfer into the B.S. in Information Technology – Health Informatics Option (existing degree) at Oregon Tech. Rogue Community College, Lane Community College, Mt. Hood Community College, Chemeketa Community College, and Clark College are all regular feeders into this program. There is an opportunity, as well, for students to complete the B.S. at Oregon Tech and continue their education at Oregon Health & Science University, who offers both master’s and doctoral degrees in Clinical Informatics.

4. What new resources will be needed initially and on a recurring basis to implement the program? How will the institution provide these resources? What efficiencies or revenue enhancements are achieved with this program, including consolidation or elimination of programs over time, if any?

Given the Information Technology – Health Informatics Option currently exists; no new resources are needed, initially, to deliver the program. All of the courses have been developed and are regularly taught by existing faculty. Lab space is adequate and the program currently has access to a virtualized simulation lab. As the program grows, additional faculty may be recruited. In addition, technology and laboratory equipment would need to be updated over time. Enrollment growth in the program would help justify and fund future resources. With approval of the B.S. in Health Informatics, the Management Department has the opportunity to reassess the current Information Technology degree, which has four options. Given changes in student demand and constantly evolving technology, the faculty would like to explore eliminating all of the options and delivering two stand-alone degrees – Health Informatics and Business Informatics. This consolidation of programs would allow the faculty to streamline course offerings and support higher enrollments in the courses that are currently offered.
All appropriate University committees and the Statewide Provosts Council have positively reviewed the proposed program.

**Council Recommendation**

The Statewide Provosts Council recommends the Board authorize Oregon Tech to establish an instructional program leading to a Bachelor of Science (B.S.) degree in Health Informatics, effective Fall 2015.

*(Board Action Required)*
SOU Student Recreation Center XI-F Bond Request

Summary

The recommended capital budget for 2013-2015 included $20M in XI-F(1) Bonds for a SOU Student Recreation and Fitness Center. For those new to the Board, XI-F(1) Bonds are defined by Article XI-F(1) of the State Constitution. Article XI-F(1) bonds may be issued for projects that are self-supporting and self-liquidating. Each campus and auxiliary is responsible for their share of the debt service. SOU is requesting authorization for sale of $13.7M in XI-F(1) Bonds to complete the remodel and expansion of the Student Recreation Center. These bonds will be paid back through a student assessment per term. A student referendum in 2012 approved this assessment.

Background

In October 2013 the Board approved the sale of $6.3M in Student Building Fee XI-F(1) Bonds. $2.3M of this sale was used to satisfy Title IX compliance issues which included building a women’s softball field, enlarging the track and building a regulation size women’s soccer field. The remaining $4M was held pending the outcome of the additional $13.7M needed to complete the renovation of the Student Recreation Center. The Chancellor chose not to bring forward the $13.7M at that meeting pending receipt and review of SOU’s retrenchment plan.

Since the retrenchment plan was approved and is now in place, SOU would like to request Board authorization to sell the bonds in the upcoming sale currently scheduled in May. Because the project would involve repayment of the Bonds through student fees over the next 30 years, we requested this project be held until their independent Board is in place. Unfortunately, the bonding authority for the Rec Center project is valid only during the 2013-15 biennium, consistent with ORS 286A.035 which addresses the biennial authorization of bonds to be issued. If the bonds authorized in SB 5703 and Chapter 705 of the 2013 Oregon Laws are not issued by the end of this biennium, SOU will have to request the Legislature authorize the bonds for the next biennium.

To allow SOU to bring this request to this Board we asked that they first receive the approval of their newly formed independent Board. Although this approval has no legal or binding authority, we feel they should be informed and allowed to discuss and approve/disapprove this request. As such, SOU will present this same request to their Board in early January. Should SOU’s Board not authorize this sale, then the item will be removed from the docket.

Attachment:

Student Recreation Center Pro Forma
Re-purposing of Article XI-Q Bonds for EOU Authorized in the 2013-15 Legislative Session

Background

$2.0M in XI-Q bonds were authorized by the 2013 Oregon State Legislature to support the planning and design of a new technology and academic support facility (Eastern Learning Commons) at the Eastern Oregon University campus. However, subsequent to this authorization, EOU learned that planning and design activities that are used to fund expenditures that are not “capital expenditures” as defined by the constitutional language shown below do not qualify for funding with XI-Q bonds.

Per Article XI-Q of the Oregon constitution, the credit of the State of Oregon may be loaned and indebtedness incurred through the sale of XI-Q bonds to finance the costs of:

a) Acquiring, constructing, remodeling, repairing, equipping or furnishing real or personal property that is or will be owned or operated by the State of Oregon, including, without limitation, facilities and systems;
b) Infrastructure related to the real or personal property; or
c) Indebtedness incurred under this subsection.

Proposal

EOU is seeking authorization to repurpose the $2.0M in Article XI-Q bonds for EOU for the following uses:

1) IT/Communications Network Infrastructure Project

a) Project Description:
Meet critical needs to improve the campus with equipment purchases and installations in support of expanding the wireless network across campus and upgrading network switching equipment. These upgrades are necessary to meet OUS audit and EOU mission requirements. These improvements will affect the following facilities and functions:

Inlow Hall (remaining switches & Wi-Fi); Ackerman Hall (Wi-Fi); Badgley Hall (switches & Wi-Fi); Loso Hall (switches & Wi-Fi); Hoke Union (remaining switches & Wi-Fi); Alikut Hall (remaining Wi-Fi); North Hall (remaining switches & Wi-Fi); Daugherty Hall (remaining switches & Wi-Fi); Facilities Services (switches & Wi-Fi); Community Arts Building (Wi-Fi); Student Health & Counselling Services (switches & Wi-Fi); additional virtual-server computing power; additional campus-wide networked central-storage.

b) Project Cost: $1.0M
   i) Aruba wireless equipment;
ii) Juniper networking equipment;
iii) Dell r720 servers;
iv) Unitech CAT6 installation;
v) Unitech fiber installation; and
vi) Contingency.

