Board of Trustees of the University of Oregon
Finance and Facilities Committee Meeting

Meeting Summary | May 22, 2019

Committee Membership

Marcia Aaron	Present	Joe Gonyea	Absent
Peter Bragdon	Present	Jimmy Murray	Present
Andrew Colas	Absent	Michael Schill	Present
Ross Kari, Chair	Present		

The Finance and Facilities Committee (FFC) of the Board of Trustees of the University of Oregon (Board) met at the Jordan Schnitzer Museum of Art on the UO's Eugene campus on May 22, 2019. Below is a summary of committee discussions and actions. An audio recording is maintained on file.

Convening and Approval of Minutes. FFC Chair Ross Kari called the meeting to order at 8:31 a.m. A quorum was verified. The committee approved the minutes from the March 2019 meeting without amendment.

Housing Transformation Project. Vice President for Student Services and Enrollment Management Roger Thompson and Assistant Vice President and Director of University Housing Michael Griffel spoke to the Board about the Housing Transformation Project that involves (i) the construction of a new residence hall on the "Humpy Lumpy" lawn, (ii) the rebuild of Walton Hall, and (iii) the removal of Hamilton Hall and creation of a new green space. The primary purpose for their update is a request before the Board for preliminary authorization for expenses required to complete work necessary in order to gain a complete understanding of the project scope and cost (for purposes of the entire project budget and subsequent Board approval), and for work that is best suited over the summer when the student population on campus is considerably lower. Thompson and Griffel discussed the goals for the Transformation Project, student success aspects of living on campus in a student's first year, the project timeline, and the details of the request before the Board. Jamie Moffitt, vice president for finance and administration and CFO, provided information about the timing of the project's financing and the timing of the future requests to the Board regarding this project.

> *Action: The resolution was moved by Trustee Murray and seconded by Trustee Aaron; it was approved by voice vote without dissent.*

Critical Business Functions Audit. Trisha Burnett, chief auditor, provided the committee with an overview of the audit project focused on critical business functions. She noted that the purpose of the project is to better understand the distributed nature of work related to business functions across the university and the diverse way this work is handled within different types of units on campus. The project is primarily in an information-gathering stage. Moffitt noted that she would like to see—as a result of the project in the Office of Internal Audit—a map of what various structures exist across campus vis a vis the individuals or teams performing business functions and transactions. In turn, this will help the institution understand risk associated with business transaction work and identify mitigation strategies associated with that risk. Burnett noted that the project has an expected completion date of June 30. Moffitt shared that once the transactional mapping is complete, she would like to launch a task force with representatives from those areas of the university that have the most distributed processing of business transactions to discuss the associated risk of these decentralized structures and possible mitigation strategies.

Moment of Silence. Moffitt asked the committee and audience to take a moment of silence to remember Karen Levear, the UO's director of Treasury Operations, who passed away this spring.

Quarterly Financial Reports. Moffitt reported that the Q3 projections show a current estimated shortfall in the FY19 E&G Fund of $10.7 million, which is up from the Q2 forecasted shortfall of $7.9 million. The change is largely due to tuition and fees (slight declines spread over many tuition and fee categories) and a reduction of anticipated internal sales reimbursements (which, in part, include the transfer of administrative overhead charges from auxiliary units and designated operations into the E&G Fund, which appears as negative expense in E&G). This latter reduction is largely due to lower than expected spring enrollment in the Division of Global Engagement and lower overhead administrative overhead collections, primarily from the American English Institute.

Moffitt noted that the annual "ante up" process by the Higher Education Coordinating Commission will not occur until next fall, wherein the HECC settles up individual institutional distributions against final counts/data related to the funding formula that distributes the state Public University Support Fund. The trustees engaged in a discussion with Moffitt about the PUSF with a particular focus on the relative level of funding provided to the UO compared to other institutions.

