
**Finance and Facilities Committee
Minutes**

Trustees Present:

Vince Jones, Chair Michele Vitali Nagi Naganathan (*ex officio*)
Stefan Bird

Trustees Unable to Attend:

Kanth Gopalpur
Mike Starr

Other Trustees in Attendance:

John Davis
Jill Mason
Mason Wichmann
Fred Ziari

University Staff and Faculty Present in person:

Abdy Afjeh, Vice Provost-Research & Academic Affairs
Thom Darrah, Director-Facilities Management Services
Don DaSaro, President-Fiscal Operations Advisory Council
Ken Fincher, Vice President University Advancement
Erin Foley, Vice President of Student Affairs & Dean of Students
David Groff, General Counsel & Interim Board Secretary
John Harman, Vice President Finance & Administration
Tom Keyser, Dean College of Engineering, Technology & Management
Michelle Meyer, Director of Audit & Compliance-Business Affairs
Joanna Mott, Provost & VP of Academic Affairs
Adria Paschal, Senior Executive Assistant to the President
Dan Peterson, Dean College of Health, Arts & Sciences
Jean Bushong, CLA
Lori Garrard, Executive Assistant to the VP of University Advancement
Riley Ambrose, Oregon Tech
Bryan Wada, Information Technology Consultant 2

1. **Call to Order/Roll/Declaration of a Quorum** *Chair Vince Jones*
Chair Jones called the meeting to order at 11:02 am. The Board Secretary called roll and a quorum was declared.

2. **Consent Agenda** *Chair Vince Jones*

2.1 **Approve Minutes of the October 17, 2022 Meeting**

No changes to minutes voiced. Agenda adjusted to reflect minutes from October 2022.
Minutes approved as submitted.

3. **Reports**

3.1 **Fiscal Operations Advisory Council FOAC** *Professor Don DaSaro Verbal only*

FOAC Chair Don DaSaro was present virtually and indicated there was a meeting January 19th to discuss year to date and November 2022 management report. They discussed:

- Oregon Tech's OPE and if it was similar to other universities in Oregon -- VP Harman confirmed that they were similar.
- Operating and non-operating revenue -- Michelle Meyer reviewed the rules and generally accepted accounting principles and the various revenue strains for each type.
- Professor Mark Neupert discussed the origin of the quasi-endowment. He was concerned of a prolonged decrease in endowment, and could it be lower than the 10% minimum stated in the board policy. VP Harman said the policy could be revised.
- Professor DaSaro said his final point was the standard annual financial ratios. VP Harman said we are doing reasonably well in this area.
- They had a discussion on what needed to be done to generate additional revenue due to changing demographics, uncertainty with the outlook towards higher education by the new governor, possible recessionary period, and with fewer people attending college while the state government is decreasing its funding.

3.2 **Quarterly Finance, Facilities and Audit Report**

3.2.1 **FY 2023 Management Report YTD November (A)** *VP John Harman*

VP Harman reviewed his presentation and the forecast as of November is cautiously positive and optimistic. The tuition revenues is below expectations because we were down in enrollment about 5.9%, excluding dual eligible or college placement students.

- Spending is below budget (down in salaries and S&S) and in line items related to spending for applied computing and rural health initiatives. As a result of underspending to date, it appears we will need to transfer less from reserves.
- VP Harman advised we have been able to work with HECC and make a case for additional corrections in the implementation of the funding formula. We received an additional \$1.3 million from the state. VP Harman stated that we have had savings from administrative

salaries, faculty and other payroll expenses which have helped us save approximately \$3 million during this fiscal year.

