Board members present included: Chair David Yaden and Directors Jim Baumgartner, Lisa Graham, Jim Francesconi (left at 12:22 pm), Brittnay Kenison, David Nelson, Emily Plec, Bill Thorndike, Shea Washington. Those absent included: Jim Middleton, Kelley Minty Morris.

Chancellor’s Office Staff present included: Acting Chancellor Cathy Dyck, Ryan Hagemann.

OUS presidents present included: Jay Kenton, EOU, Chris Maples, Oregon Tech; Roy Saigo, SOU, Mark Weiss, WOU.

Others: Kathy Berg, Brad Burda, Penny Burgess, Mark Denney, Kirby Dyess (2:38 pm), Brian Fox, Roy Koch, Trina McGaughy, Lara Moore, Jordan Mortimore, Xavier Romano, Tim Seydel, Chris Stanek, Karen Stone, Susan Walsh, Sarah Witte, Caroline Wright.

1. Call to Order/Roll Call/Welcome

Chair Yaden called the meeting to order at 9:01 am. He welcomed new Board members, Bill Thorndike, David Nelson, and Kelley Minty Morris. He thanked WOU for hosting the Board meeting and congratulated SOU on their recent football championship. He discussed the meeting agenda and then asked Acting Chancellor Dyck for her report.

2. Reports

   a. Acting Chancellor’s Report

Acting Chancellor Dyck first thanked David Yaden for his support. She then turned to the closing of the Chancellor’s Office, noting that the office now has 17 fulltime and 5 part time employees and all have been assigned additional duties to manage the closure and ongoing work of OUS.

She commented on the Governor’s Recommend Budget and pointed out that $588M should be the number and the proposed increase includes $41.1M for tuition buy down.
She stated that the elimination of sports lottery funding had been zeroed out and they want $8M to go to Oregon Opportunity Grants. Capital code and safety funding is present for all seven institutions and each TRU has at least one capital project listed.

She discussed the staff retreat held in December where a listing of closing actions was created. She pointed out that, “213 items must be addressed. Some examples of these items include archiving issues, FCC radio license transition, audit transition, contract transitions and closings, and email archiving. Primary and secondary individuals were assigned to each item and associated timelines were established. It was agreed that we will fully cease business and close doors on June 30, 2015.”

b. Legislative session

Ryan Hagemann gave the report on the upcoming legislative session. He noted, “In the past, legislative affairs council (LAC) would meet weekly and the central coordination was done by the Chancellor’s Office. It is not being performed by the CO this year. LAC (all 7) has stepped in and been very effective.” He reported that he is working to ensure all statutes will transfer to TRUs from the SBHE in a manner that does not disadvantage them.

c. University Presidents Reports

Mark Weiss, WOU, welcomed Board members to the WOU campus. He reported that there is a full contingent of new WOU board members and there had already been training and an orientation session for the new Board. He shared information on WOU’s fiscal performance and enrollment, and concluded by noting his retirement on June 30, 2015.

Roy Saigo, SOU, related that, when he came to SOU six months ago, he saw that there was a need for a cultural change, not just a change in the business model. He commented that enrollment was slated for 2.6% decrease and that SOU is up 1.0%. “We have the largest freshman class in 10 years. Retention is up 7.6% and average class size is up 1.2% per class.”

Chris Maples, Oregon Tech, noted that enrollment is on track for averaging 3.0-4.0% each year overall and that retention is good. He stated, “We are overwhelmingly a transfer university, with an average age of 27 years old. Thirty thousand more students state-wide and a decrease in funding have been hard for us.” He continued by sharing that Oregon Tech is a 100% renewable energy campus and has a carbon footprint of zero and observed that the new Board is coming together with 13 members and the president, and perhaps a 15th member. He added that enrollment at the Wilsonville campus was around 840, which was the 2017 projection.
Jay Kenton, EOU, noted that EOU has 13 new Board members plus the president and are looking for one additional member. There will be a Board orientation in February prior to the Feb 12th meeting, which will be the first meeting of the Board. He shared that EOU Fall was down 11.0%, but Winter was only down 7.0%. Fall applications are up 33.0%. He shared that EOU is working closing with school districts and the Eastern Promise Program is working well. The next six months will be focused on Board and Presidential transitions.

