
**Finance and Facilities Committee
also Sitting as the Audit Committee
Agenda**

Page

1. **Call to Order/Roll/Declaration of a Quorum** (8am) *Chair Sliva*
2. **Consent Agenda** *Chair Sliva*
 - 2.1 Approve [Minutes](#) of June 29, 2016 Meeting 1
3. **Finance, Facilities and Audit Status Report** (8:05am)
 - 3.1 [Quarterly Review](#) (20 min) *VPFA Fox* 6
4. **Action Items** (8:25am)
 - 4.1 **Recommendation to the Board to Approve the Creation and Funding of a [Quasi-Endowment Fund](#)** (20 min) *VPFA Fox* 18
 - 4.2 **Recommendation to the Board to Approve the Emergency Electrical and Storm Drainage Project and [Authorize Issuance of State Funded Debt](#)** (10 min) *VPFA Fox* 21
 - 4.3 **Risk Analysis and [Internal Audit Plan](#)** (45 min) *VPFA Fox* 23

BREAK 9:40am-10:00am

5. **Discussion Items** (10:00am)
 - 5.1 [Student Recreation Center Update](#) (15 min) *VPFA Fox and VPSA/Dean Foley* 24
 - 5.2 [Tuition Setting and Budget Setting Process](#) (10 min) *VPFA Fox and VPSA/Dean Foley* 26
 - 5.3 [Public University Fund Investment Update](#) (15 min) *USSE Penny Burgess* 27
 - 5.4 [Cornett Renovation Update](#) (15 min) *Projects and Planning Manager Thom Darrah and VPFA Fox* 32
 - 5.5 [Information Technology Services Strategic Proposal](#) (15 min) *ITS AVP/CIO Rowan* 33

6. **Other Business/New Business** (11:10am) *Chair Sliva*

7. **Adjournment** (11:15)



**Meeting of the
Oregon Tech Board of Trustees
Finance and Facilities Committee also sitting as the Audit Committee
Sunset Room, Klamath Falls Campus
June 29, 2016
8:00am – noon**

DRAFT MINUTES

Committee Trustees Present:

Chair Steve Sliwa
Jessica Gomez

Vince Jones
Jill Mason

Paul Stewart

University Staff and Faculty Present:

Brian Adair, Director of Facilities
Sue Cain, Senior Budget and Planning Officer
Barb Conner, Director of Retention
Lori Harris, Senior Fiscal Manager
Rick Hoylman, Associate Professor Medical Imaging Technology
Jay Kenton, Interim VP Finance and Administration
Michelle Meyer, Director of Business Affairs
Diane Patterson, Facilities Services Business Manager
Tracy Ricketts, AVP Development and Alumni Relations
Paul Rowan, AVP Information Technology Services
Terri Torres, Associate Professor Mathematics

Others Present:

Cheyenne Low, ASOIT
Haley Lyons CPA, Audit Senior Manager (Phone)
Jana Michel CPA, CIA, Audit Senior (Phone)
Steve Ritchie CPA, CFE, Partner (Phone)
Malea Waldrup, ASOIT

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

Chair Sliwa called the meeting to order at 8:03am. The Secretary called roll and a quorum was declared.

2. Consent Agenda

2.1 Approve Minutes of May 4, 2016 Meeting

Hearing no amendments to the minutes they were approved as published.

3. Action Items

3.1 Request to Select an Internal Auditor and Authorize Staff to Enter into a Contract

Director Meyer explained the university received two proposals for internal auditing

services and after review staff recommends the Board select Kernutt Stokes, LLP. Employees of Kernutt Stokes, LLP, **Steve Ritchie** and **Hayley Lyons**, were introduced via phone and gave a short explanation of what an internal audit entails including conducting an annual risk assessment, selecting specific areas to assess in more detail, additional analysis, and a issuing a final report. The auditor reports directly to the Finance and Facilities Committee sitting as the audit committee and will build strong working relationships with university administration. Anticipated auditor interaction with the Committee includes quarterly reports or updates and an annual year end assessment. **Interim VPFA** Kenton confirmed the auditor will look at controls around the IT system but does not have the expertise to review technical issues.

Trustee Stewart moved to Select Kernutt Stokes, LLP as the university's internal auditor, and authorize staff to enter into a contract with the firm subject to the RFP protest period. Trustee Mason seconded the motion. With all Trustees present voting aye, the motion passed unanimously.

