Oregon TECH

Regular Meeting of the
Oregon Tech Board of Trustees
Finance and Facilities Committee
Sunset Room, Klamath Falls Campus
October 8, 2015
12:30pm – 3:00pm

Finance and Facilities Committee also Sitting as the Audit Committee Agenda

Regular Meeting of the
Oregon Tech Board of Trustees
Finance and Facilities Committee
Room 402, Wilsonville Campus
July 9, 2015
11:00am – 12:30pm

Finance and Facilities Committee
Draft Minutes

Committee Trustees Present:

Steve Sliwa, Chair
Melissa Ceron
Jessica Gomez
Dana Henry
Gary Johnston
Paul Stewart

Other Board Members Present:

Lisa Graham
Christopher Maples

University Staff and Faculty Present:

Mateo Aboy, Assoc. Provost, VP for Research
Brad Burda, Provost, VP for Academic Affairs
Lita Colligan, Assoc. VP for Strategic Partnerships and Government Relations
Erin Foley, VP for Student Affairs and Dean of Students
Sandra Fox, Board Secretary
George Marlton, Executive Director of Purchasing/Contract Services
Michelle Meyer, Acting VP of Finance and Administration and Director of Business Affairs
Di Saunders, Assoc. VP for Communications and Public Affairs
Terri Torres, Associate Professor of Mathematics (11:45am arrival)

Others in Attendance:

Penny Burgess, Directory of Treasury Operations, USSE
Jenee Hilliard, Legal Counsel Miller Nash Graham and Dunn
Rafael Santiago, Oregon Tech Alumni Association President

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

   Committee Chair Sliwa called the meeting to order at 11:07am. The secretary called roll and a quorum was declared.

2. **Consent Agenda**

   Approve Minutes of April 6, 2015 Meeting
   Trustee Stewart moved to approve the minutes from the April 6, 2015 meeting. Trustee Johnston seconded the motion. With all Trustees present voting aye, the motion passed unanimously.

Discussion Item 4.1 was taken out of order as it has background information which will assist the Committee in making a recommendation on Action Item 3.1.

4.1 Investment Report

Penny Burgess, CFA, Directory of Treasury Operations, USSE gave an overview of her role and the Public University Fund and walked he Trustees through the Report on Investments in the agenda docket.

3. Action Items

3.1 Recommendation to the Board to Approve a Resolution Authorizing the Investment of University Funds in the Oregon Public University Fund

Trustee Johnston motioned to approve a Resolution Authorizing the Investment of University Funds in the Oregon Public University Fund. Trustee Gomez seconded the motion.

Acting VP Meyer walked the Trustees through a PowerPoint presentation (on record). **Ms. Burgess** stated Oregon Tech can discuss the investment policy and strategy with the State Treasury if it chooses to diverge from the general investment philosophy. Discussion regarding two separate funds and the need to address an Endowment Management philosophy. **Acting VP Meyer will bring the history of the endowment funds to the Committee at a future date when the Endowment Management philosophy is discussed.**

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

4. Discussion Items

4.2 Report on 2015-17 Biennium Education and General Operating Summary of Funding Levels

Acting VP Meyer gave a presentation (on record) on operating funding levels based on assumptions from May. Changes in the Legislature from June and early July are not reflected in this report.

4.3 Report on 2015-17 Education and General Preliminary Operating Budgets

Acting VP Meyer gave a presentation (on record) on operating budgets which were prepared based on assumptions from May; changes in June and early July in the legislature are not reflected in this report. Discussion on line item categories, format, and the type of information the Committee would like to see. **Acting VP Meyer will provide an updated Operating Budget report when it is available.** Discussion regarding the forecasted expenses exceeding the forecasted revenue, specifically the personnel costs. **Consensus to include FTE number in the report.**

4.4 University Space Inventory, Capital Construction/Renovation, and Deferred Maintenance Report

Acting VP Meyer presented standards and guidelines. **Consensus that the standards and guidelines should be modified to be specific to Oregon Tech.** Suggestion to include the Wilsonville (and other remote campuses) building to assist in future remodels. **Acting VP Meyer will bring back an internal assessment addressing whether we**

meet our standards, and a report determining if the space aligns to support our expansion proposals and the location of any bottlenecks. Provost Burda stated that the Academic Plan, to be complete this summer, will drive the Facilities Plan.

VP Foley gave an overview of on- and off-campus student housing, the difference of marketing and occupancy rates, and student preferences. Discussion regarding philosophy of requirements to live on campus for first year students, the correlation of retention, option of awarding scholarships for living on campus, and identifying ages required to live on campus. Suggestion to look at what improvements can be made to the assets we have. Meal plan discussion and the potential effect on occupancy rates and the factors, such as safety, of choosing a school over cost.

4.5 Facility Master Planning Update

Acting VP Meyer walked through a PowerPoint presentation (on record) explaining what a Facility Master Plan entails and the debt capacity and policy. **Acting VP Meyer will bring the will bring the 2015 numbers back to the Committee at the fall meeting.** Two approaches to funding capital: saving over time and financing; need to balance the impact to past and current students. **The Finance and Facilities Committee will be included in the master planning process.** Dates for the Master Planning Process coincide with Board of Trustee meetings.

4.6 Institutional Risk Discussion

Committee Chair Sliwa stated that risk is usually addressed in the insurance department of a business but risk includes many other issues. He asked committee members to submit risk topics or concerns to the Committee Chair or Secretary.

5. Other Items and Adjournment

5.1 Associate Provost Aboy gave an overview of the sale of the Harmony campus site**.** Concern that the Facility Master Plan was not conducted prior to the proposed sale of a building/site and that the Finance and Facilities Committee was not asked to review the sale due to timing. Discussion about where the funds from the sale would be allocated and the desire of the Committee to endorse the expenditure/investment of funds.

Trustee Gomez motioned to endorse the sale of the Harmony campus to the full Board. Trustee Henry seconded. With all Trustees present voting aye, the motion passed unanimously.

Trustee Johnston requested a report on tuition and how it is spent, for the next meeting.

With no further business proposed, the meeting was adjourned at 12:43p.m.

Respectfully submitted,

Sandra Fox
Board Secretary

Action
Agenda Item No. 3.1
Recommendation to the Board regarding Adoption of an Operating Budget Fund Balance Policy

Summary

Background

Recommendation

Staff requests this item be tabled until the next meeting of the Finance and Facilities Committee.

