Minutes

1. CALL TO ORDER/ROLL CALL/WELCOME

Chair Schueler called the meeting to order at 1:30 p.m. Committee members present included Chair Kirk Schueler, Brian Fox, and Tony Van Vliet (by telephone). Staff present included Vice Chancellor Jay Kenton, Doug Botkin, Rita Brown, Michael Green, Brian Meara, Di Saunders, Bob Simonton, Patricia Snopkowski, Marcia Stuart, and Denise Yunker. Others present included: Presidents Bob Davies (EOU), Wim Wiewel (PSU); Vice Presidents Virginia Key (EOU), Mark McCambridge (OSU), Craig Morris (SOU), Frances Dyke (UO), Lindsay Desrochers (PSU), and Mark Weiss (WOU).

2. ACTION ITEMS

a. OUS, Approach to 2009-2011 Budget Allocation and the Proposed Fiscal Year 2009-10 Operating Budget Allocations

Chair Schueler called upon Vice Chancellor Kenton and Assistant Vice Chancellor Brian Meara to present the agenda item¹. Following discussion, Schueler called for a motion to 1) approve the proposed guiding principles and process used to determine the 2009-10 budget allocation as described in the materials, including continuing to phase in the use of current enrollments for allocating the budget through the RAM model by funding 50 percent of the change since the 2002-03 enrollment funding freeze; and 2) approve the 2009-10 Annual Operating Budget as described in this docket and delegate authority to the Chancellor to make adjustments to the OUS Annual Operating Budget for 2009-10 as is necessary. Director Tony Van Vliet made the motion as stated and recommended that the item be submitted to the full Board for approval, Director Brian Fox seconded; motion was carried.

b. PSU, Land Acquisition and Ground Lease (College Station Housing)

Vice Chancellor Kenton presented the College Station Housing land acquisition and ground lease request. Kenton advised that this project has been in the planning stage for some time; and, as TriMet was building the downtown light-rail, the opportunity arose for PSU to lease this land and build a “transfer-oriented” student housing development. President Wiewel advised that this project aligns with Portland State’s five strategic priorities (including providing civic

¹ (see: http://www.ous.edu/state_board/meeting/dockets/ddoc091002.pdf)
leadership to partnerships within the metropolitan region to meet the needs of the region and to improve the quality of the student experience). He added that Mayor Adams has endorsed this project and that expanding student housing will help to create the kind of vitality on campus that makes Portland State an attractive place for students, encouraging the retention of students.

Following the presentation and short discussion, Chair Schueler called for a motion to 1) approve the use of $8 million in Article XI-F(1) bonds to acquire this property (this recommendation includes a finding that this project will be self-supporting and self-liquidating as required by the Oregon Constitution); and 2) approve the long-term ground lease to American Campus Communities (ACC).

Director Tony Van Vliet made the motion as stated and recommended that the item be submitted to the full Board for approval, Director Brian Fox seconded; motion was carried.

c. **OUS, Internal Audit Update**

Chair Schueler called upon Patricia Snopkowski, director of OUS internal audit, to present the internal audit update and she advised that all recommendations made from May to September 2009 for operational improvements were adequately addressed by management. Following the report, Chair Schueler called for a motion to accept the quarterly audit progress report. Director Fox made the motion and Van Vliet seconded; the motion was carried.

3. **DISCUSSION ITEMS**

a. **OUS, Analysis of 2008-09 Financial Statements**

Chair Schueler called upon Controller Michael Green to present the 2008-09 Financial Statements for the System and institutions. Green noted that, if there is a change in the statements subsequent to this meeting, corrections will be submitted for Committee approval in January 2010. He began the presentation by comparing OUS institutions to their peers for specific categories of funding and FTE. He noted that, at PSU, increases in gifts, grants, and contracts correlate with increases in enrollment and financial aid. All institutions, with the exception of the UO, spent less in FY2009 on support services such as student aid than their peers. In a period of declining revenue, this decrease in support services may reflect the campuses’ need for additional reductions in cost; however, the lack of spending in this area may affect student enrollment growth.

All seven institutions are also below their peer averages in physical plant spending as a percent of revenue and deferred maintenance remains a concern due to the challenges of maintaining an aging infrastructure.

With regard to the primary reserve ratio for the regional institutions, the FY2009 ratio is less than their FY2005 ratio; the primary reserve levels at EOU and WOU are particularly low. Higher
education industry standards for both public and private suggest a 40 percent of the target for its reserves. The FY2009 primary reserves for the larger campuses also reflect a decrease from the FY2005 ratio, with PSU particularly low. Another critical measure is the debt burden ratio; the Board policy has an upper limit of 7 percent. Vice Chancellor Kenton noted that the industry standard is 7 percent; however, the state, as a whole, has set the debt burden limit at 5 percent and Boise State has set theirs at 8 percent. This demonstrates that the percentage is a target, not a precise number, with the Board setting the System’s limit at 7 percent. For the regional campuses, three of the four institutions have a higher debt ratio in FY2009 than in FY2005—Eastern is the lone exception. The larger institutions are nearing the 7 percent debt limit. This indicates that these institutions have less operational flexibility to make budgetary trade-offs.

In conclusion, Mr. Green noted that, in general, our institutional peers are financially stronger as evidenced by higher state funding, higher primary reserves, and lower debt burdens. Vice President Frances Dyke, UO, indicated that as long as the self-supporting auxiliaries remain healthy, debt obligations can be met.

b. OUS, Treasury Management Objectives

Chair Schueler called upon Controller Mike Green to guide the discussion of treasury management objectives. As background, Mr. Green noted that, over the past several years, the Board has been looking at a much different approach for treasury management within the Oregon University System. Across the country, institutions have implemented an internal bank within either their system or their university in order to pool operating cash balances and aggregate accounts. This allows them to bring those disparate cash flows together for the purpose of reducing liquidity and take a percentage of those cash balances to invest further out on the yield curve and gain additional incremental investment revenues. Conservative investment gains from this approach are estimated at $5 million within the OUS (based on a $700 million base).

Another aspect is managing debt burden differently; currently, campuses notify the Chancellor’s Office to gain Board approval in order to issue bonds. Bonds are issued once, possibly twice a year. This can impact a project if an interest rate is presented in the pro forma and then is different when the bonds are actually sold, creating greater debt than anticipated. With an internal bank, the campus would be separate from the underlying debt and the bank enters into “a financing agreement with the campus to provide finances for a project with a particular cash flows over a particular period of time with a particular interest rate and then the campus secures its financing and can advance the project within their timeline” rather than the state’s. The internal bank would have a number of tools available to provide the financing—for example, commercial paper, which provides interim financing between the time the campus is ready to break ground on the project and when there is a bond sale. Green estimated that the System could save, conservatively, $2.5 million in interest costs on the debt.
At present, there are three separate entities that manage the System’s cash, debt, and investment that have limited interaction. This proposal would bring those three entities together and coordinate that effort.

The 2009 Legislative Session granted OUS the authority to, for investment purposes, consolidate cash accounts and eliminate unnecessary bank accounts, and a position was partially funded to lead the effort. A treasury consultant has been hired to look at the current banking structure and propose a re-engineered banking structure based on best practices. The consultant also reviewed the cash flow processes and made recommendations for improvements based on best practices.

4. ADJOURNMENT

With no further business brought to the Committee, Chair Schueler adjourned the meeting at 3:30 p.m.