2) **Campus Childcare Center Project**

   a) **Project Description:**
   EOU has undertaken numerous studies in the past to determine the feasibility of offering childcare services to its faculty, staff and students. This is a service that continues to be in demand within the EOU campus community with relatively few options in the greater La Grande area. EOU is issuing a Request for Information to determine the feasibility of creating a childcare center on campus. Given the financial and liability risks inherent in this type of operation, EOU will provide the facility but is only considering a contract operation with a licensed provider to shield the institution from these risks.

   Providers would need to be licensed by the State of Oregon and be able to offer quality childcare programs and services based on best practices. Providers must offer a nurturing and educational program that ensures the optimal physical, social, emotional and intellectual development of each enrolled child. It is hoped that faculty and early childhood education students could be involved in operations in order to offer best practices and high quality educational and developmental services.

   If feasible, this will require that a permanent facility be designed and constructed to EOU campus standards and to the specifications required by the State for child care facilities serving a broad range of ages (infant/toddlers, pre-school and school age children).

   b) **Project Cost:** $350,000
      i) Construction of building and interior facilities: $247,800
      ii) Construction of exterior facilities: $45,000
      iii) Furniture, Fixtures & Equipment: $3,565
      iv) Permits, SDC, Professional Fees, Inspections/Testing: $29,280
      v) 5% contingency: $16,284

   *Note: Should this project be determined to not be feasible, EOU would like to use these bond proceeds to supplement the Central Campus Safety Corridor and Accessibility project below.

3) **Central Campus Safety Corridor & Accessibility Project**

   a) **Project Description:**
EOU’s central campus corridors and pathways were altered in a piecemeal manner over the years without using design or engineering professional services. As a result they contain multiple instances of not meeting code requirements for emergency vehicle and pedestrian access, creating potential risks for the University. Surveys of campus exterior lighting have identified an insufficient number and/or poor quality fixtures in these same areas. The project will address these issues.

Construct code required minimum clearance access for emergency vehicles in central campus corridors. Construct pedestrian access per current ADA requirements to Ackerman Hall, Pierce Library, Loso Hall and Gilbert Center. Purchase and install campus standard, energy efficient exterior lighting in project areas.

*Optional additional scope: Address the same issues in optional additional campus areas, with funding contingent upon feasibility and construction of the childcare project. Additional areas include south entrance to Zabel Hall, south entrance to Hoke Union, south entrance to Quinn Coliseum, 12th street entrance to campus, Facilities Services and Central Plant. Replace the HVAC unit in Student Health and Counseling Center. Retrofit the campus chilled water system for additional energy savings.

b) Project Cost: $650,000
   i) Demolition and construction in central campus corridor;
   ii) Demolition and construction of pedestrian access to central buildings;
   iii) Purchase and installation of exterior lighting;
   iv) Permits, SDC, Professional Fees, Inspections/Testing; and
   v) 5% contingency.

c) *Additional Scope Project Costs: $350,000
   i) Demolition and construction for emergency vehicle access;
   ii) Demolition and construction of pedestrian access;
   iii) Purchase and installation of exterior lighting;
       (1) Permits, SDC, Professional Fees, Inspections/Testing; and
       (2) 5% contingency:
   iv) Student Health Center HVAC;
   v) Chilled water system retrofit.

Staff Recommendation

Staff recommends the Board approve EOU’s request to repurpose the $2.0M Article XI-Q bonds for the purposes outlined above. It is understood that such action will need authorization from the HECC and Legislature prior to being effective, thus it is also acknowledged that EOU will be presenting this request to those bodies at its earliest convenience.

(Board Action Required)
Re-purposing of Article XI-Q Bonds for Oregon Tech Authorized in the 2013-15 Legislative Session

Background

$2.0M in XI-Q bonds were authorized by the 2013 Oregon State Legislature to support a renovation study of Cornett Hall on the Klamath Falls campus and provide for facility master planning for both Klamath Falls and Wilsonville campuses for Oregon Tech. However, subsequent to this authorization, Oregon Tech learned that planning and design activities that are used to fund expenditures that are not “capital expenditures” as defined by the constitutional language shown below do not qualify for funding with XI-Q bonds.

Per Article XI-Q of the Oregon constitution, the credit of the State of Oregon may be loaned and indebtedness incurred through the sale of XI-Q bonds to finance the costs of:

   d) Acquiring, constructing, remodeling, repairing, equipping or furnishing real or personal property that is or will be owned or operated by the State of Oregon, including, without limitation, facilities and systems;

   e) Infrastructure related to the real or personal property; or

   f) Indebtedness incurred under this subsection.

Proposal

Oregon Tech seeks to convert the use of funds to essential technological enhancement projects, per the advice related to use of Q bonds from Bill McGee, DAS. The technological enhancement projects would include:

4) **IT/Communications - Network Backbone Project**

   a) **Project Description:**
      The current network backbone is only capable of 1Gb bandwidth between servers and between buildings with datacenters. This upgrade will increase bandwidth between servers and between Snell Hall and Martha Anne Dow Center for Health Professions datacenters to 10Gb, which will lessen network backup times, relieve network congestion and provide for future capabilities within the classroom which require more bandwidth to databases, file storage and other network services. This upgrade will include the purchase of 10Gb network components to complement the current Cisco 6500 Routers or possibly the addition of a Cisco 6807-x, or Nexus 9500 whichever allows for the most growth and flexibility in the future.

   b) **Project Cost: $186k**
      i) Cisco 6500 series 10Gb switch
      ii) Cisco Catalyst 6807-XL Switch or Cisco Nexus 9500
      iii) Gbics, SFPs and cables
5) **IT/Communication – Fiber Network Building Upgrades**

   a) **Project Description:**
   This upgrade will replace old network fiber cables which connect buildings on the Klamath Falls campus to the network. It will involve an upgrade from multi-mode to single mode fiber for nine buildings on the campus. Also some buildings need replacement of copper to fiber between network closets. This will provide more network bandwidth to each building from 1Gb to 10Gb. Multi-mode fiber is unable to carry 10GB signals the distance we require between buildings. The existing multi-mode fiber was installed June of 1996 and nearing the end of its 20 year warranty.