Attachments

None

Action
Agenda Item No. 3.2
Recommendation to the Board regarding Adoption of 2015-16 Budget

Summary

Oregon Tech has completed its budget development process.

Background

First, a base budget was developed assuming flat enrollment and a consistent student mix (resident/non-resident), additional revenue generated by the tuition increase authorized by the State Board of Higher Education in June, and the level of state appropriation to public universities proposed in the budget framework of the Co-Chairs of the Joint Ways and Means Committee of the Legislative Assembly. Base expenditure budgets were set at a level matching this anticipated level of overall base funds. Each division was assigned a base budget equal to its adjusted 2014- 15 budget. It is expected that each division will pay for all increased costs, both known and unknown, including salary increases (bargained or otherwise), fringe cost increases, and all other inflationary costs.

Second, the enrollment management process forecasted approximately 3.0% overall enrollment growth. This process included the colleges and administration. The additional revenue anticipated from planned growth and authorized tuition increase is $2.2 million. Of this additional revenue, $400 thousand is committed to additional student remissions to support students and to generate the increased enrollment, with the remaining amount going towards the cost of serving the additional enrollment (such as hiring of faculty and other growth-related costs).

Third, a strategic investment pool of $3.8 million was created. These funds come from the sale of university assets no longer needed for on-going operations. This amount has been committed by the President's executive committee for critical and strategic initiatives and investments.

Recommendation

Staff recommends the Finance and Facilities Committee move to recommend to the Board approval of the Resolution adopting the Fiscal Year 2015-16 Budget.

Attachments

Proposed Resolution Adopting the FY 2015-16 Budget

RESOLUTION NO. 15-___

BOARD OF TRUSTEES OF OREGON INSTITUTE OF TECHNOLOGY

A RESOLUTION ADOPTING THE FISCAL YEAR 2015-16 BUDGET

WHEREAS, Oregon Tech's All Funds Budget includes revenues and expenses in five fund types:

1. Educational and General (E&G) – Oregon Tech's core operations. E&G includes funds from tuition, state appropriations (general funds), and fees.

2. Designated Operations – Fees charged for external activities, non-credit programs, workshops, community service programs, conferences and related activities

3. Service Departments – Departments that provide a service internal to the university, which includes telecommunications and copying.

4. Auxiliary Enterprises – University services that generally do not received state support, including Housing, Student Activities, Athletics, Health Services, and Parking.

5. Restricted Funds – Funds that can only be used for a designated purpose, such as gifts, grants, contracts, and student financial aid.

; and

WHEREAS, the guiding principal for the fiscal year 2015-16 budget planning was to develop a realistic budget; and

WHEREAS, fiscal year 2015-16 revenue and expenditure budgets were developed in three phases;

1. A base budget was developed assuming flat enrollment and a consistent student mix (resident/non-resident), additional revenue generated by the tuition increase authorized by the State Board of Higher Education in June, and the level of state appropriation to public universities proposed in the budget framework of the Co-Chairs of the Joint Ways and Means Committee of the Legislative Assembly. Base expenditure budgets were set at a level matching this anticipated level of overall base funds. Each division was assigned a base budget of equal to its adjusted 2014-15 budget. It is expected that each division will pay for all increased costs, both known and unknown, including salary increases (bargained or otherwise), fringe cost increases, and all other inflationary costs.

2. The enrollment management process forecasted approximately 3.0% overall enrollment growth. This process included the colleges and administration. The additional revenue anticipated from planned growth is $2.2million. Of this additional revenue, $400 thousand is committed to additional student remissions to support students and to generate the increased enrollment, with the remaining amount going towards the cost of serving the additional enrollment (such as hiring of faculty and other growth-related costs).

3. A strategic investment pool of $3.8 million was created. These funds come from the sale of university assets no longer needed for on-going operations. This amount has been

committed by the President's executive committee for critical and strategic initiatives and investments.

; and

WHEREAS, it is possible that additional funds may come to Oregon Tech through the final outcomes based funding model from the Higher Education Coordinating Commission, and if those funds are provided Oregon Tech will prioritize allocation of these for student success;

Now, therefore, the Board of Trustees resolves as follows:

Section 1

The University All Funds budget for the 2015-16 fiscal year be approved as follows:

1. The charts below summarize the All Fund Budget for the University.

DRAFT

Oregon Tech E&G Projection - Fiscal Year 2016 Budget compared to Fiscal Year 2015 Actual (Unaudited)

	Actuals (Unaudited) 2014-15	Forecast Budget 2015-16	*% Inc Over Prior Yr*
Revenues			
State General Fund	$ 20,187,769	$ 22,475,951	*11.3%*
Shared Services Carve Out (estimated)		1,521,622	
Engineering and Technology Industry Council (ETIC)	539,532	958,007	
Tuition and Fees	28,582,335	31,429,630	
Tuition Remissions	(3,074,294)	(3,698,761)	
Other Revenue	506,179	423,612	
Total Revenues	**$ 46,741,521**	**$ 53,110,061**	***13.6%***
Expenditures			
Personnel Costs			
Teaching Faculty Salaries/Stipends	$ 11,300,075	$ 12,643,672	
Teaching Faculty Adjunct/Overloads	3,493,472	3,417,939	
Administrative Salaries	4,795,257	6,414,362	
Classified Salaries	4,387,241	5,064,894	
Student & Grad Assistant Pay	699,269	703,044	
Benefits:			
Retirement	4,041,402	4,726,993	
Health	4,965,132	6,173,753	
Other	2,283,592	2,391,587	
Temporary Salary & OPE Savings		(1,532,900)	
Total Personnel Costs	**$ 35,965,440**	**$ 40,003,344**	***11.2%***
Other Costs			
Supplies and Services	$ 2,766,852	$ 3,278,417	
Athletic and Shaw Library Support	1,039,798	1,094,611	
Utilities	1,182,324	1,106,480	
Contractual and Other Commitments	2,957,795	4,744,563	
Travel and Training	816,484	546,814	
Capital Outlay	500,236	829,183	
One Time Commitments		1,061,171	
Total Other Costs	$ 9,263,489	$ 12,661,239	
Total Personnel and Other Costs	**$ 45,228,929**	**$ 52,664,583**	***16.4%***
Debt Service	$ 1,652,718	$ 1,612,362	
Operating Income	$ (140,126)	$ (1,166,884)	
Nonoperating Revenue (Expense)			
Sale of Harmony (estimated net proceeds)		$ 3,900,000	
Reserve Proceeds from Sale of Harmony		(3,826,346)	
Interest Income	289,216	289,216	
Total Nonoperating Revenue (Expense)	**$ 289,216**	**$ 362,870**	***25.5%***
Change in Fund Balance (Revenue less Expenditures)	***$ 149,089***	***$ (804,015)***	
Additions to Fund Balance (Debt Service % Other)	558,447		
Beginning Fund Balance (Prior Year Ending Balance)	8,686,782	9,394,318	
Ending Fund Balance	$ 9,394,318	$ 8,590,304	*-8.6%*
Ending Fund Balance % to Revenue	***20.1%***	***16.2%***	