Discussion regarding the need to monitor risk in technology. **Chair Sliwa requested a brief on where we are with and what the plan is for managing IT Risk. He suggested speaking with Board Chair Graham to determine whether the annual IT plan should be presented to the audit committee, the executive committee, or the whole board.** The annual assessment should presented to the Board with updates throughout the year.

3.2 Request to Recommend Adoption of an Amended Tuition and Fee Policy to the Board

Interim VPFA Kenton walked through proposed changes to the Policy. **Trustee Stewart** recommended amending section 3.4 to include both presidents of ASOIT rather than just one. **Trustee Jones** suggested removing the reference to how fees were historically set and recommend amending the following:

- 2.2 change "recipient of" to "eligible for"
 - 3.4 add "office" after "Budget and Resource Planning"
 - 3.4 amend "and designee" to "or designees"
 - 5.1 change "advice and comment" with "written recommendations on"
last sentence change "recommendation" to "recommendations"
 - 5.3 second paragraph change the first "regarding" to "on"
 - 5.5 change "~" to "approximately"
add "gross" to "tuition"
change "we" to "Oregon Tech"
 - 6.0 change the order of "Fines, Fees and Charges" to "Fees, Fines and Charges"
throughout the paragraph.
- Throughout the document: change "will" to "shall"

Trustee Stewart moved to recommend to the Board adoption of the Revised Tuition and Fee Policy with the above recommended amendments. Trustee Jones seconded the motion. With all Trustees present voting aye, the motion passed unanimously.

3.3 Request to Recommend Approval of the Cornett Hall Renovation Project to the Board

Interim VPFA Kenton explained the needs and phases of the Cornett Hall Renovation project and construction of a new building, funding, and timeline. The project will depend on state funding. **Trustee Jones** expressed concern about the aggressiveness of the timeline. Discussion regarding timing and availability of funds.

Trustee Stewart moved to recommend to the Board approval of the Cornett Hall Renovation Project. **Trustee Gomez** seconded the motion. With all Trustees present voting aye, the motion passed unanimously.

3.4 Request to Recommend Adoption of the 2016-17 Education and General Fund budget to the Board

Interim VPFA Kenton walked through the proposed balanced budget and explained the rationale for the requests and the process used to prepare the document. He stated the budget was reviewed by the FOAC Committee. **Trustee Sliwa suggested the Committee work with the Interim President to establish goals for expenditures by program.** Discussion regarding reserves and ending fund balance. There is no policy on Budget Reserves for the university. The recurring fund balance policy is 15% which represents two months' salary.

BREAK 10:18 - 10:35

Trustee Jones moved to recommend to the Board adoption of the 2016-17 Education and General Fund Budget. **Trustee Mason** seconded the motion. With all Trustees present voting aye, the motion passed unanimously.

4. Discussion Items

4.1 VPFA Selection Update

Interim VPFA Kenton stated after a search Brian Fox was hired as the new VPFA and will begin August. He outlined Mr. Fox's credentials including being a student on the HECC Board, working for Dr. Kenton at PSU, special assistant to the Chancellor, CFO for HECC, and a consultant with a national firm.

4.2 June 30, 2016 E&G Budget Projection

Interim VPFA Kenton walked through the 2016-17 Proposed Operating Budget for the Education and General Fund.

4.3 Adjunct Pay

Interim VPFA Kenton addressed the difference in adjunct pay per credit hour between the Klamath Falls and Wilsonville campuses (10%) and the pay of Portland State University and Portland Community College. He suggested increasing the compensation for adjunct faculty. He explained a consulting firm was hired to conduct a salary comparison for faculty and results should be available at the end of the summer. He noted that our adjunct pay is not in alignment with the market, in Portland in particular, and this is impacting the university's ability to grow. **Ms. Torres** stated the overload