   b) **Project Cost:** $108k
      i) Commscope warrantied and installed Single Mode Fiber

6) **IT/Communications – Network Building Upgrades**

   a) The network backbone upgrade to each building and the fiber upgrade are the first steps to increasing network bandwidth across the Oregon Tech Klamath Falls campus. Each building will then need to be equipped with 10Gb capable top switches. These switches will provide the uplink to the campus network at 10Gb speeds. This will enable capabilities of 1Gb to desktops and lab workstations. Replacement of 20 48-port switches will also be included in this upgrade and the separation of student and administrative network traffic will be implemented.

   b) **Project Cost:** $108k
      i) Nine Cisco Catalyst 3850 or 3650 switch or equivalent
      ii) Twenty 48-port HP 2530 switch or equivalent
      iii) Gbics, SFPs and cables

7) **IT/Communications - Core Routing Upgrade**

   a) **Project Description:**
   This upgrade will focus on redundancy and security. Included in this upgrade are the acquisition and installation of a secondary Cisco 6500 core router to be placed in the Oregon Tech Martha Anne Dow Center for Health Professions data center. This secondary router will be fully active and will serve as a redundant path in the case an emergency situation in the Snell Hall data center. Firewall blades will also be purchased for the existing and new Cisco 6500 routers to provide another layer of network security.

   b) **Project Cost:** $180k
      i) Cisco Catalyst 6506 Chassis and components or equivalent
      ii) Cisco 6500 series Supervisor module or equivalent
      iii) Cisco 6500 Series Firewall services/ NTA modules or equivalent
iv) Cisco 6500 series Gigabit switch blade or equivalent (server access)
v) Cisco 6500 series 10Gb switch blade or equivalent (interconnects)
vi) Gbics, SFPs and cables

8) IT/Communications - SAN Backup Upgrade

a) Project Description:
This upgrade focuses on the need for additional storage and increasing the speed of our backups. The added equipment will be stored in the Martha Anne Dow Center for Health Professions building and will provide for a relocation and redundancy of storage and backups. Backup speeds will increase to 10Gb.

b) Project Cost: $114k
   i) 48TB - 72TB HP SAN
   ii) HP Proliant DL365 Server
   iii) HP 5700 Series 10Gb switches (4)
   iv) Gbics, SFPs and cables

9) IT/Communications - Wilsonville Campus Wireless Upgrade

a) Project Description:
This upgrade will provide students, faculty and staff with complete wireless network coverage on all floors and for classroom instruction. The identity services portion will allow for a more robust security model and improved guest services for the Wilsonville campus.

b) Project Cost: $180k
   i) Cisco access points
   ii) Cisco ISE (identity services)
   iii) Cisco Prime Infrastructure Installation

10) IT- Classroom Technology Upgrades

a) Project Description:
This upgrade addresses the need for replacement of aging projectors, smart boards and other technology in the classrooms and labs in both the Klamath Falls and Wilsonville campuses.

b) Project Cost: $234k
   i) Smartboards
   ii) Projectors
   iii) LED TV’s
   iv) Computers
11) IT/Communications - Video Conference Equipment

a) Project Description:
   Video conferencing between the two campuses is becoming more vital to the communication needs of faculty and staff. This upgrade will address that issue by providing professionally installed video and audio conferencing equipment in 6 conference rooms in Klamath Falls and 3 conference rooms in Wilsonville to support cross-campus teaching and administrative meetings by videoconferencing.

b) Project Cost: $420k
   i) Video conferencing units
   ii) Projectors
   iii) LED TV’s
   iv) Microphones and speakers
   v) Carts

12) Facility Management Software – Utilization and Planning Software

a) Project Description:
   Facility utilization and planning software will provide an interactive database of existing building documents which can be integrated into other data tools such as energy monitoring, security, maintenance, and technology facility management tool for both Klamath Falls and Wilsonville campuses. Also provides space management, maintenance and operations, preventative maintenance scheduling, work order system, tracking capital projects and more.

b) Project Cost: $350k
   i) Software

Staff Recommendation

Staff recommends the Board approve Oregon Tech’s request to repurpose the $2.0M Article XI-Q bonds for the purposes outlined above. The costs above are estimated therefore Oregon Tech will also require the flexibility to reallocate within the above projects based on final costs. It is understood that such action will need authorization from the HECC and Legislature prior to being effective, thus it is also acknowledged that Oregon Tech will be presenting this request to those bodies at its earliest convenience.

(Board Action Required)
OUS 2014 Annual Audited Financial Report

Summary

Exhibit A: The report titled Oregon University System 2014 Annual Financial Report (see http://www.ous.edu/sites/ous.edu/files/contdiv/annual_financial_reptg/fy2014_ous afs.pdf), was prepared by the Chancellor’s Office and the financial statements included within were audited by CliftonLarsonAllen, LLP, under contract to the Secretary of State, Audits Division. The audit opinion issued by CliftonLarsonAllen, LLP, is an unmodified opinion, which means that their opinion as to the fair presentation of the financial statements was issued without modifications.

Exhibit B: As part of the financial statement audit, CliftonLarsonAllen, LLP, is required by Statement on Auditing Standards 114 (SAS 114) to communicate certain matters related to the conduct of the audit to those who have responsibility for oversight of the financial reporting process.

Exhibit C: As part of the financial statement audit, CliftonLarsonAllen, LLP, is required to report on internal controls over financial reporting in accordance with Government Auditing Standards. The Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (GAGAS Report), is included under separate cover from the 2014 Annual Financial Report. The Schedule of Findings and Responses section of this report includes a significant deficiency in the design or operation of internal control for 2014. During audit test work over Information Technology, review of segregation of duties conflicts noted that within the Banner system there were employees with incompatible access rights at Oregon State University and Western Oregon University. Management’s responses and planned corrective actions are included in the report; management concurs with the recommendation and has already implemented corrective actions.