d. Interinstitutional Faculty Senate

Jeff Dense, Interinstitutional Faculty Senate President, gave the IFS report, commenting that IFS wants to reaffirm support for academic quality and an outcomes-based funding conversation. He added that a framework for institutional review and ensuring academic quality is central to the process and is a priority of both the IFS and the Provosts’ Council. He related that academic quality, central framework, and textbook affordability are central concerns. In response to a question from a Board member concerning the future of IFS with the change to institutional boards from the state boards, Mr. Dense replied that, “We want to foster a strong relationship with the HECC, and this work is important. IFS is proposing to receive independent authority during the upcoming legislative session and carrying forward strong working partnership will be important.”

e. HECC Outcomes-based Funding Technical Workgroup

Brian Fox reported on the HECC Outcomes-based Funding (OBF) and shared that the state’s primary interest is 40-40-20. He explained that in the OBF model, base funding is a carryforward from the RAM that will have some rationalization. The three areas to this are mission support, research, and regional funding. He observed that the HECC does not want to force a business model and that enrollment strategy must be specific to the institution. “Focus on degrees allows for the core teaching mission. Focus on the types of student, the types that we are not graduating at a high enough rate currently. Focus on under-represented minorities, rural students, veterans, and PELL eligible students. Focus on STEM. There are some degrees that we should focus on increasing, such as engineering and health services.”

Discussion followed concerning the HECC’s role on new degrees with Mr. Fox stating that the HECC was still in a process of understanding what degree authorization and program approval mean and working to gain an understanding of what constitutes duplication.
f. Board Transitions

Ryan Hagemann gave the report on board transitions. The Chancellor’s Office has contracted with the Association of Governing Boards to assist TRUs with guidance. He noted that all TRUs will inherit the current OUS policies and he is working to prioritize policies so TRUS can easily assess and categorize them.

g. Presidential Search Update

Roy Koch gave a brief overview of the search process, which will be as open as possible and appropriate. Witt Keifer was selected as the firm to assist with the searches. Search committees were then formed – there are 17 people on the WOU committee and 15 on EOU. Leadership profiles were developed by spending time on each campus to meet with people to identify priorities, issues, challenges, and understanding of mission. Currently, there are 20 applications for WOU and 25 for EOU. The process is on track to have presidents selected by early May.

h. Tuition Setting Process

Cathy Dyck provided a report on the tuition setting process stating that the Board must approve tuition for 2015-16 AY and summer term. ORS states SBHE may not increase tuition more than 5.0% annually without HECC or legislative approval. Each institution should go to their new board prior to bringing it to the SBHE for approval. She noted that the OUS website will be up through September 2015 and the fee book will be able to be reached there prior to being moved to new sites.

3. Action Items

a. EOU Advantage Tuition Proposal

Jay Kenton presented the item, stating that there is a need to find ways to distinguish EOU in the market and how to successfully manage cost and time to degree. EOU wants to offer a fixed tuition rate option for four years. Tuition will be guaranteed, fees will still change, and students will be guaranteed that they will get the course work to complete a degree in four years. Help will be provided for financial aid, application for private scholarship, PELL, and we will help with jobs. He noted, “In exchange, this is a contract, they must enroll for the requisite number of credits per term, maintain the minimum GPA, and that they must give back to the institution in the future, donations of time for alumni event recruitment, of donation to scholarship fund. Housing is not included in the proposal. The program is 45 credits per year rather than 34 credits. This is an optional program.”
Discussion followed.

**ACTIONS:** Chair Yaden called for a motion to approve the proposal for EOU’s Eastern Advantage program and authorize EOU to seek approval for a tuition increase in excess of statutory limits from HECC at its next meeting. Directors Lisa Graham and Jim Francesconi made the motion and second, respectively; motioned carried.

b. **Oregon Tech Health Informatics Academic Program Proposal**

Brad Burda presented the item noting that OIT is moving to an option of a stand-alone BS degree, which will help with recruiting in the information technology health arena. It has a focus on moving from paper to electronic records in health care. It would be available in Klamath Falls and Wilsonville. The proposal has been discussed with faculty, the provost, the Provosts’ Council, and the Academic Strategies Committee. There is support from all universities.