Moffitt then provided a quick update on the quarterly treasury reports, noting that the reports are fairly typical with regard to annual cash flow trends. Moffitt updated trustees on the recent reevaluation by S&P of the UO's credit rating, reporting that S&P gave the UO a stable outlook and maintained the AA- credit rating. Trustees discussed the impact of debt on the credit rating and the need to appropriately manage risk and maintain communication with S&P if and when the institution issues additional debt.

Financial Updates. President Schill introduced Agenda Item #4, which included three primary financial updates: strategic cost savings, current institutional budget reductions, and updated, long-term financial projections. Moffitt walked trustees through an update on the strategic cost saving initiatives underway across the institution, noting that her overview likely does not capture everything because much of the work is being done at the department level as faculty and staff look for ways to most effectively use their resources. She reminded trustees of the recurring and one-time savings identified in FY17 with regard to strategic purchasing, negotiated energy rates, insurance savings, and others. She then provided trustees with an update on initiatives taking effect since that time (i.e., new institutional savings). She highlighted additional savings in strategic purchasing, energy and utilities, and treasury operations and other areas which totaled $2.1 million in recurring annual savings and $2.5 million in one-time savings. The strategic savings outlined by Moffitt are in addition to the $11.6 million in recurring cuts implemented by President Schill as part of an overall budget reduction effort. When combined, and added to the FY17 savings, the institution has identified a total of $19.5 one-time savings and $29.5 million in recurring savings. Detailed information is available in the meeting packet.

President Schill then provided an overview of the current expenditure reduction initiative underway (the $11.6 million in reductions noted above), articulating the process by which he generated the target number for individual vice presidents and the areas which he selected to protect from reductions based on institutional priorities such as advising, safety, and Title IX. The president also articulated some of the principles used by the provost as the provost allocated his portfolio's reductions among the schools, colleges and academic administrative units. The president noted that all the cuts from various portfolios are "on his desk" and he will make final determinations by the end of this week with regard to whether to accept the plans or ask for any adjustments.

Moffitt and Schill then turned to the updated long-term financial projections. Moffitt shared that the long term projections documents are very similar in structure to the ones shared in September 2018 with the Board. Moffitt first explained the sample model document (available in the materials) using baseline assumptions. Trustees discussed the various inputs and issues relating to each. For example, they discussed the assumed increase in state appropriation ($2M increase per year) and how comfortable Moffitt and Schill are with this assumption in the model given the likelihood of a recession in the next few years. Moffitt included a more detailed set of E&G fund projections based on the model and assumed inputs (page 2 of the supplement). Trustees then looked at three sets of scenarios (Set A, Set B and Set C) which each include 8 different scenarios. The 24 scenarios look at adjustments to the "base case" assumptions—largely shifts in state appropriation, exceeding or falling short of enrollment targets, and changes in tuition rates —and how those adjustments impact the FY25 projected fund balance, operating expense reserve, and run-rate. She noted that there are significant impacts to the UO's financial health under certain scenarios, which means the UO would likely have to take actions not assumed in any of the scenarios – namely, resident tuition increases above the annual "base case" assumption or significant cuts. The goal of this model is to provide a sense of the impact various inputs have on the overall financial picture. Chair Kari asked that another set of scenarios be run that answer the question of how much the university would have to increase resident tuition in order to ensure that the institution has a 6-week operating reserve for each set of assumptions Trustee Lillis noted the massive differential between the UO and peer institutions relative to state support and resident tuition rates. Trustee Paustian asked Moffitt, the government affairs team, and the HECC representative present at the meeting about the latest information from Salem regarding the 2019-2021 PUSF investment, PERS reform, and the likelihood of seeing reforms to the PUSF funding distribution model as managed by HECC. Moffitt spoke to the effort to revisit the funding formula, noting the complicated nature of the formula and the many different aspects of it that need to be considered in a rewrite. Libby Batlan, associate vice president for government and community affairs, provided an update on the status of legislative budget-writing. She noted that the university is fairly confident that the PUSF will receive an additional investment of $80 million for the 2019-2021 biennium, and that there is some optimism that the PUSF would receive an investment higher than this given the May 16 state revenue forecast, which showed a significant increase in available revenue for legislative budgeting. President Schill articulated the risk associated with having a faculty union related to the vulnerability that can occur if a recession—and subsequent state appropriation cuts—occurs in the middle of a collective bargaining agreement.