Staff Recommendation
Subject to the report of CliftonLarsonAllen, LLP, staff recommends the Board accept the Oregon University System 2014 Annual Financial Report.

(Board Action Required)

Attachment:

Exhibit A-Annual Audited Financial Statement
Exhibit B-Audit Conduct Letter
Exhibit C-Government Auditing Standards Letter
OUS Managerial Reporting – Periodic Management Report

Periodic Report Overview

Attached are the periodic reports as of October 31, 2015. After reviewing the Budget Forecast Summary and comparing the prior YTD to current year to date actuals received from each university, we noted the following highlights:

Education and General

- State General Fund receipts are higher than the previous year due to the distribution schedule for State appropriations changing from a monthly distribution to funds distributed at the beginning of each quarter. Current year to date includes two quarters of State appropriations. In addition, appropriations include additional funding for tuition buy down and support for the cost of University Shared Services Enterprise (USSE).
- Supplies and Services expenditures were increased at each institution due to the new costs associated with USSE.
- See individual reports for forecasted changes to ending fund balance.

Auxiliary Enterprises

- Transfers out were greater primarily because of transition changes due to the closing of the OUS Internal Bank which changed the timing of the debt service payment from December to July. Transfers are made to the debt service funds from the funds paying for the debt.

Designated Operations, Service Departments, and Clearing Funds

- Due to the change from a quarterly report to a periodic report, at some campuses the clearing funds had revenues and expenses that should have been posted to Education and General. Please see notes on the individual reports.
Staff Recommendation

Staff recommend the Board accept the October 31, 2015 Periodic Management Report. The next management reports for the period ending February 28, 2015, are scheduled to be presented to the Board in April 2015.

(Board Action Required)

Attachment:

Periodic Management Reports
OUS, Internal Audit Progress Report

The Charter of the Oregon State Board of Higher Education requires that the Oregon University System Internal Audit Division (IAD) provide routine reports to the Chancellor and the Board. This report highlights IAD activities and recommendations made to improve OUS operations. IAD recommendations are being addressed by management.

Audit Reports Issued: June – December 2014

<table>
<thead>
<tr>
<th>Institution</th>
<th>Engagement Type</th>
<th>Risk Ranking</th>
<th>Assurance Provided Based Upon Procedures Performed</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOU</td>
<td>Financial Aid</td>
<td>Low</td>
<td>Evaluated compliance with federal regulations over Title IV student financial aid programs in the areas of Verification, Satisfactory Academic Progress, Return of Title IV Funds, Loan Counseling, and Reporting and Disclosure of Information. Determined that EOU has strong policies and procedures over student financial aid and recommended improvements in the area of information reporting and disclosure.</td>
</tr>
<tr>
<td>OIT</td>
<td>Construction</td>
<td>Management</td>
<td>Reviewed sample OIT Certificate of Final Completion and Warranty Letter for incorporation of construction industry best practices. Recommended wording changes and additional language.</td>
</tr>
<tr>
<td></td>
<td>Forms</td>
<td>Advisory</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Consultation</td>
<td>(External firm)</td>
<td></td>
</tr>
</tbody>
</table>
Projects in Progress

Below is a listing of planned IAD engagements in progress that will be discussed in further detail at future Board meetings.

<table>
<thead>
<tr>
<th>Engagement Title</th>
<th>Audit Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>WOU NCAA AUP Draft Report</td>
<td>Coordinate with external auditors on the performance of the NCAA Agreed-Upon Procedures for Athletics as required by the NCAA.</td>
</tr>
<tr>
<td>OIT Geothermal Power Plant Construction</td>
<td>Determine whether construction contract activities are in accordance with contract terms. Review will include evaluation of internal controls to identify potential exposure to overcharges on future contracts and improvements to construction administration process. (Schedule for this engagement has been extended at campus’ request to address outstanding pay applications and change orders due from contractor.)</td>
</tr>
<tr>
<td>SOU Financial Aid Summary</td>
<td>Determine whether SOU is in compliance with federal regulations over Title IV student financial aid programs in the areas of Student Credit Balances, Return Of Title IV Funds, Reporting and Disclosure of Information, Administrative Capabilities, and Satisfactory Academic Progress.</td>
</tr>
<tr>
<td>EOU Executive Transition Reviews Summary</td>
<td>Determine whether the fiscal controls and exit procedures within the President’s Office, Provost’s Office, and the Office of the Vice President for Finance and Administration are in place and were followed during each executive transition. (Engagement completion has been delayed due to IAD personnel transitions.)</td>
</tr>
<tr>
<td>SOU Executive Transition Reviews Summary</td>
<td>Determine whether the fiscal controls and exit procedures within the President’s Office and the Provost’s Office are in place and were followed during each executive transition.</td>
</tr>
<tr>
<td>OUS Audit Follow-up Reviews Fieldwork</td>
<td>Determine the implementation status of previously issued audit report recommendations.</td>
</tr>
<tr>
<td>WOU Financial Aid Fieldwork</td>
<td>Determine whether WOU is in compliance with federal regulations over Title IV student financial aid programs in the areas of Student Credit Balances, Return Of Title IV Funds, Reporting and Disclosure of Information, Administrative Capabilities, and Verification.</td>
</tr>
</tbody>
</table>
Complaint Summary

IAD received no complaints from July through December 2014, and no complaints are currently outstanding.

Other Activities

In addition to the activities listed above, IAD is currently conducting management advisory engagements, coordinating external audit activities, and governance transition activities.

Staff Recommendation

Staff recommends the Board approve the January 2015 IAD Progress Report.

(Board Action Required)
Report on Investments – As of June 30, 2014

The investment report for FY2014 is presented below.