**ACTIONS:** Chair Yaden called for a motion to authorize Oregon Tech to establish an instructional program leading to a B.S. in Health Informatics, effective Fall 2015. Directors Brittany Kenison and Emily Plec made the motion and second, respectively. Motion carried.

c. **SOU Recreation Center XI-F Bond Request**

Mark Denney, Associate Vice President for Budget and Planning, presented the item. He shared that the Recreation Center is being done in conjunction with another building and combined construction would result in substantial cost savings. The State Board could choose to delay vote for the for SOU board; however if this happens the bonding authority will expire, and the SOU board would have to ask the legislature for reauthorization of the bond sale, which would result in a substantial delay and increased cost to students. SOU conducted an extensive survey that showed wide support for the request.

**ACTIONS:** Chair Yaden called for a motion to approve the SOU Recreation Center as outlined in docket and approved by the SOU Board of Trustees. When SOU intends to sell the XI-F bonds, it will return to State Board with the specific resolution authorizing it to do so. Bill Thorndike and Shea Washington made the motion and second, respectively. Motion carried.
d. EOU and Oregon Tech Repurposing of XI-Q Bond Request

Brad Burda explained that Q bonds were awarded but not sold and the original purpose is no longer allowed. Q bonds are a general obligation bond in Oregon. Jay Kenton added, “To meet the service of the article, these have to be capitalized assets and plans do not qualify as such. I have spoken to a number of legislators and they understand that a mistake has been made and they will entertain a request, but it must come from the HECC. This is permission to ask for authorization from the HECC and setting this early so the bonds could be sold in early spring if approved.”

ACTION: Chair Yaden called for a motion to grant Oregon Tech XI-Q bond repurpose for $2.0M for the purpose included in the docket. It is noted that costs are estimated; therefore OIT is granted flexibility based on final costs. It is understood that such action will need authorization from the HECC and the Legislature prior to being effective and that Oregon Tech will be presenting this request to those bodies. Lisa Graham and Brittany Kenison made the motion and second, respectively; motion carried.

ACTION: Chair Yaden called for a motion to grant EOU XI-Q bond repurpose for $2.0M for the purpose included in the docket. It is understood that such action will need authorization from the HECC and the Legislature prior to being effective and that EOU will be presenting this request to those bodies. Brittany Kenison and Shea Washington made the motion and second, respectively; motion carried.

4. Consent Items

a. Annual Audited Financial Statement

Trina McGaughey from USSE introduced Caroline Wright, of Clifton Larson Allen Auditors who presented the report. She gave a synopsis of process indicating that it did not relieve management of responsibilities. The scope included seven campuses and the Chancellor’s Office and noted that there were not separate reports for EOU and SOU. She reported that, “We believe we have obtained the information necessary for an audit and that the audit is clean. Management analysis and OPEB is required and included. Supplemental schedules are included, and an opinion is included. Message from Chancellor is not required but included. No difficulties or disagreements were encountered when interacting with staff.”
b. Periodic Management Reports

Trina McGaughey presented the FY15 Period 1 management reports, which cover the period from July 1 to October 31, 2014. She noted that for this year, the reporting changed from the standard quarterly reporting to periodic reporting to more closely mirror the business cycle of the universities. The purpose of the periodic reports is to monitor how campuses are performing against their current year operating budget and against prior year actuals. She added that the format of the report has changed slightly to provide more clarity in the operations of each university. She then reviewed the reports of the individual campuses and the Chancellor’s Office.

EOU is projecting an 11% enrollment decline that will result in a 7.0% tuition revenue decrease from FY14. State General Fund appropriations are expected to be 16.0% higher than the prior year leading to an overall increase in revenue for FY15 of 3.5%. Due to retrenchment efforts, EOU is projecting only a 2.0% increase to expenditures for the year and is projecting a positive ending fund balance of $620K or 1.8% of operating revenues. This is below current board policy of 5.0-15.0% of revenues, but is trending the right direction compared to FY14 negative ending fund balance.