- **Chair Davis** asked if those were open position savings. VP Harman advised that there are about 80 positions that are currently budgeted and open and there are about 60 that are being actively recruited for. Dr. Mott advised about 30 faculty positions open and advised that faculty will not start until September 15 so there will not be salaries to cover in June, July or August.
- **VP Harman** stated that we have saved approximately \$6 million, primarily in the startup of applied computing and rural health initiatives.
- **Chair John Davis** asked for explanation on transfers in. VP Harman explained about enrollment projections and how we were conservative because we were not sure where we would be with the student success and completion formula. VP Harman said we had an additional \$3 million in COVID revenue that was not spent last year.
- **Chair Davis** asked about claiming the COVID funds and VP Harman advised we just received them and confirmed that with Michelle Meyer. Chair Davis also commented about our responsibility of applying the \$5 million from the legislature as specified in the state budget. VP Harman advised that it is one time funding, and we want to invest it strategically, so we create initiatives that are beneficial to the institution in the long term.

3.2.2 Q-1 Investments Report (B) *VP John Harman*

VP Harman shared his presentation. He stated that it is important that everyone recognize that the market is down. The longer-term fund (quasi endowment) was set up in 2016 by the Board declined 2.7%. That is what is prompting the staff to come to the board to change our investment policy to help preserve the corpus in times of a down market.

- VP Harman shared graphs from his presentation showing \$22 million as our working capital. VP Harman advised that we outperformed the benchmarks in the core bond fund, but we did not for the short-term funds; so overall, that fund is down about 1.5%. VP Harman advised that is where we should be concerned is the quasi endowment which really was set up with a 3–5-year earnings horizon and the idea was to preserve corpus. The problem is that there is a 4% pay off requirement on that every year at the time it was set up and the earnings had been probably 4-5% annually so far. What has happened is the earnings rate has dropped and so we are depleting that corpus. We are still outperforming the Bloomberg benchmark.

3.2.3 FY 2022 Annual Financial Statement Ratios *VP John Harman*

VP Harman presented the annual financial ratios. He added that while the Foundation is a component unit of the university, it is presented discreetly as a separate financial statement. However, the assets are combined.

- The primary reserve ratio: we can cover only about 3 months of our annual operating expenses if we only spend from our savings that are unrestricted.
- VP Harman looked at the viability ratio. We could meet 78% of our debt.
- VP Harman talked about the debt measures because the board wants to make sure that we are committing ourselves to a reasonable debt burden, given our capacity to retire the debt.

- Debt burden ratio is the annual payment. There were changes in the accounting structure and it is now required to capitalize leases and that increases our debt.
- **Trustee Jones** pointed out that he and VP Harman had many conversations with each other as well as with Dr. Nagi regarding their position in regard to the debt concern. When looking at facilities such as new residence hall, they considered all aspects of taking on the debt burden. **Chair Davis** said if we can keep our existing housing online, the new student housing is a revenue producing asset and should be relatively financially neutral. VP Harman said that we should reach 95% occupancy within the first two years in the new residence hall which will allow us to break even.
- VP Harman talked about debt to operating revenues which are primarily tuition. We are on the low end of strong primarily because universities typically do not have great amounts of cash reserves. The state does not put in enough money to allow us to accrue the reserve. If you look back 15 years ago, the state paid about 70% of education from a funding perspective and now it is flipped, and students/families pay the 70%. Tuition is a very important and strategic decision to make as we need to stay affordable and sustain the quality of our programs.
- **Chair Davis** asked if it was accurate to say because those the ratios do not take into effect state transfers that we plan on, can we say the projections are lower than private institutions that have to be fully supported based on tuition and we depend on state support. VP Harman said he thought so, and it would be a little higher in the private sector, but public institutions typically have a low margin.