Market Background (Provided by Callan Associates, Oregon Investment Council consultant)

Economic and Market Environment

The second quarter was punctuated by conflicting readings on GDP growth and job creation. First quarter GDP initially came in at +0.1% but was subsequently revised downward to -1.0% and later further lowered to -2.9%. This drop was the largest GDP contraction since the Great Recession, the first negative reading since 1Q2011, and the worst contraction in the midst of an economic expansion since World War II. Looking forward, the Fed cut its 2014 GDP estimate by nearly one percent while the IMF also lowered expectations for U.S. economic growth to 2% for the year. Conversely, jobs data releases were consistently positive through the quarter and have recorded expansionary readings of over 200,000 job creations each month for the past five months. Consequently, the unemployment rate in the U.S. continued to fall and currently stands at 6.1%.

After over 5 years of fairly consistent positive equity performance, the chorus of prognosticators concerned about rich valuations continues to grow. As of the end of the second quarter, the forward P/E on the S&P 500 stood at 15.6x. This reading is now higher than the multiple reached at the market peak in October 2007 just before the Great Recession; yet, remains below the 20-year historical average of 16.2x. However, if one reviews the inflation adjusted 10-year (“Shiller”) P/E, current valuations appear high relative to the long term average.

Somewhat atypically, bond yields drifted lower in both U.S. and developed markets as stock markets climbed. Concurrently, spreads on lower quality issues such as High Yield, Bank Loans, and Emerging Markets Debt ground tighter approaching levels from 2007. In an interesting market dynamic, the yield on 10-year Spanish sovereign bonds briefly dipped below that of 10-year U.S. Treasuries. While Spain’s credit rating is below that of the U.S., a perceived backstop by the ECB and investor demand for income drove yields sharply lower. Elsewhere in Europe, yields hit record lows in several countries and the ECB announced new stimulus measures.

As mentioned above, the U.S. employment picture continues to improve; however, labor earnings growth has not kept up with the economic expansion enjoyed by financial assets. Median household incomes remain 4% lower than levels before the great recession, while asset prices are broadly higher. The labor force participation rate sits at generational lows; however, its downward trend appears to have been arrested. The participation rate stabilized at about 63% and therefore recent improvements in the unemployment rate have been due more to job creation than to declines in the participation rate.
The Fed continued its policy of tapering quantitative easing bond purchases in the second quarter. In July purchases will be cut to $35 billion monthly with many Fed watchers expecting the program to be eliminated entirely by year-end 2014. However, the Fed appears committed to maintaining the size of its balance sheet, which currently stands at nearly $4.5 trillion, after the end of QE by reinvesting both principal and income on its Treasury and mortgage-backed securities portfolio.

Volatility measures on market indices remain very low across asset classes and regions. The S&P 500 closed the quarter with 51 consecutive sessions without a 1% advance or decline, the longest such stretch since 1995. Where investors once relied on the CBOE S&P 500 Implied Volatility index (VIX) as the de facto measure of equity volatility, the maturation of options markets around the globe has given rise to implied volatility being measured on a broad array of assets from global equities to fixed income and commodities. Still, the VIX remains the most robust dataset available and, at a current reading of 11.3 in early July, stands just above all-time lows and in late June hit its lowest level since 2007.

4Q2014 Market Performance

U.S. equities achieved solid gains in the second quarter with returns for most indices in the mid-single digits. After a small drawdown in early April, the S&P marched steadily higher and broke record after record on its way to an all-time peak on July second. The S&P set 16 record highs through the course of the quarter.

Developed foreign equities fell short of the performance of their U.S. counterparts yet remained firmly in positive territory. Regionally, Europe was a laggard while the UK and Japan outperformed in U.S. dollar terms on strong currency tailwinds from the pound and yen. Emerging market equities reversed course after a string of weak returns and posted the strongest gains among broad equity measures.

In the U.S., large caps led equity performance followed closely by midcaps (Russell Top 200: +5.2%, Russell Midcap: +5.0%). Small caps fared less well but remained in positive territory (Russell 2000: +2.0%) while microcaps turned the only negative performance in the entire equity landscape (Russell microcap: -1.4%). Value outperformed growth in mid and small caps (RMV: +5.6%, RMG: +4.4%, R2V: +2.4%, R2G: +1.7%) while the spread was immaterial in large caps (R1V & R1G: +5.1%). Low quality once again outperformed high quality (S&P LQ: +6.8%, HQ: +4.1%) and continued a lengthening trend of doing so whenever equities advance. Within the S&P 500, Energy (+12.1%) posted the largest advance by a wide margin due to rising oil prices spurred by renewed unrest in the Middle East. Financials (+2.3%) trailed all other sectors in the S&P 500.

Foreign equities lagged their U.S. counterparts in both local currency and U.S. dollar terms (MSCI EAFE US$: +4.1%, Local +3.4%). Currency impacts were fairly muted in the quarter as the strength in the yen and pound was offset by weakness in the euro. Value outperformed growth (EAFE Value: +4.7%, Growth: +3.5%) while small caps (MSCI EAFE SC: +2.1%) trailed and
produced the smallest advance among foreign stocks. Emerging markets equities reversed course from previous quarters and handsomely outpaced developed markets (MSCI EM US$: +6.7%, Local: +5.3%). On a country specific basis, rising oil prices drove Norwegian stocks higher and produced the strongest results in the developed world (MSCI Norway: +9.9%) while Ireland was far and away the poorest performer (MSCI Ireland: -9.0%). Among emerging countries, Turkish equities turned in the top quarterly performance (MSCI Turkey: +15.4%) while Greek shares fell sharply (MSCI Greece: -10.7%).

U.S. bonds posted solid returns in the second quarter as interest rates continued to drop on mixed economic data, unrest in the Middle East and Ukraine, and falling yields overseas. Yields in Europe hit all-time lows after the European Central Bank unveiled unprecedented stimulus packages in June to spur growth and stave off deflation.