DRAFT

Section 2

Some of the amounts in this resolution may change in the final adopted budget for fiscal year 2015-16, based on changed needs or circumstances. The President is authorized to make adjustments to the budget presented here as long as those amounts do not materially change the overall budget.

Section 3

This Resolution shall take effect immediately upon approval by the Board.

Moved by ____

Seconded by ____

Trustee	Yes	No
Jeremy Brown		
Melissa Ceron		
Bill Goloski		
Jessica Gomez		
Lisa Graham		
Kathleen Hill		
Gary Johnston		
Jill Mason	absent	
Kelley Minty Morris		
Celia Núñez		
Dan Peterson		
Steve Sliwa		
Paul Stewart		
Fred Ziari		

Approved and dated this _____________ day of ______________, 2015.

____
Lisa Graham
Board Chair

ATTEST:

____
Sandra Fox
Board Secretary

I, ____________________________________, Secretary of the Board, do hereby certify that the foregoing is a true and correct copy of a Resolution duly adopted by the Oregon Institute of Technology Board of Trustees at the meeting held on the __________ day of ______ ____________, 2015, and thereafter approved and signed by the Chair and attested by the Secretary of the Board.

____
Secretary of the Board

Action
Agenda Item No. 3.3
Recommendation to the Board regarding Debt Acquisition and Capital Construction

Summary

Background

Recommendation

Staff requests this item be tabled until the next meeting of the Finance and Facilities Committee.

Attachments

None

Discussion
Agenda Item No. 4.1
Debt Policy Presentation

Summary

Penny Burgess, Chartered Financial Analyst for the Directory of Treasury Operations, University Shared Service Enterprise, will provide an overview of Debt Management to assist the Board with their fiduciary duties.

Background

It is important for the Board to understand the many components associated with debt management. Ms. Burgess will review municipal financing, types of state-bonding programs, other borrowing options, and current Oregon Tech outstanding debt balances.

Recommendation

No action required. This item is informational only.

Attachments

Debt Management presentation

Debt Management

As Oregon Tech's new governing board (Board) makes strategic decisions to fulfill the University's mission, it will provide guidance on treasury management activities, including issuance of new debt. This presentation provides information that will assist the Board with debt management oversight, including an overview of types of debt available for issuance and the University's current outstanding debt.

Successful debt management requires an understanding of key factors including the existing debt-related obligations, projected capital financing plans, the impact of new debt to the current debt portfolio and cash flow and maintenance of a prudent debt policy. A comprehensive debt policy establishes a framework within which the University can manage financing of capital improvements and capital maintenance/replacement with debt and allocation of finite resources for debt service.

The following topics will be addressed in this presentation:

1. Municipal Financing
2. Types of State-Bonding Programs
3. Other Borrowing Options
4. Current Oregon Tech Outstanding Debt Balances

Introduction to Municipal Financing

The University, as a governmental entity, has the opportunity to borrow money at tax-exempt rates of interest, subject to compliance with certain IRS rules and regulations. Tax exemption on governmental bonds means the investor is not subject to Federal and potentially state income tax on the interest earnings received from the bonds. Because of this tax benefit, investors are often willing to buy bonds with stated coupon rates (interest rate) lower than comparable taxable bonds, which are subject to income tax treatment.

Tax-exempt bonds are issued in the public debt market, a nearly $4 trillion marketplace. Municipal bonds come in two forms, general obligation (GO) and revenue bonds. A general obligation bond is backed by the full taxing power of the municipality or government entity and paid for with state or local taxes. Revenue bonds are backed by revenues from the specific project or building associated with the debt. Although the bond market is not as visible or transparent as the equity (stock) market, there is significant demand for municipal financing instruments and the tax benefits from municipal bonds to investors, particularly subject to higher income tax rates.

The interest rate environment has been favorable for issuers of bonds since the beginning of the worldwide recession in 2007-2008, with historically low interest rates that have been influenced by many economic and market factors.

State Bond Financing Options

There are a number of state issued financing options available to Oregon Tech including General Obligation (GO) bonds, Lottery bonds, and loans from the Oregon Department of Energy (ODE) which are backed by revenue bonds issued by the ODE.

State GO bonding programs, authorized by specific articles of the Oregon Constitution, are backed by the full faith and credit of the State of Oregon. As such, they generally carry a lower borrowing cost than other non-GO bonds. Issuance of State GO bonds must be authorized by the Legislature, and repayment may come from the legislature or the university, depending on the specific bonding program and related legislative action.

Article XI-F (1) GO Bonds

Article XI-F (1) GO bonds may be used to acquire, construct, improve, equip and furnish buildings and other projects benefiting higher education. These bonds are typically used for auxiliary enterprise projects such as housing and dining, and athletics facilities; however, these bonds may be used for academic facilities as well. In order to gain authorization to issue Article XI-F(1) bonds, the university must demonstrate that it has sufficient operating revenues to pay the debt service on the bonds and operate the project. The university may not use State General Fund appropriations to pay debt service on Article XI-F (1) bonds.

Article XI-G GO Bonds

Article XI-G GO bonds may be used to acquire, construct, improve, equip and furnish buildings and other projects that benefit higher education and are authorized to receive aid from the State General Fund. As such, Article XI-G bonds are limited to financing academic facilities. A unique feature of Article XI-G bonds is the requirement that the Legislature or the university provide a dollar-for-dollar match to the bond proceeds, which cannot be proceeds from another State GO bond. Repayment of Article XI-G bonds comes from biennial State General Fund appropriations, so the university does not have to use tuition and other university revenues to repay these bonds.