FY20 (Temporary) Expenditure Authorizations. Chair Kari introduced the resolution before the Board regarding FY20 expenditure authorizations. The proposed resolution authorizes operating and capital expenditures for FY20 at FY19 levels on a temporary basis; the institution is unable to complete its final budget and associated request for authorization until the State finalizes its budget for the public universities. The president and CFO will make a final FY20 request of the Board at the September 2019 meeting. This is a standard practice for expenditure authorization approvals for even-numbered fiscal years.

> *Action: The resolution was moved by Trustee Aaron and seconded by Trustee Murray; it passed by voice vote without dissent.*

Athletics Review. Rob Mullens, athletic director, and Eric Roedl, deputy athletic director, provided trustees with the annual review of intercollegiate athletics. They provided a department snapshot, a review of department goals, and a breakdown of student-athlete (SA) demographics, including the various levels of scholarship support received by SAs. Mullens walked trustees through a SWOT analysis of the department. Key strengths discussed included, but were not limited to: culture, brand, facilities, excellence, and the community. Key weaknesses discussed included, but were not limited to: the resource gap with other conferences and competitive institutions, market size, reliance on non-resident SAs, and misperceptions (some of which stems from competitors). Key opportunities discussed included, but were not limited to: growth in ticket sales, future multi-media rights, special events at athletic venues, and continued innovation. And key threats discussed included, but were not limited to: sustainability of the financial model, hyper-competitive marketplace, NCAA litigation and compliance, evolving consumer behavior, growing resource gap (particularly among Power 5 conference peers), and deferred maintenance of facilities. Mullens articulated some details around athletic scholarship support for SAs, which totals $13.5 million in FY19 ($9.3 million of which transfers cash to the UO's E&G funds through direct tuition payments) and which will grow in FY20 commensurate with both resident and non-resident tuition increases as the department pays full tuition for scholarships to the university at the respective rate based on the SA's residency. Mullens also described institutional funding provided to athletic departments in the PAC-12 (public university data only). Mullens turned to performance, articulating the broad-based excellence of the UO's various sports and the highly successful nature of its teams. Roedl then provided more in-depth detail about the department's financial picture, beginning with key revenue considerations. Roedl noted that ticket sales are 23% of the department's total revenue and, thus, the unit is highly dependent on the success of such sales and faces unique challenges as it relates to data, analytics and keeping up with evolving consumer behaviors. Roedl also talked about the revenue received from the Pac-12 conference through media rights (29% of the department's total revenue), particularly noting the disparity between the Pac-12 and the other major conferences (i.e., a disparity of $15M-$20M per school per year between the Pac-12 and the Big10 or SEC). On the expense side, Roedl highlighted salary and benefit costs as a key consideration (35% of total expenses), explaining in particular that the high benefit costs (increasing $1.3 million in FY20) create pressure on the compensation side that exacerbates recruitment and retention issues in a highly competitive market. He also discussed the rising cost of SA scholarships due to tuition increases and the need to invest funds in facility maintenance and upkeep, both of which are also key expense considerations for the department. Trustee Lillis asked about the academic success of UO SAs, particularly compared to peer institutions. Mullens noted that Oregon rates near the middle of the Pac-12 overall in academic performance; the materials provided show that students have an average GPA of 3.03 at the UO (incoming GPA of 3.45) and that 92% of students who exhaust their athletic eligibility graduate. Trustee Ralph asked about the "one and done" practice in men's basketball and the impact of this on recruiting or decision-making with regard to taking on new SAs; she also asked about the connections between departmental physicians and compliance officers with the broader university to better understand the ability of the department to identify issues and mitigate risks as experienced at other universities.

Adjournment. The meeting adjourned at 11:24 a.m.