The Barclays Aggregate index returned 2.0% in the second quarter to bring its YTD performance to 3.9%, a result that has exceeded most expectations for full year returns in 2014. The yield curve continued to flatten with the 30-year U.S. Treasury bond yield falling the most; long U.S. Treasuries returned 4.7% for the quarter and are up 12.1% YTD. Agency mortgage-backed securities and corporate bonds outperformed Treasuries during the quarter. Mortgages were the best performers in the Aggregate index, outperforming like-duration Treasuries by 90 bps. High yield underperformed investment grade for the first time in recent memory. The Barclays High Yield index returned 2.4% for the quarter with the corporate sector of the Barclays Aggregate up 2.7%. Bank loans returned 1.4% as measured by the S&P/LSTA index.

Emerging market debt posted strong returns in the second quarter, helped by falling interest rates and renewed investor demand. The JPM EMBI+ returned 5.8% for the quarter and is up 9.5% YTD. The local currency JPM GBI-EM Global Diversified posted a 4.0% return for the quarter, bringing YTD performance to 6.0%.

Closing Thoughts

Midway through 2014 asset categories from equities to fixed income to alternatives have achieved returns in line with long term annual expectations. U.S. economic conditions appear stable yet recent history is being revised down and growth expectations are being trimmed. Inflationary fears have reemerged in the U.S. while Europe is struggling to fend off deflationary concerns and Japan continues to try to manufacture whatever inflation it can. Given continued uncertainty, Callan recommends prudent asset allocation and risk assessment based on future capital needs for both plan sponsors and individual investors.

HIED Endowment Fund (Prepared by Oregon State Treasury)

The HIED Endowment Fund returned 4.3 percent for the quarter, and 19.2 percent for the year ended June 30, 2014, with a balance of $81.0 million. This one-year performance was approximately 270 basis points above the policy benchmark return of 16.5 percent.
As the equity markets continued to perform, both the domestic and non-US public equity managers continued their strong performance, returning 23.6 percent and 29.4 percent, respectively, over the most recent 12 month period. On a relative basis, the HIED international managers exceeded the passive MSCI ACWI ex-US benchmark by over 764 basis points for the past 12 months. Both Arrowstreet Capital and Genesis Asset continue to exceed their benchmarks by wide margins over the past 12 months, and over longer time periods. On the domestic equity side, Columbia Acorn continued to struggle versus the Russell 2500 benchmark, but their 19.2 percent return over the five-years ended June 30, was tops among the Fund’s equity managers.

The fixed income mandate managed by Western Asset delivered a return of 6.8 percent versus a 4.4 percent return on the Barclays Aggregate Bond Index, over the past 12 months. The Blackrock TIPS fund was up 5.8 percent, year to date.

For the five-years ended June 30, the fund returned an average of 14.1 percent annually, 90 basis points above the policy benchmark.

As a result of recent legislative changes, the manager allocations and overall asset allocation of the fund will begin to change slightly over the coming quarters as universities begin to withdraw their balances.

**Performance of the OUS Fund (Prepared by USSE Staff)**

The OUS Fund’s quarterly total return was 0.3% (including unrealized gains/losses). The OUS Fund had a positive total return of 1.2% for the year ended June 30, 2014. During the quarter, both the Intermediate-Term Pool and individually held longer-term securities portfolio underperformed their benchmarks. For the year, both the intermediate pool and longer-term portfolio outperformed their respective benchmarks.

In addition to total return, we monitor the accounting return which is used to distribute investment income to the campuses. During the quarter, we distributed investment earnings to the campuses totaling $2,588,439.

Comparison with old treasury structure:

- Actual investment earnings distributed for the quarter annualized: $2,588,000 1.11%
- Est. interest earnings using the old treasury structure annualized: $1,255,000 .54%

**Additional Annual Reports (Prepared by USSE Staff)**

The Annual Activity Report shows activity for the OUS Fund and the Pooled Endowment Fund. The information shown is essentially the beginning balance, any income received,
disbursements made to OUS institutions, purchases and sales of investments, third party costs, the current year’s market value adjustment, and other changes.

The OUS Fund began the fiscal year at $705.6 million and concluded the year with a balance of $830.6 million. During the year, the fund distributed $11.1 million in investment earnings to OUS institutions. As of June 30, 2014, the investment portfolios had $5.4 million in unrealized gains.

The Pooled Endowment Fund liquidated some of its holdings during the year so it could distribute more than $2.4 million to OUS institutions for scholarships and other uses according to donor directives. As of June 30, 2014 the various investments had a net mark-to-market of $13.1 million (fiscal 2014 gains only).

The Investment Policy Report shows the overall performance of the fund exceeded its performance targets for both the three-year and five-year returns. The Columbia Acorn fund underperformed the Russell 2500 on both a three- and five-year basis. It is also notable that the combined performance of the alternative investments does not meet its performance expectations in either the three- or five-year period.

**OUS Fund Closed (Prepared by USSE Staff)**

The OUS Fund was closed on June 30, 2014. Cash transfers of $262 million were sent to the departing University of Oregon on July 1, 2014 and security transfers on July 30, valued at $73 million. The remaining cash and securities held in the OUS Fund, $494 million, were transferred to the new Public University Fund (PUF) during the month of July. The current fund participants include the TRU’s, PSU, the Chancellor’s Office and the Designated University for the PUF, OSU. It is anticipated the Risk Management Trust (PURMIT) will be joining the pool in September or October 2014.

**Staff Recommendation**

Staff recommends the Board accept the Annual Investment Reports as of June 30, 2014.

*(Board Action Required)*

**Attachment:**

Fiscal Year 2014 Fourth Quarter Investment Report

Compliance Review
Report on Investments – As of September 30, 2014

The investment report for the first quarter of FY2015 is presented below.

Market Background (Provided by Callan Associates, Oregon Investment Council consultant)

Economic and Market Environment

Global investment markets closed the third quarter with substantial volatility, influenced in early September by the ECB’s surprise announcement of a rate cut and “Q€”, and punctuated at quarter-end by the unexpected departure of Bill Gross from PIMCO. Gross was PIMCO’s CIO and the lead portfolio manager of the PIMCO Total Return Fund, at one point the world’s largest mutual fund. While Europe just embarked on its own quantitative easing, the U.S. will see the curtain fall on QE by the end of October.

