

December 9, 2019

Committee Membership

Marcia Aaron	Present	Joe Gonyea	Present
Peter Bragdon	Present	Jimmy Murray	Present
Andrew Colas	Present	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 in the Giustina Ballroom of the Ford Alumni Center on the Eugene Campus on December 9, 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 1:26 p.m. A quorum was verified. The committee approved the minutes from the September 2019 meeting.

Quarterly Financial Report and Annual Treasury Report. Jamie Moffitt, vice president for finance and administration and CFO, provided trustees with the quarterly financial report. She noted that the updated projections after Q1 of Fiscal Year 2020 (FY20) reflect a larger shortfall in the Education and General Fund (“E&G Fund”) than anticipated at the September FFC meeting (\$10.3 million vs. \$6.8 million), largely due to (i) better than expected graduation rates and (ii) a larger than anticipated decrease in international student enrollments. Trustee Aaron inquired about the institution’s ability to predict such behavioral changes and trends, and the resulting budgetary impacts; President Michael Schill and Provost Patrick Phillips discussed the institutional need for more analytical staff and tools. Moffitt also noted that there were a few other factors going into the updated projection, including, but not limited to, slightly higher than anticipated state appropriation for FY19, strong graduate tuition revenue, increased administrative funds associated with awarded grants, and strong retention rates for the large freshmen class enrolled in fall 2019.

Moffitt then transitioned to the annual treasury report, presented in partnership with Kelly Wolf, associate vice president and controller. Moffitt introduced Jeff Schumacher, the new director of treasury operations who joined the UO in November. Moffitt noted that there was not much new in the quarterly treasury report compared to the September report, but she did update the committee on a rating downgrade (Ford Motor Credit Co.) in the bond portfolio, a required notification but one which Moffitt noted did not carry much risk. Wolf reviewed the investment performance of the entire portfolio, including the Tier III funds held by the University of Oregon Foundation, and provided overviews of credit risk, liquidity risk, and debt service payments. Wolf also provided some peer comparison information to trustees as part of the annual report; these comparisons included items such as university-only cash and investments, and the UO’s cash and investments relative to operating expenses (both university-only and inclusive of Foundation funds). Trustees were also provided with a recap of changes to the treasury management procedures. The redlined version of these procedures is available in the committee meeting materials posted online.

FY2019 Audited Financial Statements. Moffitt and Wolf provided trustees with an overview of the FY2019 audited financial statements as prepared for fiscal year end. Moffitt noted that the audited financial statements are a look at university finances that are inclusive of all university resources, not just the

education and general (E&G) fund that reviewed in detail each quarter with the Board. Wolf provided a high level overview of the audited financial statements, noting that the institution received an unmodified (i.e., “clean”) audit from its external auditors, which means there are not material deficiencies identified. Wolf thanked the accounting and finance staff who worked hard to ensure that the financial statements were completed accurately and on time. Wolf then provided a summary of key high-level information from the FY19 audited financials, including year-over-year changes in overall revenues, overall expenses, and overall net position. Wolf also discussed with trustees the standard core ratios, which are provided each year as part of the annual report and which Moffitt noted are often used in higher education and which are reviewed by the Higher Education Coordinating Commission (HECC). These included the primary reserve ratio, viability ratio, return on net assets ratio, and debt burden ratio. Wolf concluded by noting a few items on the horizon which trustees should be aware of for FY20 and FY21.

FY2019 External Auditor’s Report. Scott Simpson, a partner with Moss Adams LLP, provided trustees with the annual external audit report. Simpson noted that the audit issued this year for the UO was an “unmodified opinion,” which means that “financial statements are presented fairly, in all material respects, in accordance with” generally accepted accounting principles. Simpson noted that there were no compliance or financial findings to report on the two other external audit reports: one on “internal controls over financial reporting and on compliance and other matters” and one on “compliance with requirements that could have had a direct and material effect on the major federal programs and on internal control over compliance in accordance with the uniform guidance for federal awards.” Simpson reflected on the work done by the UO in response to a finding issued last year (December 2018) regarding federal reporting compliance matters, noting that the Office of the Vice President for Research and Innovation (OVPRI) took the matter seriously and did a good job making modifications to internal controls and practices; he noted that Moss Adams is pleased with the work done by OVPRI. Simpson provided other required disclosures and information to the trustees, complimented management on their work and accuracy in providing information to Moss Adams, and thanked staff at the UO for their cooperation.

Bond Authorization Request. Wolf then introduced a proposed resolution to the committee. The resolution asks the Board to authorize \$120 million (par value) in general obligation revenue bonds. He noted that the majority of this funding would go to the housing transformation project, which was approved by the Board in September 2019 at a budgeted amount of \$101 million for the first part of the project. Wolf noted that the timing of the sale is expected for winter or spring 2020. Moffitt added that the timing of this sale should result in a relatively low cost of capital due to current bond markets and rates for similar types of bond issuances. Wolf provided trustees with a look at the UO’s debt burden ratio after this issuance. As with prior bond issuance requests, this resolution includes a clause that the Board Chair and Finance and Facilities Committee Chair would have to provide final authorization for the sale after seeing all final details related to the sale. Chair Kari asked whether the information about debt burden included all capital projects on the current ten-year plan shared by Mike Harwood later in this same meeting. Moffitt clarified that the information provided for this presentation did include the entirety of the housing project (this portion plus Phase 2) but does not include all of the other projects as many are dependent upon authorization of state bonds.

The resolution to authorize the issuance of up to \$120 million in revenue bonds was moved by Trustee Aaron and seconded by Trustee Gonyea; it was approved by voice vote without dissent. Trustee Colas declared a potential conflict of interest.

Capital Planning. Mike Harwood, associate vice president for campus planning and facilities management, provided trustees with an annual report on capital projects in process and potentially on the horizon. He

presented a project dashboard to trustees. The dashboard provides a progress report on all projects underway or recently completed, specifically relative to the projects' timelines and budgets. Harwood then walked trustees through a ten-year retrospective of projects, which helps provide context for costs of similar types projects over time. Harwood then walked trustees through a forecast of the capital development plan, looking at planned and potential future projects. He noted that there are three categories into which these projects are sorted: academic, student services and enrollment management (including housing), and athletics and other. Harwood discussed those projects that are being considered for funding requests through the state legislature. Those include Huestis Hall, which is a request of the legislature for its February 2020 session, and then the "Campus Heritage Project," which involves necessary maintenance to Deady and Villard Halls. Harwood then introduced Steve Mital, director of sustainability, who provided an update on operations and planning relative to sustainability at the UO. Mital updated trustees on the UO energy footprint chart developed in 2018 and plans for a one-stop sustainability website currently in development. He also provided an overview of the UO's Climate Action Plan (CAP) for 2019-2024, which was signed by President Schill earlier this year, and some of the key initiatives therein. One initiative he highlighted was a low carbon heating feasibility study, which will evaluate options to transition away from natural gas to heat campus. Harwood then discussed the university's five year plan for deferred maintenance backlog, which is currently estimated at \$350 million. This estimate is based on a high level third party assessment and Harwood noted he believes it only represents perhaps half of the total actual need. Campus Planning and Facilities Management (CPFM) is now working to assess 66 initial mission-critical facilities to help prioritize this work. He noted that some of this work is related to safety and physical structure, and some is about modernizing buildings to align with current teaching practices and needs. During the presentation, trustees engaged in questions and discussion with Harwood and Mital on topics such as deferred maintenance funding, efforts to inventory sustainability practices on campus, building codes and practices,

Adjournment. The meeting adjourned at 3:05 p.m.