3.2.3 Q-1 Capital Projects Update (D) *Director Thom Darrah*

- **Thom Darrah** shared his presentation and advised Boivin renovations are on schedule and in budget and the scheduled completion is June 2023. Chair John Davis requested a tour of Boivin in June.
- Thom Darrah advised that the track and stadium renovation (track completed last year) with the stadium portion underway with completion in March 2023.
- The third project is the OMIC Additive Innovation Center. It is currently nearing completion, with scheduled completion for the end of February. This project is in budget.
- Thom Darrah talked about the new student housing project that is just now getting underway. The architect has been selected and we are in the program visioning phase. The design phase will be completed by end of 2023 and the main construction will begin in January 2024 through June 2025 and ready for students for the fall term of 2025. The total budget is just over \$30 million, and the construction budget is \$28 million. Thom Darrah advised that the site should be identified in the next two weeks for the new residence hall.
- **VP Harman** said there was a great planning session that included students which is an example of shared governance. During the meeting there was great insight and feedback. He advised that it was exciting to have students involved and invested in the project.
- **Thom Darrah** stated that Oregon Tech received CIR dollars (Capital Improvement and Renewal) dollars on a bi-annual basis. We are currently working with 2021-23 biennium and total funding provided was \$3.3 million. Thom Darrah shared a list of projects that are completed, underway or pending. He will continue to track and provide updates.
- **Trustee Jones** acknowledged the need for a new residence hall.
- **Trustee Jones** asked for a status report on the condition of the geothermal facilities and equipment on campus. VP Harman stated that there was a comparison made using gas,

electric, and other utilities and that the decommissioning of the system would be expensive and the new equipment if we went gas or electric, and the costs of electric and natural gas. VP Harman advised we are optimistic about our argument to continue with geothermal and we are looking for a legislature member to sponsor our argument and funding efforts through the state and we will get traction on this project. The estimated cost for the three-year project would be approximately \$17million.

- **Trustee Ziari** stated the project is very ambitious. VP Harman advised how unique Oregon Tech is to have geothermal and how hard it is to find the correct funding and it does not fall into an obvious area.
- **Trustee Davis** asked Dr. Nagi to talk about how he had already been to the legislature this year. **Dr. Nagi** advised he has been talking to key legislators in person to relay our message. **Trustee Ziari** asked about the infrastructure capital improvement versus asking for funding for geothermal, finding an expert, and combine geothermal into a teaching opportunity. Dr Nagi added Oregon Tech used to have Geo-Heat center and it went away and the center was decommissioned. We have an expert who is a former faculty member who is a great resource. Our geothermal system is a unique asset. Any dollars we secure from the legislature would be capital dollars and not operational dollars.
- **Trustee Jones** agreed with all points that were made and encouraged that we have a plan of action in case of a catastrophic failure where the entire system goes down. We need both a short-term and long-term plan of action.

3.2.5 Internal Audit Status (written report)

VP Harman advised report has been provided in the board packet.

VP Harman advised that they are also working on updating the university policies as we are still following old OUS policies and they need to be updated and put in alignment.

Dave Groff advised that there were two outstanding ethical issues that have been resolved and there are no pending matters.

Lunch break commencing at 12:07 pm. Will return to business at 12:45 pm

Meeting resumed at 12:47 pm

4. Action Items

4.1 Board Policy on Quasi Endowment - *VP John Harman*

- **VP Harman** provided a brief background of the quasi-endowment funds. The policy requires a biennial review by the Board and is part of an effective internal control process to monitor its efficacy and to adjust as necessary. The proposed changes to the policy will provide for strategic flexibility of asset management, preservation of capital during market volatility and will provide edits necessary for clarity.
- VP Harman stated that they wanted to propose to the committee and then asked for recommendation to the full board, that we revise the policy for spending to be 0-10% annually and not the mandatory 4% as it is today. That would be contingent on not to exceed \$1million based on the current level of authorization for the President without any additional board approvals.

- VP Harman advised it is unlikely we will need to spend from that endowment any time soon and we are better off leaving it.
- **Trustee Stefan Bird** noticed the management fee seemed high and asked if we had looked at other investments with lower fees. VP Harman advised that the fee is a little high for some funds and the treasury sets that as it is a percentage of the overall balance and is set by ORS. As long as we invest with the state, we have to be subjected to whatever their amount it. VP Harman suggested that we could have a representative from the Oregon State Treasury talk with them at the next meeting and advise if there is a different investment package that we should be considering that is consistent with our strategy.
- **Trustee Davis** asked if the spending policy were to change from 4% to 0 to 10%, who would have discretion on the revised policy to determine the percentage and what would the criteria be. VP Harman advised the President would confer with the Board Chair and Chair of the finance and facilities committee before spending. **Dr. Nagi** advised the intent is to not draw on the endowment and it allows us to exercise judgement. **Chair Davis** is supportive of that since the board receives regular budget updates and management is extremely transparent with the board on where we are financially.