Article XI-Q Bonds

Article XI-Q GO bonds may be used to acquire, construct, remodel, repair, equip or furnish real or personal property, including infrastructure related to the real or personal property. Repayment of Article XI-Q bonds may come from General Fund appropriations, university revenues, or a combination depending on the specific legislative action authorizing the bonds. *(Historically issued as Certificates of Participation (COPs).*

Lottery Bonds

Lottery bonds are a revenue bond program of the State Lottery Commission that may be used to acquire, construct, remodel, repair, equip or furnish educational projects. Similar to GO bonds, Lottery bonds must be authorized by Legislative action. Repayment of Lottery bonds is made from future Lottery revenues, so the university does not have to use tuition and other university revenues to repay these bonds.

SELP Loans
State Energy Loan Program (SELP) loans are offered and approved by the Oregon Department of Energy (ODE). The funds available to the ODE for lending to universities are supported by an ODE revenue bond program. SELP loans may be used to finance projects that save energy, produce energy from renewable resources, use recycled materials to create products or use alternative fuels. Repayment of SELP loans generally comes from university revenues. Repayment may come from State General Fund appropriations as determined by legislative action.

Other Borrowing Options

The University has additional financing options available through internal loans, external loans, and revenue obligations.

Revenue Bonds
University revenue bonds differ from State GO bonds in several significant ways. Instead of being backed by the full faith and credit of the State of Oregon, university revenue bonds are backed by a specific or general revenue pledge of the university. Issuing university revenue bonds will require Oregon Tech to obtain and maintain its own credit rating separate from the State. Repayment of university revenue bonds is made from the pledged revenues. Issuance of university revenue bonds does not require legislative authorization.

Internal Loans
OUS operated an Internal Bank for the benefit of the universities, including Oregon Tech. Cash balances of member institutions were pooled together and invested to maximize investment returns as well as provide short-term loans for legislatively approved capital projects. The OUS Internal Bank was dissolved on June 30, 2014, leaving this funding unavailable. However, Oregon Tech could develop its own internal lending program by establishing criteria and parameters for liquidity requirements and making inter-fund or inter-departmental loans within the University, for short-term needs.

External Loans
The University has the ability to solicit external loans through commercial banks in the form of lines of credit, term loans or direct placement bonds. The cost of external loans will depend upon the assessment of Oregon Tech's credit and risk profile by potential lenders. In considering external loans, the University should be cognizant of the terms and obligations of the Debt Management Agreement with the State Treasury, Department of Administrative Services and the HECC.

Current Oregon Tech Outstanding Debt Balances

As of June 30, 2015, Oregon Tech had $83.6 million in debt outstanding, of which $42.8 million is "state-funded" debt. This state-funded debt is expected to be repaid from either state appropriations, lottery revenues or other state funds. The remaining $40.8 million of debt consists of State issued debt to be repaid from University revenues.

Table 1 summarizes the University's debt outstanding

OIT Outstanding Debt

Debt Type	State Funded Debt	OIT Funded Debt	Total Debt
Article XI-F(1) Bonds	-	$40.5 million	$40.5 million
Article XI-G Bonds	$12.1 million	-	$12.1 million
Article XI-Q Bonds	$5.8 million	-	$5.8 million
COPs	$1.4 million	-	$1.4 million
Lottery Bonds	$22.0 million	-	$22.0 million
Oregon Department of Energy Loans (SELP)	$1.5 million	$0.3 million	$1.8 million
Installment Purchases	-	-	-
Subtotal	**$42.8 million**	**$40.8 million**	**$83.6 million**
15-17 Biennium Projects (1)	$10.9 million	-	$10.9 million
Total Projected through 15-17 Biennium	**$53.7 million**	**$40.8 million**	**$94.5 million**

(1) Debt approved by Legislature for issuance during 15-17 Biennium. Does not include OIT's share of Capital Repair Bonding. Split has not been provided by HECC.

The entirety of Oregon Tech's debt is fixed rate. Fixed rate debt is the most conservative type of debt; it allows the borrower to calculate its payment requirements for the full term of the bond. The interest rate is set at the time the bonds are sold and if repayment provisions are included in the structure of the bond, the debt may be refinanced if interest rates decline, resulting in debt service savings.

Variable-rate debt can be issued to take advantage of short-term rates for long term borrowing, as short-term rates have historically been lower than long-term rates. While there have been periods when short-term rates are higher than long-term rates, the premise is that over the financing term, the overall rate will be lower than for a fixed rate bond. There are unique risks inherent in variable rate bonds, which are often viewed as a component of an overall asset/liability management program that recognizes investment returns are subject to rate changes, so matching the duration and mode of investments and debt may provide a uniform and beneficial net result. During periods of rising interest rates, variable-rate date can be a more costly option.

Figure 1 shows Oregon Tech's outstanding principal balance and rate of debt pay-down by type of debt.