Oregon Tech is projecting a 1.0% enrollment decline with flat tuition revenue. (Oregon Tech’s projected FTE in their periodic report in the docket is incorrect. It’s shown as 2,842 but should be 3,102.) State General Fund appropriations are budgeted to be 15.0% higher than FY14. Total expenditures are projected to be 18.0% higher than FY14, mostly due to the new USSE expenses. Overall, Oregon Tech’s ending fund balance is projected to decrease $3,763K to $4,923K or 10.5% of operating revenues. This decrease brings Oregon Tech back in line with the Board policy of maintaining a fund balance between 5.0 and 15.0% of operating revenues.

SOU is projecting no enrollment change from the prior year and only a very slight tuition revenue decrease. State General Fund appropriations are budgeted to be 23.0% higher than FY14. Total revenues are projected to be 4.0% higher than the prior year. Total expenditures are projected to be less than 1.0% higher than FY14. Savings gained in personnel services are offset by increases in S&S. Overall, SOU’s ending fund balance is projected to increase $2,746K to $4,490K or 8.6% of operating revenues. This will bring them back in alignment with the Board policy.

WOU is projecting a 3.0% enrollment decline from the prior year and a slight tuition revenue decrease. State General Fund appropriations are budgeted to be 16.0% higher than FY14. Total revenues are projected to be 4.0% higher than the prior year. Total expenditures are projected to be 10.0% higher than FY14. Overall, WOU’s ending fund
balance is projected to decrease by 10.0% to $9,098K or 15.1% of operating revenues. This is within the Board policy for Western.

The Chancellor’s Office is in a unique situation this year. The operations of the Chancellor’s Office will be closed out on June 30, 2015. Therefore, everything is being managed very closely this year to get to zero by year-end and operations in the current year bear no resemblance to prior years. Staffing in the Chancellor’s Office has been reduced by 67.0% and many operations have been moved to the campuses, significantly scaled back, or otherwise eliminated. Any fund balance remaining in the Education and General group on June 30 will be distributed to the USSE to produce the FY15 consolidated financial statements, pay for audit expenses, and produce other required year-end reports.

c. Quarterly Audit Reports

Kathy Berg, OUS chief auditor, provided the quarterly audit reports noting that there had been substantial adjustments to staffing. “We started with 12 staff and are now working with 3. This has had an impact on our productivity. We recently hired a contract employee.” She went on to report on the individual campus audits.

d. Investment Performance Report

Cathy Dyck noted that due to the lack of an October Board meeting, this report included June year-end and September. Penny Burgess from USSE presented the quarterly and annual report on the investment pools for the period ended June 30, 2014 and September 30, 2014. Highlights for the quarter included: U.S. equities achieved solid gains as the S&P 500 closed higher by 5.2%; U.S. bonds posted solid returns in the second quarter as interest rates continued their decline on mixed economic data; the Barclays Aggregate Bond Index returned a positive 2.0% during the quarter; the Higher Education Pooled Endowment Fund returned 4.3% during the quarter and 19.2% for the fiscal year compared to the policy benchmark returns of 3.8% and 16.5% respectively. She then discussed the OUS Fund performance returns, which closed the period with a market value of $830.6M and a total return for the year of 1.2%. She shared, “While the Intermediate Term Pool and Long Term Fund underperformed their respective benchmarks during the quarter, all assets outperformed their benchmarks for the year. The Internal Bank distributed $2.6M of investment earnings to campuses during the fourth quarter.”

The OUS Fund started the fiscal year with $706M on deposit and ended the year with $831M. During the year, the fund distributed $11.1M of investment earnings to OUS institutions. As of June 30, 2014, the related investment portfolios had $1.8M in unrealized gains. The Pooled Endowment portfolio distributed $2.5M to OUS institutions.
for scholarships and other uses according to donor directives. As of June 30, the underlying investments had a total unrealized gain of $13.0M.

The Investment Policy Compliance Review report compares the investment policy guidelines to the actual portfolio on the basis of allocation by asset class, security, and performance metrics. The overall performance of the endowment fund exceeded its performance targets for the three and five year returns. The Columbia Acorn Fund and the Alternative Investments continue to underperform their respective benchmarks on a three and five year basis. No change to the underlying investment managers is anticipated given the recent and upcoming departures of university participants in the pool. As the investments are liquidated, the asset classes will be reallocated in line with policy guidelines.