After review of documents and proposed revisions to the board Policy on Quasi-Endowment Investment, staff requests a motion to the full board recommending that proposed revisions to the board policy on Quasi- Endowment Investment be adopted and approved.

Motion: Michele Vitali

Second: Stefan Bird

Roll Call vote: Trustee Bird aye, Trustee Jones aye, Trustee Vitali aye, Trustee Wichmann aye.

With all trustees present voting aye, the motion passed unanimously.

This item is approved and will go before the full board tomorrow.

4.2 Request to Issue an RFP and Executive Agreement for Internal Audit Services – VP John Harman

- **VP Harman** requested permission for Oregon Tech to issue an RFP for internal audit services as our current vendor does not offer the services to meet our needs as they have evolved. There is a growing complexity of governmental accounting requirements and complex regulatory compliance requirements. We need an expanded scope for consultative services and experts in the field as changes come in governmental accounting standards, principles and pronouncements, and also best practice.
- VP Harman said we are asking for competitive bid process with a more robust scope of services to include not just the traditional internal audit, which are primarily operations audits or compliance audits. **Trustee Jones** pointed out that this item is not just due to the university's inability to amend the Kernutt-Stokes contract. VP Harman has looked at this closely and is aware of the services that we need for our internal auditor. Although Kernutt-Stokes has provided excellent services as our internal auditor and understands what the university needs, we need to go out with an RFP to a company that can provide the

additional services that we need, something more robust than what our current auditor can provide.

After review of the draft RFP and related documents, staff requests a motion to the full Board authorizing the issuance of an RFP for expanded internal audit services with delegation to the President or their designee, in collaboration with the Audit Committee Chair, to negotiate and execute a multi-year agreement for services to begin on or about July 1, 2023 and extend through June 30, 2027 with an option for two (2) successive two (2) year renewals thereafter.

Motion: Stefan Bird
Second: Michelle Vitali

Roll call vote: Trustee Bird aye, Trustee Jones aye, Trustee Vitali aye, Trustee Wichmann aye.

With all trustees present voting aye, the motion passed unanimously.

4.3 2021-22 Annual Financial Report *Jean Bushong, CLA*

- Jean Bushong from Clifton Larson Allen LLP presented in person. She stated that the scope of the engagements for Oregon Tech are financial statement audit and a single audit. She stated she will be presenting FY2021 and will review FY2022.
- Financial statement audit results: No material adjustments needed to be made. The materials provided by Oregon Tech required no adjustments. No deficiencies were identified.
- Jean Bushong walked through the 2022 annual financial report that was distributed to those trustees who were present. A PDF soft copy was provided to all.
- Jean Bushong pointed out the statement of revenue, expenses, and changes in net position has a lot of cash activity.
- Additional info can be found in the footnotes.
- Jean Bushong also reviewed required communications from auditors to include qualitative aspects of accounting practices, difficulties encountered in performing the audit (none), uncorrected misstatement (HEERF adjustment) and no other issues that needed reporting.
- The only disclosure put in the letter was the matter of the geothermal plant as it is being reported by management as impaired and management either needs to bring it back online or write it off.
- Jean Bushong talked about the federal compliance audit. The findings include HEERF, student financial aid, procurement, suspension and debarment, COD reporting, student status changes. 2022 single audit is due March 30, 2023.
- “Management was and continues to be very helpful through the audit process.” **Chair Davis** thanked Jean Bushong and university management for their accuracy and transparency. **Trustee Jones** acknowledged the hard work of the university and CLA.