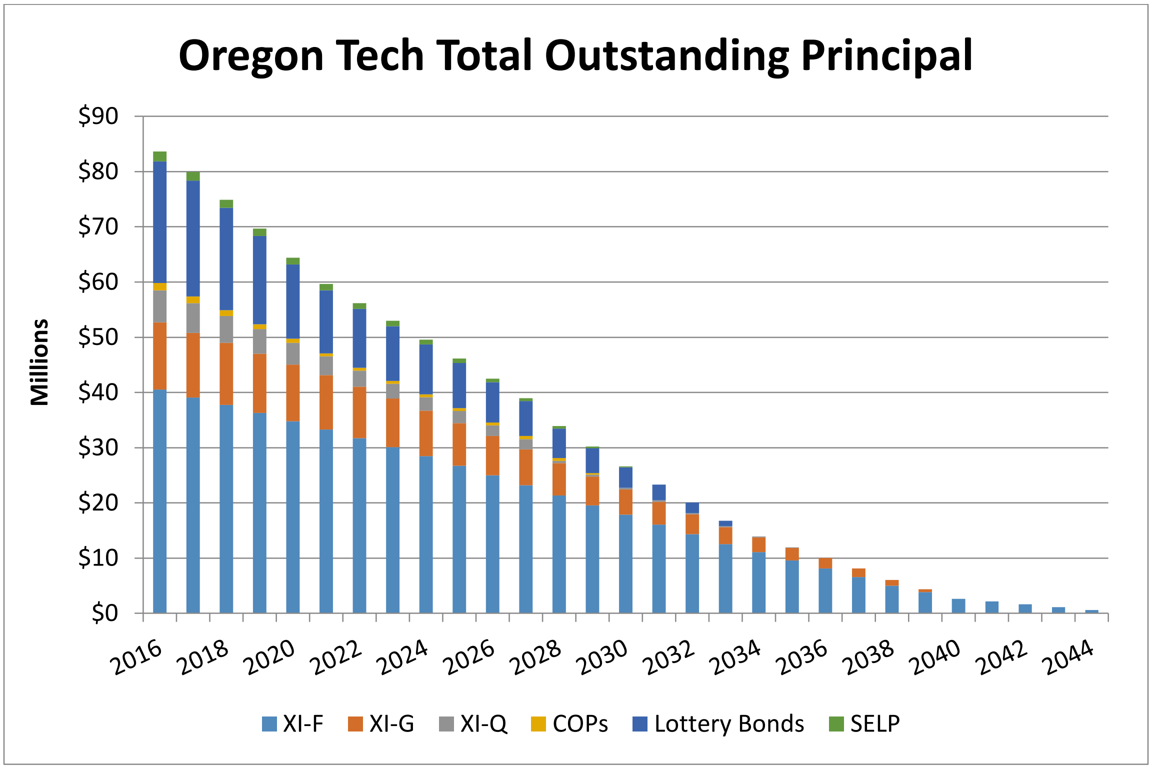
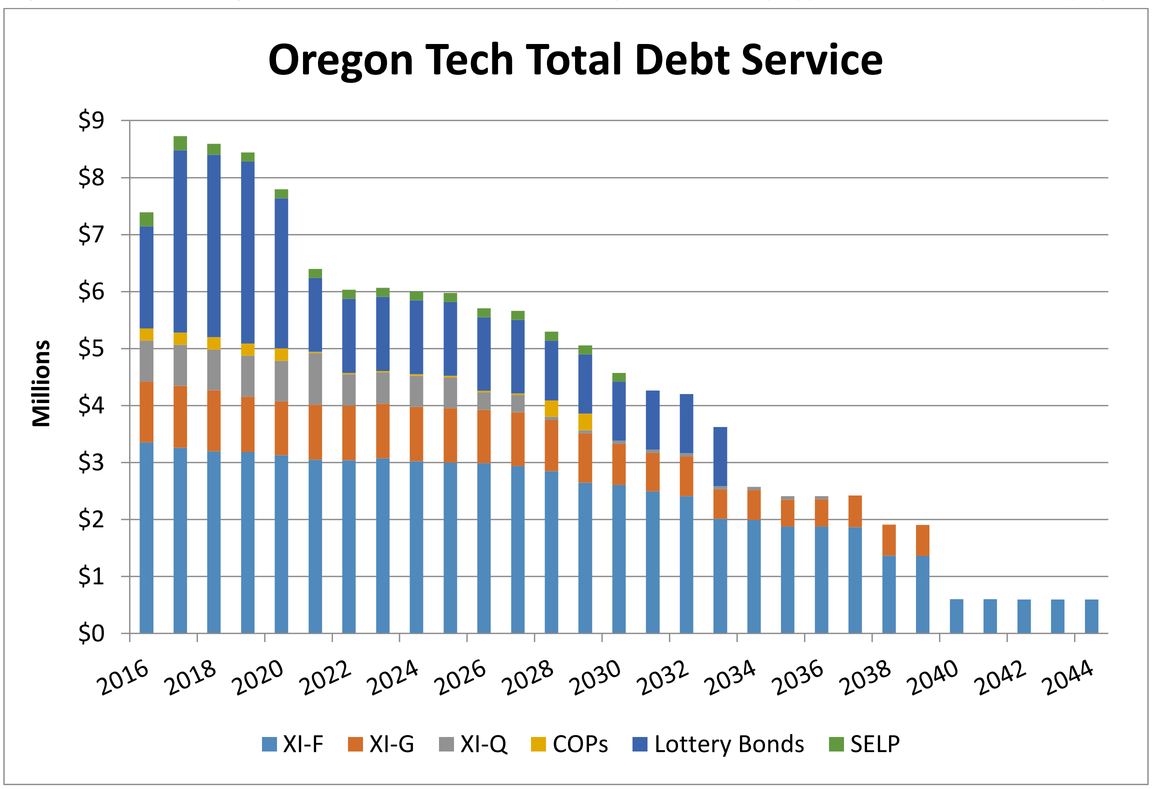


Figure 2 shows Oregon Tech's total debt service requirements by type and rate of annual pay-down.



Summary

The bond financing options available to Oregon Tech are State GO bonds, including XI-F(1), XI-G, XI-M, and XI-Q bonds, Lottery bonds, SELP loans, Oregon Tech revenue bonds and internal or external loans. The choice of financing for a particular project depends upon a number of factors, including the type of project being financed, legislative support for the project, and the project's specific financial aspects. For some projects, multiple types of bond financing are employed in order to make the project financially feasible for the university. The multiple financing avenues available to the university provide flexibility but can increase the management complexity of the project.

Discussion
Agenda Item No. 4.2
Investment Performance Review

Summary

Penny Burgess, Chartered Financial Analyst for the Directory of Treasury Operations, University Shared Service Enterprise, will provide an overview of the performance of investments.

Background

Ms. Burgess will address the market background including the macroeconomic environment, equity results, fixed-income results, and other asset results. She will also discuss the performance of the Public University Fund (PUF) and the Oregon Tech Endowment Fund.

Recommendation

This item is informational only. However, if desired, the Committee may accept the FY2015 Fourth Quarter Investment Report.

Attachments
Report on Investments (as of June 30, 2015)

Report on Investments – as of June 30, 2015

Market Background

(Provided by Callan Associates, Oregon Investment Council consultant)

Macroeconomic Environment

Global financial markets endured a fitful quarter and finished with a paucity of meaningfully positive performances. Global equities posted fractional gains across most regions with international small capitalized stocks being the big winners with an advance of nearly 5 percent. Fixed income results were generally modestly negative with the exception of longer duration bonds dropping sharply. Commodities produced the strongest performance in the capital markets as both energy and agricultural contracts rose sharply and more than offset minor weakness in industrial and precious metals.

