Portland State University
Board of Trustees
Finance & Administration Committee
October 23, 2014

11 am – 1 pm
MCB 541

Present: Rick Miller, Chair; Christine Vernier, Vice-Chair, Erica Bestpitch, Gale Castillo, Pete Nickerson, Wim Wiewel (ex-officio)

Absent: Peter Stott, Irving Levin

Staff: David Reese, Kevin Reynolds, Alan Finn, Don Forsythe, Rachel Martinez, Sarah Kenney, Cathy Kirchner.

Guests: Susan Musselman, Tom Toepfler, PFM

1. **Call to Order/Roll Call/Declaration of Quorum**

   Chair Rick Miller called the meeting to order 11:04 am.

   He congratulated Kevin Reynolds on his appointment as Vice President of Finance & Administration.

   David Reese declared that there was a quorum present, so the meeting proceeded.

2. **Housekeeping**

   **Approval of Minutes:**

   It was moved by Castillo and seconded by Vernier that the minutes of the May 21, 2014 meeting be approved as submitted. Motion passed unanimously.

   **Chair Miller** asked if we were still using performance based budgeting informed by the RCAT? **Reynolds** confirmed that we were. He said that staff will bring the FY15 RCAT back to the Board. He also confirmed that the first budget update would be at the committee’s meeting in November.

3. **Vice President’s Report**

   **Reynolds** presented enrollment and student credit hour (SCH) figures. He noted that resident SCH is down .4%, but non-resident SCH is up. Students can still drop, but the University is on track to meet the revenue forecast.
He told the committee that the November meeting will have a very full agenda, and reviewed some of the items that might be on that agenda. He mentioned the Cash Flow forecast that Don Forsythe had constructed, and that we would be able to show actuals against that forecast. He said that we will be able to track actuals to budget, and that if the FY14 Audited Financials are available, we could also review debt ratios at that meeting.

He discussed the timeline for providing quarterly reports to the Board and best practices from other institutions. He noted that the committee will be presented the draft debt policy today, and that he was hopeful for action at the November meeting so the policy can be presented to the full board in December.

He also said that the committee would be considering a tuition and fees policy in November. Vernier asked if it is possible to effectively act on tuition and fees in the spring if the state budget appropriation is unknown at that time. Reynolds stated that it is possible and necessary to do so, based on the best available information at the time regarding the state appropriation.

Miller asked about state and national enrollment trends. Reynolds said that in-state resident enrollment is down statewide, and that enrollment nationally is down or flat, but also noted that non-resident enrollment is up at PSU.

Miller asked if economic fallout affects enrollment rates. Reynolds said that yes, as the economy picks up, then college and university enrollment generally goes down.

4. Director’s Desk Tutorial

The committee received a tutorial from Steve McClary, from NASDAQ, regarding the Board’s Director’s Desk software application.

5. Debt

Reynolds mentioned that there were five topics to discuss regarding debt:

Introduction to Municipal Financing. Susan Musselman and Tom Toepfler from PFM explained PFM’s experience and role as consultants who specialize in public finance. They then discussed federal tax law and the ability of governmental entities to sell tax-exempt bonds. Interest earnings on such bonds are not subject to federal or Oregon income taxes. They discussed the differences between taxable bonds and non-taxable bonds and the market for municipal bonds.

PSU Financing Mechanisms - State Bond Funding Options. Reynolds described the different types of state general obligation Bonds. He explained that such bonds need to be approved by the Legislature. Article XI-G bonds are bonds for which the State pays the debt service and the University needs matching cash in hand at the time of the bond sale. Article XI-F(1) bonds are bonds for which the University pays the debt service. Article XI-Q bonds are bonds for which either the State or the University pays the debt
service, depending on the authorization of the Legislature. Lottery Bonds are backed by lottery revenues and the debt service is paid by the State. SELP (State Energy Loan Program) Loans are financed by the Oregon Department of Energy to fund energy saving projects and may be repaid from either University revenues or by the State. COPs (Certificates of Participation) are instruments formerly issued by DAS and approved by the Oregon State Treasury, with repayment from either University revenues or the State.

The choice among these options is influenced by various factors, such as the state’s debt capacity, lottery revenues, the political climate, and the nature of other requests submitted to the State.

Other financing options available to the University include Internal Loans, External Loans and PSU-issued revenue bonds. SB 270 authorizes PSU to issue its own revenue bonds, without further legislative action. Each of these options comes with advantages and disadvantages.