An improving U.S. economy put upward pressure on interest rates, but a significant yield advantage relative to other developed markets helped to dampen this effect. While the U.S. economy gained traction, news from Europe and Japan was far bleaker with euro zone GDP barely positive in the 2nd quarter versus a U.S. reading of +4.6%. Foreign investors were lured to the relatively high yields in the U.S. market, propelling the dollar sharply higher. At quarter-end, U.S. Treasuries offered a 57 bp premium over German bunds, a 15-year high, as investors weighed the prospects of U.S. interest rate hikes against the likelihood of more accommodative policy in the euro zone.

The ECB unexpectedly cut rates to record lows in September to spur growth and stave off deflation. Germany’s economy shrank 0.2% in the 2nd quarter and euro zone inflation fell to 0.3% in September; the weakest in 5 years and well below target. Japan's economy suffered its worst contraction since 2009 with 2nd quarter GDP shrinking by an annualized 7.1% in the wake of a sales tax hike from 5% to 8%. Yields in a number of developed markets hit all-time lows with 2-year government bonds trading below 0% in eight countries after the ECB cut rates. The yield spread between U.S. Treasury and European sovereign issues are surprising with yields on both the 10-year Italian note (2.33%) and Spanish note (2.14%) below U.S. Treasuries (2.52%). The relatively attractive yields offered in the U.S. and expectations for higher rates propelled the dollar higher versus most currencies. The dollar gained 7% versus the euro and 8% versus the yen.

U.S. economic data have been quite strong of late. GDP recovered dramatically in 2Q14 after winter weather caused a 2% contraction in the 1st quarter; however, the Fed survey of real GDP growth expectations continued to trend downward toward longer run forecast of 2%. The unemployment rate continued to decline and crept below 6% in September. Inflation readings remain benign in the U.S. with the 12 months ended in August showing a modest 1.7% rise in both headline and core CPI. Housing was the CPI component exhibiting the most dramatic price rise (+2.6%) and accounts for more than 40% of the headline CPI calculation and more than 50% of the core CPI calculation. While CPI readings are slightly below the Fed’s target of 2%,
deflation risks do not appear to be a concern. Looking forward, inflation expectations dropped sharply during the quarter as evidenced by the divergence between TIPS and nominal treasuries.

Equity valuations remain moderate on a historical basis with the S&P trading at 15.2x forward earnings; just below the 25 year average of 15.6x. Coincidentally, the S&P 500 peaked at 15.2x in the fall of 2007 just before the start of the Great Recession. Foreign equities appear somewhat more attractive on a valuations basis as developed markets stand at 13.9x forward earnings while emerging markets are at 10.8x.

**1Q2015 Market Performance**

US large caps led global equity market performance in the third quarter with declines of 1.4% in both July and September bookending a 4% rally in August that was enough to keep full quarter results positive (S&P 500 +1.1%). The strength in US large cap masked weakness elsewhere among global equities as smaller capitalization US, developed foreign, and emerging markets all suffered declines in the quarter.

While local currency results showed fractional gains, major strength in the US dollar relative to many foreign currencies pushed non-US equity returns well into negative territory. Europe suffered big currency declines in the euro, UK pound, and Swiss franc. Japan also felt its currency weaken notably against the dollar as did a number of emerging market currencies.

In the U.S., large caps gained and led equity market results while midcaps drifted slightly lower (Russell Top 200: +1.7%, Russell Midcap: -1.7%). Small caps suffered acutely (Russell 2000: -7.4%) in what was the index’s worst relative performance versus the S&P 500 since the late 1990’s. Growth outperformed value across capitalization (R1G: +1.5%, R1V: -0.2%, RMG: -0.7%, RMV: -2.6%, R2G: -6.1%, R2V: -8.6%). High quality outperformed low quality (S&P HQ: +1.1%, LQ: -2.0%) for the first time in over two years. Within the S&P 500, the Energy sector (-8.6%) suffered notably with falling oil and natural gas prices and gave back most of its 2Q14 rally. Technology (+4.8%) and Health Care (+5.5%) posted the strongest gains from a sector perspective.

Developed foreign equities nearly matched the returns of U.S. large caps in local currency terms; however, significant dollar strength versus most currencies pushed returns sharply lower in U.S. dollar terms (MSCI EAFE Local: +0.9%, EAFE US$: -5.9%). As in the U.S., growth outperformed value in developed markets (EAFE Growth: -5.5%, Value: -6.2%) and small caps trailed larger issues (EAFE SC: -7.8%). Emerging market equities trailed developed in local terms; however, more muted currency effects allowed EM to outperform developed in U.S. dollar terms (MSCI EM Local: +0.7%, EM US$: -3.4%). On a country specific basis, Israeli equities generated the strongest returns among developed nations despite continued regional tensions (MSCI Israel: +0.2%). Portugal’s equity market fell by 25% and occupied the bottom rung of the developed market performance ladder. Greece occupied the same position among emerging
countries; a frequent occurrence over the past few years (MSCI Greece: -20.0%). Egypt was the best performing market globally with a 28% advance in the quarter.

Global fixed income results were mixed in the quarter. The 10-year U.S. Treasury traded in a 29 bp range in the third quarter, hitting a low for the year (2.34%) on August 28th and an intra-quarter high of 2.63% on September 18th before closing the quarter at 2.52%. The flattening U.S. yield curve, weak foreign currencies, widening credit spreads, and falling inflation expectations led to disparate returns across bond indices.

The Barclays Aggregate Index returned 0.2% in the third quarter with U.S. Treasuries performing the best. Both corporates and mortgages underperformed like-duration Treasuries for the quarter. High yield corporate bonds sank nearly 2% as the sector endured heavy outflows amid concerns over rich valuations. Bank loans, also hit by outflows, returned -0.5% as measured by the S&P/LSTA Index. TIPS underperformed nominal Treasuries by a significant margin as inflation expectations fell. The CPI dropped 0.2% in August and annual inflation has fallen short of the Fed’s 2% target for 27 consecutive months. The Barclays U.S. TIPS Index fell 2.0% versus a return of +0.3% for the U.S. Treasury Index. The yield curve continued to flatten with the 30-year yield dropping 13 bps and the 5-year yield rising 16 bps as investors contemplated the timing of eventual rate hikes.