In the final weeks of the quarter, and into the first few days of July, investor focus was clearly directed away from domestic issues and settled firmly elsewhere; largely on China, Greece and Puerto Rico.

China's equity market had been soaring, up about 100 percent in twelve months through mid-June. Then the wheels came off and, despite a number of attempts by the Chinese government and central bank, equities dropped 30 percent by early July. On Monday July 6, a massive capital infusion from the government, central bank, sovereign wealth fund, and numerous brokerage houses managed to turn the tide of selling; however, volatility remained very high. Monday's trading range was nearly 9 percent trough to peak on the Shanghai Composite; fluctuations of that magnitude have not been experienced on U.S. exchanges since the depth of the Great Financial Crisis in the fall of 2008.

Greece further contributed to the global turbulence as the country missed its interest payment due to the International Monetary Fund (I.M.F.) on June 30th. Capital controls have been instituted and Greek banks have been shuttered with customers limited to 60€ per day in A.T.M. withdrawals. The decision to accept the austerity terms demanded by the "troika" in order to continue emergency lending was put to a national vote over the weekend. Results from the "Greferendum" (Greek referendum) came back strongly opposed to further austerity, and at the time of writing, Greece's future in the Euro remains very uncertain. While direct exposure to the Greek tragedy appears fairly well contained, there remains real risk of contagion or moral hazard related to, larger yet still heavily indebted, southern European countries.

Puerto Rico narrowly averted a default on its municipal debt on July 1st. The island's municipal bonds had been repeatedly downgraded in the first half of 2015 and a default was feared after the island's governor stated bluntly "the debt is not payable" in reference to Puerto Rico's $70 billion in outstanding municipal bonds. While the July 1st payment was made, the future is unknown as the U.S. territory cannot legally seek bankruptcy protection like some other high profile municipalities such as Detroit, Michigan (2013) or Stockton, California (2012). In recent years, the higher yields associated with Puerto Rico's municipal bonds have attracted some investors.

Not all was gloomy on the macroeconomic stage, however. In early June, Iceland announced plans to lift the capital controls imposed in response to the collapse of its banking system in 2008. Japan's situation also appears to be improving as calendar 1Q15 Gross Domestic Product (G.D.P) growth was revised higher to a 3.9 percent annualized rate, well ahead of the 2.7 percent forecast.

The U.S. economy continued to muddle along in the second quarter. Calendar 1Q15 G.D.P. was revised sharply lower (-0.7 percent) in late-May before being pushed closer to flat (-0.2 percent) in the June revision. With the weak start to the year, held back by harsh weather in much of the country and West Coast port delays, the Federal Reserve's estimate for 2015 G.D.P. growth has been trimmed back to 1.8-2.0 percent from an estimate of 2.3-2.7 percent as of the March meeting and 2.5-3.0 percent as of last December. The Federal Reserve also remains focused on the labor market as a measure to judge the fitness of the economy to digest an increase to short-term interest rate policy. Unemployment fell from 5.5 percent to 5.3 percent by the end of June; however, much of the improvement was the result of discouraged workers exiting the labor force. The labor force participation rate, a key metric in Federal Reserve monitoring, fell to a 38-year low of 62.6 percent at the end of June. Wage growth, which had shown signs of positive momentum earlier in the year, was flat in June and rose just 2 percent year-over-year in nominal terms. With inflation running in the 1.7 percent range over the same time period, wages in real terms are essentially flat.

With U.S. economic growth still fairly modest, the timing and pace of the Federal Reserve's move away from the zero interest rate policy (Z.I.R.P.) is the subject of much conjecture. As of the June Federal Reserve meeting, just 2 of 17 Federal Reserve policymakers expected rates to remain at the current range of 0-0.25 percent through the end of calendar 2015. In addition to continuing Z.I.R.P., the Federal Reserve also remains expansionary in other areas. Although Quantitative Easing (Q.E.) officially ended in the fall of 2014, the Federal Reserve continues to maintain the size of its balance sheet, currently about $4.5 trillion or 25 percent of U.S. G.D.P., by reinvesting the $65 billion of principal and interest generated by its bond portfolio every month.

Inflation remains quite low, even when the deflationary impacts of the drop in energy prices are removed. The Core Consumer Price Index (C.P.I.) (excludes food and energy) for the 12 months ended May 2015 was a positive 1.7 percent while Headline C.P.I. was flat due to the impact of sharply falling energy prices in the latter half of 2014. The dramatic deflation in Energy is masking notable inflation elsewhere, particularly in Health Care and Housing, where prices are rising at nearly twice the rate of inflation.

Although general economic growth and labor markets are somewhat weak, U.S. corporations are in very good shape and balance sheets continue to strengthen. Cash on balance sheets is at a 25-year high (12 percent of corporate assets) while debt-to-equity ratios sit at 25-year lows. Profit margins have slipped slightly from their highs late last year but remain elevated relative to long term averages. These strong balance sheets and profit margins, coupled with very low interest rates, appear to support equity valuations currently at a slight premium to long term averages.

Equity Results

Despite establishing all-time record highs in mid-June, U.S. equity indices produced very little in the way of actual gains in the second quarter. The Standard and Poor's (S&P) 500 rose just 30 basis points in the quarter. Both the S&P 500 and Russell 2000 set multiple closing records through the quarter before slipping back in the closing weeks; however, perhaps the most impressive hurdle was surpassed on April 23rd when the National Association of Securities Dealers Automated Quotations (N.A.S.D.A.Q.) finally eclipsed its all-time high from way back in March 2000. Foreign equities performed similar to domestic with both developed and emerging markets up less than 1 percent. Developed small capitalized stocks bucked the trend and were the only equity sub-group to provide a return near 5 percent.