(credit hours taught over the number of hours in contract - usually 36) are tied with the adjunct issue; professors will teach the overload because an adjunct cannot be found. She cautioned about creating tension between campuses with differing pay. **Interim VPFA Kenton** stated there is a qualitative concern of having faculty teach so much overload; corners are cut, the quality diminishes, and faculty burn out. A common suggestion is to create a maximum amount of overload equal to 20% over the standard load. **Chair Sliwa** outlined the issues: the need for adjunct faculty, the lack of adjunct faculty in Klamath Falls, and the pay discrepancy in the Portland Metro area. **Interim VPFA Kenton** acknowledged the need for a thorough assessment of the overload including looking at various departments. He stated teaching online is a separate compensation model that is not calculated into overload. There are three separate pieces to compensation: regular pay, online compensation, and overload compensation. Another issue is the almost exclusive use of tenured faculty. There is a need to diversify to include fixed term (rolling term contract) and adjunct faculty (term to term contract). This is a large expense that will require an increase in tuition and potentially a differentiation of tuition between the campuses. It is a multi-year process and million dollar expense to address the issues. **Trustee Gomez** and **Chair Sliwa** suggested experimenting with compensating adjunct professors for commuting. The lack of adjunct faculty can cause courses not to be taught; the discrepancy in pay in the metro area can also cause adjunct faculty to leave Oregon Tech. Consensus that additional analysis is needed and a solution identified.

4.4 Recreation Center Update

Interim VPFA Kenton explained the need for students to have recreation opportunities on campus and the poor condition of the existing gym. He walked through four recreation center options identified by an architect, and the associated costs. The estimate to bring the pool into working condition is \$1M which, if funded through a bond, would require \$60K per year for 30 years, plus the cost of maintenance and operations. The outside/facade renovation of the gym is approximately \$1.5M. The proposal to convert the swimming pool area into a basketball court/gym and renovate the existing outdoor tennis courts is \$3M. He is working with current student leadership to discuss the possibility of proposing a referendum to the student body. He stated \$180K per year in debt service spread out over 2500 students is estimated to be \$45 per student per term. The ASOIT would need to amend their constitution to permit a referendum for vote. The lack of a true rec center and the condition of the existing facilities could be costing the university in recruitment. Discussion about how to mitigate the inequity of current students paying for something they would not use including administration monetarily matching the student monetary commitment for the project to stretch the dollar, looking into philanthropic support for the project, and requiring Physical Education in the student curriculum to make the university eligible for state funding. **Interim VPFA Kenton** stated the next steps are to hire the VP of Enrollment Management, engage the students, and work with faculty and staff. If the students are not committed in the fall this can be brought back at a later date. He recommended beginning master planning with the new president.

4.5 Soccer Field Project Update

Interim VPFA Kenton stated the soccer field project is on track and is scheduled to open August 19. There were two change orders issued for a larger irrigation control and

to correct the storm drainage pipes. Approximately \$92K remains in contingency which will likely be used to fence the field.

5. Other Business/New Business

6. Adjournment

Meeting adjourned at 11:47am

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'S. Fox', is written over a faint, circular official stamp.

Sandra Fox
Board Secretary

Report

Agenda Item No. 3.1

Quarterly Finance, Facilities and Audit Status Report: Q1 Fiscal Year 2017

Background

The Finance and Administration Division is establishing a set of quarterly metrics and reports which encompass the major areas of responsibility including budget, forward looking revenue and enrollment indicators, facilities, equipment and capital projects as well as internal/external audit coordination. This information will be used by the VPFA to track progress of the institution in meeting its financial and operational goals, and reported to the Finance and Facilities Committee on a quarterly basis.

These reports are designed to provide information and status updates to the Vice President of Finance and Administration as well as to the Board to ensure systematic tracking and execution on operational objectives. The attached docket item is in *draft* form and will be further developed and honed over the remainder of the fiscal year. Where information is readily available, currently tracked or reported in a systematic fashion it is included. In certain areas information does not currently exist or is not held in a central location. These areas will be added as information becomes available. Feedback provided by the Finance and Facilities Committee on its preferences, information needs and reporting structure during the November 15, 2016 and subsequent meetings will be incorporated into future Quarterly Finance, Facilities and Audit Status Reports.

Staff Recommendation

No action required. For discussion purposes only.