Nickerson asked questions regarding the University’s debt service agreement with the State. Forsythe explained the agreement was required under SB270 and needed to executed prior to July 1, 2014.

Current PSU Debt Portfolio. Reynolds reviewed PSU’s current debt portfolio, both as it currently stands and how it will be after State bonds are sold in spring 2015 for the School of Business Administration Building and Viking Pavilion projects.

Credit Rating Methodology. Musselman discussed the mechanisms for bond ratings and how they ratings are determined. The three rating agencies are Standard and Poor’s (S&P), Moody’s and Fitch. Ratings are based on a number of factors. A credit rating was established in conjunction with the Broadway Housing project, which is owned by the PSU Foundation. That rating is A1-negative through Moody’s and A-stable through S&P. That rating is a good indicator of how PSU would be rated.

Reynolds answered question from Board. He noted that at the last meeting, a member of the Board had asked about the credit ratings of U of O and OSU. He stated that neither UO nor OSU currently have independent credit ratings.

Issuance of Debt by PSU or the State. Reynolds discussed the difference between debt issued by the State (with an Aa rating) and debt issued by PSU (assuming an A rating). He displayed a slide showing the increased cost of capital with the lower university-only rating.

There was discussion about PSU issuing an inaugural revenue bond, and how that would look and flow. Miller asked how quickly something could be put together, if the Board wanted to move on issuing revenue bonds. Reynolds and Forsythe responded that it would take at least three months, perhaps as many as six months, following Board approval.
PSU Draft Debt Policy. Reynolds described the key elements of the draft Debt Management Policy before the committee. He thanked Don Forsythe, Alan Finn and David Reese for preparing the policy. He noted that PFM and other institutions were consulted when drafting the policy and that it had been reviewed by staff in the Office of the Oregon State Treasurer.

It was noted that the Board would have to approve any capital projects in excess of $5,000,000, whether the University was borrowing to fund the project or not. This is the same threshold that existed for institutions under the State Board of Higher Education. Nickerson asked how the Board would have assurances that this was happening and that larger projects were not being fragmented to avoid Board approval. Forsythe noted such actions would be captured in other reports to the Board and would be fairly easy to spot.

Forsythe also noted that the debt policy would not be just for capital, but would be for any debt incurred by the University.

There was discussion about the respective roles and responsibilities of the Board and President, and that the authority delegated to President might be further delegated to the Vice President or Treasurer, particularly regarding to the day-to-day responsibility for managing debt.

Reynolds noted that the policy lays out conditions for the incurrence of debt, how debt can be used, the use of different types and forms of debt, and noted that debt was not to be used for operations. Reynolds also noted that the Board retains the ability to make exceptions to the policy for projects that further the mission of the university.

There was a question about derivative transactions, and Reynolds and Forsythe noted that the University would not enter into derivative transactions without first adopting a policy regarding derivatives and obtaining the approval of the Board.

Reynolds noted that the policy describes various ratios that are to be evaluated and reported regularly and used for decision making. The ratios will address capacity and affordability and be benchmarked against other comparable institutions.

Reynolds and Forsythe led a discussion on internal borrowings. The draft policy would permit the University to borrow up to 10% from the core cash balance of the University’s general operating account for internal financing needs when doing so is the most appropriate and cost-efficient mechanism for meeting the University’s financial needs.

Nickerson proposed that a review be done periodically, as may be requested by the Audit Committee or Board. Nickerson would like to see a dashboard on a regular basis, with information regarding debt. Forsythe indicated that such data does not change that drastically, but would be easy to report regularly. Reynolds noted that quarterly reporting is relatively standard nationwide. Nickerson asked that debt be included on the dashboard. Forsythe clarified that he would like to see both internal and external debt on the report.
Castillo asked if the University had any intention to issue revenue bonds in an amount less than $5 million. Forsythe indicated that there are no such plans and that the University would not likely ever wish to issue bonds in such a small amount because of the cost of bond issuance.

Nickerson said that draft policy was well done and that the only change suggested is new language about periodic reporting to the committee and/or board.

Nickerson asked if there was a disposal of assets policy. Forsythe said the disposal of assets policy had not yet been re-written, and that we are currently working under the OUS policy.

Reynolds noted that short term liquidity is not addressed in the debt management policy.

6. Adjourn

With no further comments or questions, Chair Miller adjourned the meeting at 1:02 pm.