Ms. Burgess highlighted investments for the quarter, noting that global investment markets finished the period with substantial volatility as U.S. economic growth showed dramatic recovery, while the European Union’s economy looks poised for another recession; the Higher Education Pooled Endowment Fund posted a .2.0% return during the quarter compared to the policy benchmark return of -.6.0%; the total market value of the OUS investments was $7.8M (OSU and UO’s market values are now being reported separately from the System’s values and PSU departed the pool in July 2014). Regarding the Public University Funds performance during the quarter, the cash deposits for the Technical and Regional Universities in addition to the Chancellor’s Office were transferred from the OUS Fund into the Public University Fund (PUF) on July 1. The PUF fund returned a positive .2.0% for the quarter. The three underlying investments all outperformed their respective benchmarks during the quarter. The total market value of the Oregon University System’s cash assets invested in the PUF on September 30 was $142.6M (the independent university values are reported separately). The technical and regional universities and the Chancellor’s Office received a combined income distribution during the quarter of $329K.

To a question asking if each TRU will be able to withdraw their endowments and put them into foundation, Ms. Burgess answered in the affirmative and noted that the Chancellor is looking at the ability to do this prior to July 1, 2015.

**ACTION:** Chair Yaden made the motion to accept the annual audited financial statement, the periodic management reports, the quarterly audit reports, and the investment performance reports, as presented. Motion carried.

5. Discussion Items

a. EOU and SOU Metrics, Conditions, and Guidelines
Chair Yaden explained that this discussion concerns conditions that were attached to approval of institutional boards for EOU and SOU. “These are related to fiscal distress and an opportunity to sharpen focus and strengthen the institutions. Our role is mission review and is laid out in guidelines.”

Jay Kenton, interim President at EOU, gave an overview noting that the region has been slow to recover, employment is slow, there is an aging population, and a growing Latino population. Enrollment declined over the last two years and is projected to stabilize. Retention is declining. He reported that administrative cuts were realized, but not faculty cuts, and some small course sections have been eliminated. He highlighted EOU’s strengths - affordable, multi-mode, small classes, recognized programs, underserved and under-represented, strong support around region – and weaknesses - remote, population is declining, programs not in line with regional needs (will be suggesting significant shifts in the future), economy is weak, some counties served are 70-80% federally owned and therefore lack a tax base. He went on to highlight opportunities, which included a growing Latino population, new governance model with local board, interdisciplinary programs. Some threats included state funding situation, implementation of different funding model, increasing competition, and cost of new boards.

He spoke about the Latino initiative, sharing that, “We must pay attention to this new pipeline. Hiring Latinos in key positions to help with family outreach is a priority. We are looking at starting a dual language partnership program, and we are in the process of translating our website to Spanish.”

Other highlights included: connecting students with internships, exploring differential tuition, one hundred percent graduation rate for Eastern Promise grant participants, rolling out online programs to high schools statewide, reviewing participation in WUE, reviewing non-resident pricing and recruitment strategies, creating a market advantage and market niche, streamlining string programs to facilitate four year graduation and cross-disciplinary skill set, connecting academic and student services with the region by being a resource and conduit for regional change.

Dr. Kenton concluded by providing fiscal projections that next year, with flat enrollment and a 5.0% tuition increase, along with cuts, EOU will end the year with 3.6%. The following year, EOU will end with 7.0% fund balance.

Interim President Roy Saigo gave the report on SOU. He shared that when he came to SOU, he initiated a lot of conversation with positions all across the university and met with enrollment staff. He highlighted SOU’s mission of being an inclusive campus focused on student success, intellectual growth, and responsible citizens. SOU is committed to strengthening the application tunnel and growing overall; improving one
and two year and one and three year retention rates; reducing low enrollment courses; and focusing on student success.

Chair Yaden commented that he was impressed by the energy on campuses and focus on serving the students and regions, commitment to using the data to take on issues that are tough.

6. Public Comment

There was no public comment.

7. Adjournment

With no further business proposed, the meeting was adjourned at 3:37 pm.