In the U.S., the extremes of the capitalization spectrum performed best as mega caps and microcaps were the only broad areas to return more than 1 percent (Russell Top 50: +1.5 percent, Russell Microcap: +2.8 percent). Large and small capitalized stocks managed fractional gains (Russell 1000: +0.1 percent, Russell 2000: +0.4 percent) while mid capitalized stocks suffered declines for the quarter (Russell Midcap: -1.5 percent). The S&P Quality indices both fell during the quarter and served to highlight a somewhat confusing construction methodology. The S&P 500 High Quality (H.Q.) and Low Quality (L.Q.) indices are not capitalization weighted and exhibit a distinct mid capitalized stock bias when compared to the broad S&P 500. High quality slightly underperformed low quality; however, both widely underperformed the broad S&P as mid capitalized stocks were weak in the quarter (S&P H.Q.: -1.3 percent, L.Q.: -1.2 percent). Growth outperformed value in both mid and small capitalized stocks (Russell Mid Cap Growth: -1.1 percent, Russell Mid Cap Value: -2.0 percent, Russell 2000 Growth: +2.0 percent, Russell 2000 Value: -1.2 percent) due in part to a substantial drop in Real Estate Investment Trusts (R.E.I.T.s) which are more heavily represented in the value indices. Value just edged growth in large capitalized stocks (Russell Top 200 Growth: +0.7 percent, Value: +1.0 percent). The 10 economic sectors in the S&P 500 were evenly split between winners and losers; Health Care (+2.8 percent) and Consumer Discretionary (+1.9 percent) topped the positive list while Industrials (-2.2 percent) and Utilities (-5.8 percent) were down sharply.

Developed foreign equities performed generally in line with domestic indices in U.S. dollar terms; however, positive currency impacts from the strengthening euro and pound masked weakness in local currency equity returns (Morgan Stanley Capital Index – Europe, Australasia, Far East (M.S.C.I. E.A.F.E.) Local: -1.8 percent, E.A.F.E. U.S.$: +0.6 percent). Growth outperformed value overseas (E.A.F.E. Growth: +1.0%, Value: +0.2%) and foreign small capitalized stocks outperformed all other major equity groups (E.A.F.E. Small Cap: +4.3 percent). Emerging market equities also delivered fractionally positive results that just eclipsed developed market performance (M.S.C.I. Emerging Markets (E.M.) Local: +0.8 percent, E.M. U.S.$: +0.8 percent). On a country specific basis, Irish equities generated the strongest returns among developed nations, with a bit of help from a nearly 4 percent advance in the euro, (M.S.C.I. Ireland U.S.$: +8.5 percent) while New Zealand equities fell sharply due primarily to a 10 percent currency headwind (M.S.C.I. New Zealand U.S.$: -13.1 percent). Among emerging countries, Hungary performed best (M.S.C.I. Hungary: +11.0 percent) while Indonesia's market struggled (M.S.C.I. Indonesia -13.8 percent).

Fixed Income Results

Interest rates rose in the second calendar quarter and the yield curve steepened. Mixed economic data on the back of a weak first calendar quarter kept the Federal Reserve on hold; however, rising rates overseas put pressure on yields in the U.S. The yield on the 10-year German bund jumped from a record low of 0.05 percent in mid-April to 0.76 percent as of quarter-end as Europe's economic picture brightened and inflation returned to the euro zone, both indications that the European Central Bank's quantitative easing programs were reaping rewards. In the U.S., the 30-year Treasury yield climbed roughly 60 basis points during the quarter, resulting in a 10.4 percent loss for the long bond. The yield on the 10-year Treasury rose 40 basis points, closing at 2.35 percent, and posted a negative 3.0 percent return. Two-year Treasury rates increased a modest 8 basis points and eked out a 0.1 percent quarterly advance.

The Barclays U.S. Aggregate Index fell 1.7 percent in the quarter, erasing all of its calendar first quarter gains. The benchmark is off 0.1 percent for the first half of the calendar year. Within the Aggregate Index, corporate bonds underperformed like-duration U.S. Treasuries by 90 basis points as spreads widened. Issuance remained robust and rising rates, worries over Greece and poor liquidity also weighed on the sector. Mortgages performed in line with Treasuries for the quarter. Treasury Inflation Protected Securities (T.I.P.S.) outperformed nominal Treasuries as inflation expectations rose roughly 10 basis points over the quarter. The Barclays T.I.P.S. Index fell 1.1 percent for the quarter. High yield was a lonely "bright" spot in the fixed income markets with a flat return for the quarter as the sector's yield advantage offset the negative effects of spread widening and higher rates.

Interest rates in developed markets rose during the quarter from record low levels, in many cases. With the exception of the United Kingdom (+2.2 percent) and Sweden (+0.3 percent), unhedged returns in developed markets were negative in U.S. dollar terms. On a hedged basis, all developed markets delivered negative returns as the U.S. dollar lost ground versus most developed market currencies. Interest rate increases were spurred by brighter news in Europe as both hiring and private sector growth approached 4-year highs and, in May, a whiff of inflation (0.2 percent month-over-month in May) in Europe provided evidence that the European Central Bank's asset purchase program was working. Germany returned a minus 4.8 percent for the quarter in local terms and was down 1.0 percent in U.S. dollar terms. Italy and Spain were especially hard-hit on worries over contagion from a potential Greek exit. Both countries posted returns of roughly negative 6 percent for the quarter, in local currency terms. The U.S. dollar depreciated nearly 4 percent versus the euro but was modestly stronger versus the yen. For the quarter, the Barclays Global Aggregate ex-U.S. Index (unhedged) returned minus 0.8 percent with the hedged version down 2.7 percent. Emerging markets debt posted muted returns in the second quarter, though there was a wide range of results among constituents. The U.S. dollar-denominated J.P. Morgan – Emerging Market Bond Index (J.P.M. E.M.B.I.) Index fell negative 0.9 percent. Country returns were punctuated by a huge advance in the Ukraine (+36 percent) and a sharp decline in Greece, which missed its $1.7 billion payment to the I.M.F. on June 30 and saw trading on its bonds halted. In spite of the halt, indications from dealers estimated 2-year Greek debt yields at about 50 percent and 10-year debt at nearly 20 percent. As of quarter-end, the situation in Greece remained fluid with a high degree of uncertainty as to whether an agreement with creditors could be reached and, ultimately, whether Greece would remain a part of the European Monetary Union.