Trustee Jones explained that the first part of this motion is for the Finance and Facilities Committee to approve the recommendation of the FY 2022 Annual Financial Report with recommendation to move it to the full board for approval.

After review of the FY 2022 Annual Financial Report, staff requests a **Motion to the full Board recommending approval of the Oregon Tech FY 2022 Annual Financial Report.**

Motion - Stefan Bird
Second – Michele Vitali

Roll Call: Trustee Bird aye, Trustee Jones aye, Trustee Vitali aye, Trustee Wichmann aye.

With all trustees present voting aye, the motion passed unanimously.

4.4 Portland-Metro Incidental Fee – Technical Correction *VP John Harman*

- VP Harman stated that Billy Kimmel, ASOIT president/Portland Metro advised that the incidental fee was not being applied correctly at the Portland Metro campus. It is a minor fix, but it is required that we receive board approval to fix it.
- PM Campus had a \$50 annual fee for several years and they wanted to increase it to \$80. What was missed was that the students who were less than 6 hours per term would remain at a \$50 fee. It is an impact of \$2220.

Motion: After reviewing the related documents, staff requests a Motion to the full board recommending approval for a technical correction to revise the 2022-23 Portland -Metro campus incidental fee to \$50 from \$80 per term for students enrolled in fewer than 6 credit hours per term as well as authorization for staff to refund the difference in the two rates to each student impacted during the 2022 fall and 2023 winter terms.

Moved Stefan Bird
Second Michele Vitali

Roll Call vote: Trustee Bird aye, Trustee Jones aye, Trustee Vitali aye, Trustee Wichmann aye.

With all trustees present voting aye, the motion passed unanimously.

5. Discussion Items

5.1 Financial Planning and Forecast for FY 2023 and looking forward to FY 2024

VP John Harman

VP Harman advised Oregon Tech will end the year strong. He presented FY 2024 Outlook and Reason for Caution.

- **Chair Davis** brought it to the board's attention that the governor does not set the budget and it is set by the legislature and it will be interesting to see what the Co-chairs of the ways and means

committee will decide. **Dr. Nagi** added that Oregon is 45th in the nation in per FTE funding. **Chair Davis** stated that this causes real issues with enrollment because although in-state tuition is what it is, it affects out-of-state tuition and our competitiveness.

- **Trustee Jones** stated we have our legislative support to help us have these types of discussions and we need to take opportunities to meet with legislators such as TRU day and it would be important to have a strong showing. TRU (Technical and Regional Universities) day, including Eastern, Western, Southern and Oregon Tech, is when representatives from these universities make a trip to Salem to talk about what our universities needs are going to be. Trustee Jones acknowledged that Dr. Nagi works very hard at building and continuing these discussions and relationships with those in Salem. We are fortunate to have Chair Davis with his legislative experience. He encouraged the other trustees to assist and participate in TRU Day. VP Harman advised that TRU Day is in May.
- VP Harman continued with his presentation We are down in enrollment for the second year, but they do not feel this is a trend. Each 1% drop in enrollment translates to about \$381k in lost tuition revenue and 3% gets us to \$1 million. Dr. Mott and her team are working hard to improve enrollment and retention.
- VP Harman said in higher education, we do not have much discretion. We have multi-year contractual agreements and escalation of costs. The fiscal year we are currently in could end better than anticipated but there are things we do not know about 2024. We think we are looking again at a \$4 million budget gap. An update will be provided in April at the next Board of Trustees meeting.
- **Chair Davis** asked for a timeline on tuition and final budget proposals for the next fiscal year. VP Harman said we are planning to come to the board in April with the tuition recommendation as that is essential in helping begin to finalize budget planning and the board will be requested to approve the budget in June.
- **Trustee Jones** stated failing to plan is planning to fail and he appreciates Dr. Nagi and VP Harman for planning.

6. **Other Business/New Business** *Chair Vince Jones* –
None

7. **Adjournment: 2:08 pm**

Respectfully submitted,



Dr. Ken Fincher

Vice President University Advancement & Interim Board Secretary