Hedged non-U.S. fixed income posted positive returns in the third quarter as yields dropped on anemic growth, mounting deflationary pressures and geopolitical concerns, but significant foreign currency weakness eroded returns for U.S. investors. The Barclays Global Aggregate ex-US Index returned 1.5% (hedged) while the unhedged version fell 5.4%. Emerging markets U.S. dollar-denominated debt posted small declines after rallying earlier in the year. The JPM EMBI Global Diversified Index returned -0.6% for the quarter. Local currency debt fell more sharply given broad-based currency weakness versus the U.S. dollar. The JPM GBI-EM Global Diversified posted a -5.7% return for the quarter. The Russian ruble and Brazilian real fell 14% and 10%, respectively, against the dollar.

The municipal bond market posted solid returns in the third quarter, outperforming taxable bonds. The Barclays Muni Bond Index has posted positive returns in each of the first nine months of this year, a first-time occurrence. The Barclays 1-10 Year Blend was up 0.8% (4.1% y-t-d). Lower quality again outperformed high quality for the quarter, with Baa-rated municipal bonds up 2.2% for the quarter and 12.2% y-t-d. The most defensive sector, pre-refunded bonds, returned a meager 0.3% for the quarter and is up only 1.7% y-t-d.

Less traditional assets showed a wide dispersion of results in the third quarter. Within yield-oriented equities, REITs experienced a sharp slide in September that brought the quarterly return down to -3.1%. Gathering momentum from a large corporate restructuring in August, MLPs advanced 2.7% in the quarter. Commodities experienced huge volatility in the quarter and both the S&P GSCI and Bloomberg Commodities Index fell sharply (GSCI: -12.5%, BCI: -11.8%). Grains were broadly negative with Corn (-26%) experiencing the most dramatic slide. Energy and Precious
Metals also traded down sharply. Within the Hedge Fund space, early estimates indicate results around +0.5% (HFRI Fund Wtd Comp: +0.5%, HFRI HFoF: +0.6%). Global Macro and CTAs recovered nicely after significant weakness earlier in 2014 and posted the best results among hedge fund styles.

Closing Thoughts

As the 4th quarter commences, financial markets have entered a period of heightened uncertainty. Weak growth in Europe, Japan, and much of the developing world threatens to disrupt the global economic recovery. Equities have sold off and volatility expectations have spiked as evidenced by the VIX jumping to levels not seen since late 2012. U.S. economic conditions appear stable yet growth expectations are being trimmed. Inflationary fears have tempered in the U.S. while Europe is struggling to fend off deflationary concerns and Japan continues to try to manufacture whatever inflation it can. Given continued uncertainty, Callan recommends prudent asset allocation and risk assessment based on future capital needs for both plan sponsors and individual investors.

HIED Endowment Fund (Prepared by Oregon State Treasury)

The HIED Endowment Fund returned 0.20 percent for the quarter and 13.6 percent over three years. This three-year performance was approximately 100 basis points above the policy benchmark return of 12.6 percent.

While equity markets suffered through a flat to down quarter, both the domestic and non-US public equity managers have demonstrated good performance over the trailing three year period. The Blackrock S&P 500 Index returned 23 percent while Arrowstreet Capital posted nearly a 20 percent return for three years. On a relative basis, Arrowstreet Capital exceeded its benchmark by 630 basis points for the three year period. On the domestic equity side, Columbia Acorn continued to struggle versus the Russell 2500 benchmark, given their growth-at-a-reasonable-price stock picking approach.

The fixed income mandate, managed by Western Asset, delivered a flat return for the quarter and 5 percent over the three year period.

For the five-years ended June 30, the fund returned an average of 11.2 percent annually, 94 basis points above the policy benchmark.

At the end of the quarter, most every manager was downsized or eliminated, to create liquidity for the departure of the University of Oregon from the pool. While we have been able to maintain an overall asset allocation consistent with the OIC’s primary targets (i.e., growth assets, inflation hedging, and diversifying assets), the composition of the inflation hedging allocation has shifted with a greater weight towards the TIPS allocation, as shown below, as of 31 October 2014. The portfolio is well positioned in the event that other schools opt to leave the pool.
Endowment Fund *(Prepared by USSE Staff)*

During the first quarter of FY2015, there was a large volume of activity. In July, Portland State University’s share of the Pooled Endowment Fund, $2,724,413, was liquidated and transferred to the PSU Foundation. The annual endowment distribution to campuses was completed in August in the amount of $2,574,825.92. Finally, the University of Oregon’s share of the Pooled Fund was transferred during October in the amount of $31,405,350 in cash and securities. To fund the transfer, securities were sold during August and September resulting in a large cash balance on September 30, of over $27,000,000.

Performance of the Public University Fund *(Prepared by USSE Staff)*

The Public University Fund’s quarterly total return was 0.2% (including unrealized gains/losses). During the quarter, both the Intermediate-Term Pool and the Long-Term Pool exceeded the performance of their respective benchmarks.

During the quarter, investment earnings totaling $1,490,000 were distributed to the participants. The annualized investment return for the quarter was 1.26%.

OUS Fund Closed *(Prepared by USSE Staff)*

A residual balance of $509,487 was on deposit in the former OUS Fund account on September 30, 2014. The balance will be transferred to the University of Oregon following completion of the external audit for fiscal year 2014. The account will be closed following completion.

Staff Recommendation

Staff recommends that the Board accept the investment report for the first quarter of FY2015.

*(Board Action Required)*

Attachment:

Fiscal Year 2015 First Quarter Investment Report
EOU and SOU Metrics, Conditions and Guidelines Discussion

Attachment:

Metrics and Reporting Document