Municipal debt outperformed U.S. Treasuries in the second quarter (Barclays 1-10 Year Municipals: -0.5 percent), though the sector was not immune to rising Treasury yields. Tax-exempt mutual funds saw outflows of more than $3 billion during the quarter with over $1 billion occurring in the final week of the quarter on the back of unsettling remarks from the Governor of Puerto Rico. Also hitting headlines during the quarter was Moody's surprise downgrade of Chicago to below-investment-grade status. S&P, however, has a different opinion and continues to rate the City A-.

Other Assets Results

Commodities produced the strongest performance in the capital markets as both energy (+11 percent) and agricultural (+8 percent) contracts rose sharply and offset minor weakness in industrial (-5 percent) and precious metals (-3 percent). Yield sensitive equities were hit hard with the rising interest rate environment and fears that the Federal Reserve will be pushing policy rates higher. R.E.I.T.s (National Association Real Estate Investment Trusts Index: -10.0 percent), Master Limited Partnerships (M.L.P.) (Alerian M.L.P.: -6.1 percent), and Utilities (S&P Utilities: -5.8 percent) all sold off sharply and suffered declines similar to longer duration bonds. Early indications of broad hedge fund performance show fractional declines in the second quarter; ahead of broad fixed income yet trailing broad equity performance.

Closing Thoughts

With significant uncertainty in a number of foreign countries and domestic growth expectations waning, risk and volatility appear to be on the upswing. Much anticipation rests on the timing and path of U.S. Federal Reserve interest rate policy and the subsequent impact on global financial markets.

With expectations of muted returns and higher volatility, prudent asset allocation and risk assessment based on future capital needs for both plan sponsors and individual investors remains Callan's recommended course.

Public University Fund

(Prepared by the Public University Fund Administrator)

The Public University Fund (P.U.F.) posted a negative 0.1 percent return for the quarter and a positive 1.4 percent total return for the fiscal year ended June 30, 2015. During the quarter, the Oregon Short-Term Fund, Oregon Intermediate-Term Pool and Long Term Pool outperformed their benchmarks by 10, 30 and 70 basis points, respectively. For the fiscal year, the Short-Term Fund and Intermediate-Term Pool outperformed their benchmarks by 50 and 30 basis points, respectively. The Long-Term Pool underperformed its benchmark by 30 basis points during the year.

In early August, a fiscal fourth quarter P.U.F. investment performance review was conducted by Oregon State Treasury Fixed Income Portfolio Manager, Tom Lofton, with University staff and its investment advisor. While the fixed income markets experienced price volatility during the quarter, the conservative portfolio construction in the Intermediate-Term Pool and Long-Term Pool aided each investment's relative performance compared to its benchmark. Mr. Lofton intends to use future market volatility to reposition the Long-Term Pool portfolio into longer duration (average maturity) securities, during the coming months.

<u>Oregon Tech Endowment Fund</u>

(Prepared by University Shared Services)

The Oregon Tech Endowment Fund was unchanged during the quarter and posted a 4.0 percent increase for the fiscal year ended June 30, 2015. The Oregon Tech Endowment Fund ended the year with a market value of $305 thousand.

The securities held in the OUS Higher Education Endowment Fund were liquidated and cash transferred to the University in June 2015. The endowment assets are currently invested in the Public University Fund.

Staff Recommendation to the Committee

Staff proposes the Board of Trustees' Finance and Administration Committee accept the FY2015 Fourth Quarter (Q4) Oregon Tech Investment Report.

Oregon Institute of Technology

Investment Summary

as of June 30, 2015

(Net of Fees)

	Quarter Ended 6/30/2015	Prior Fiscal YTD	Current Fiscal YTD	3 Yr Avg	5 Yr Avg	10 Yr Avg	Market Value	Actual Asset Allocation	Policy Allocation Range
OIT Operating Assets Invested in Public University Fund									
Oregon Short - Term Fund	0.1%	0.5%	0.5%	0.5%	0.5%	2.0%	$ 8,431,123	37.4%	[1]
Benchmark - 91 day T-Bill	*0.0%*	*0.1%*	*0.0%*	*0.1%*	*0.1%*	*1.4%*			
Oregon Intermediate - Term Pool	0.0%	2.7%	1.5%	*N/A*	*N/A*	*N/A*	8,774,833	38.9%	[1]
Benchmark - Barclay's U.S. Aggregate 3-5 Yrs.	*-0.3%*	*2.2%*	*1.2%*	*1.3%*					
[2] *Combined Historical Returns*				*2.2%*					
P.U.F. Long - Term Pool	-0.4%	*N/A*	$\boxed{2.4\%}$	*N/A*	*N/A*	*N/A*	5,326,307	23.7%	[1]
Benchmark - B.A.M.L. 5-7 Yrs. U.S. Corp. & Gov't. AA & Above	*-1.1%*	*2.6%*	*2.7%*	*1.2%*					
[2] *Combined Historical Returns*		*3.1%*		*2.2%*					
Total Public University Fund Investment	-0.1%	*N/A*	1.4%				$ 22,532,263	100.0%	
OIT Endowment Assets									
Public University Fund	-0.1%	*N/A*	-0.1%	*N/A*	*N/A*	*N/A*	$ 305,237	100.0%	
Total Endowment Funds	$\boxed{0.0\%}$	19.2%	4.0%	11.1%	$\boxed{10.1\%}$	$\boxed{6.4\%}$	$ 305,237	100.0%	
[3] *Target Alloc. Policy Benchmark*	*0.2%*	*16.5%*	*3.4%*	*10.1%*	*10.6%*	*6.5%*			

[1] The Public University Fund (P.U.F.) policy guidelines define investment allocation targets based upon total participant dollars committed.
Core balances in excess of liquidity requirements for the participants are available for investment in the Intermediate-Term Pool and the Long-Term Pool.
Maximum core investment allocations are determined based upon anticipated average cash balances for all participants during the fiscal year.

[2] The historical returns presented combine the investment returns from the predecessor fund with the investment returns of the P.U.F.,
for investments with an identical mandate. The predecessor fund commingled all public universities operating assets into a cash and investment pool.

[3] Notes on Policy Benchmark:
From November 2012 to current the policy benchmark is 25% Russell 3000, 25% MSCI ACWI Ex US, 25% BC AGG, 10% Russell 3000 +300bps, 7.5% BC Treasury Inflation Protection Index, and 7.5% NCREIF Index.

Note: Outlined returns underperfomed their benchmark.