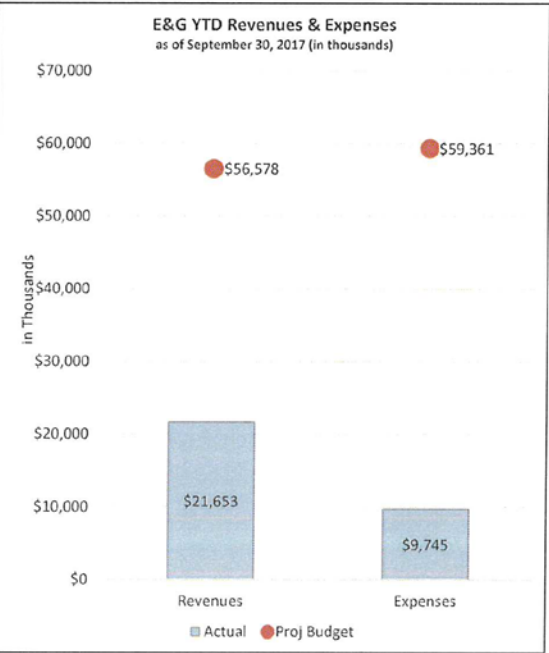
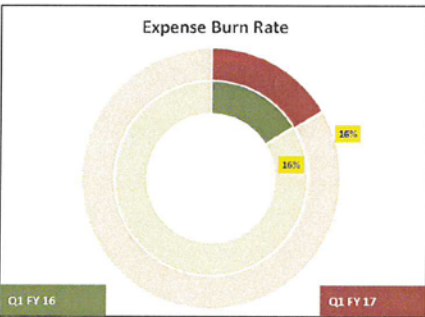
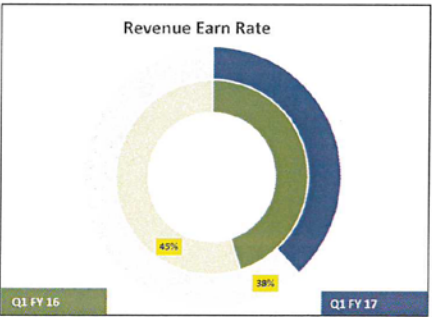
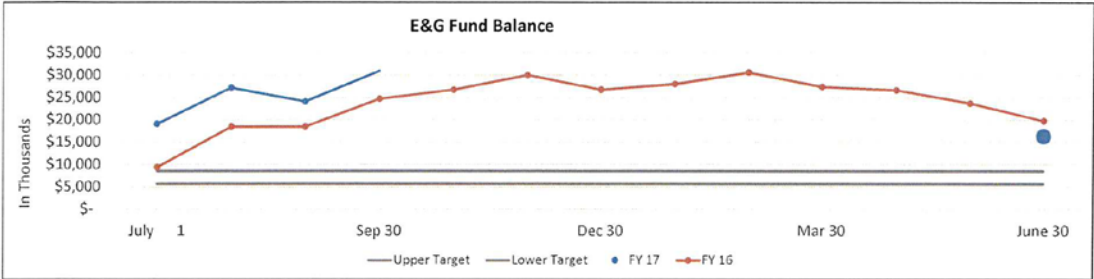
Attachments

Attached is a draft Quarterly Finance, Facilities and Audit Status Report including the following:

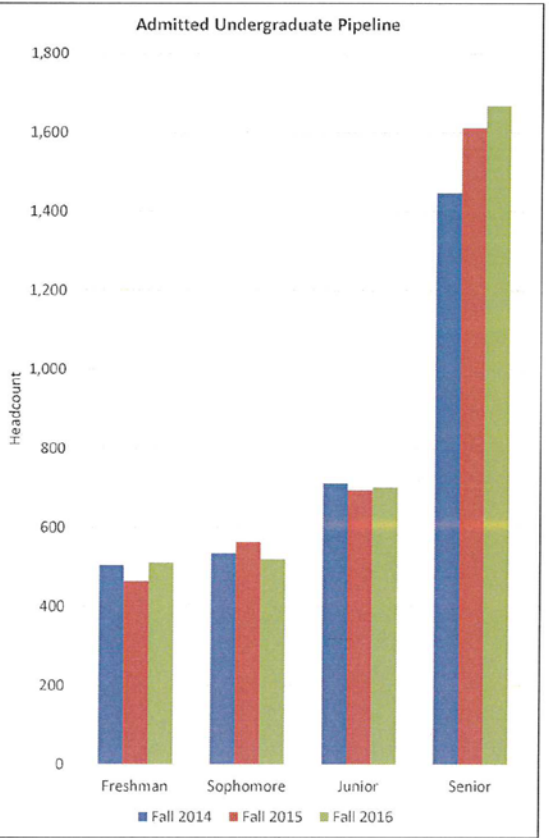
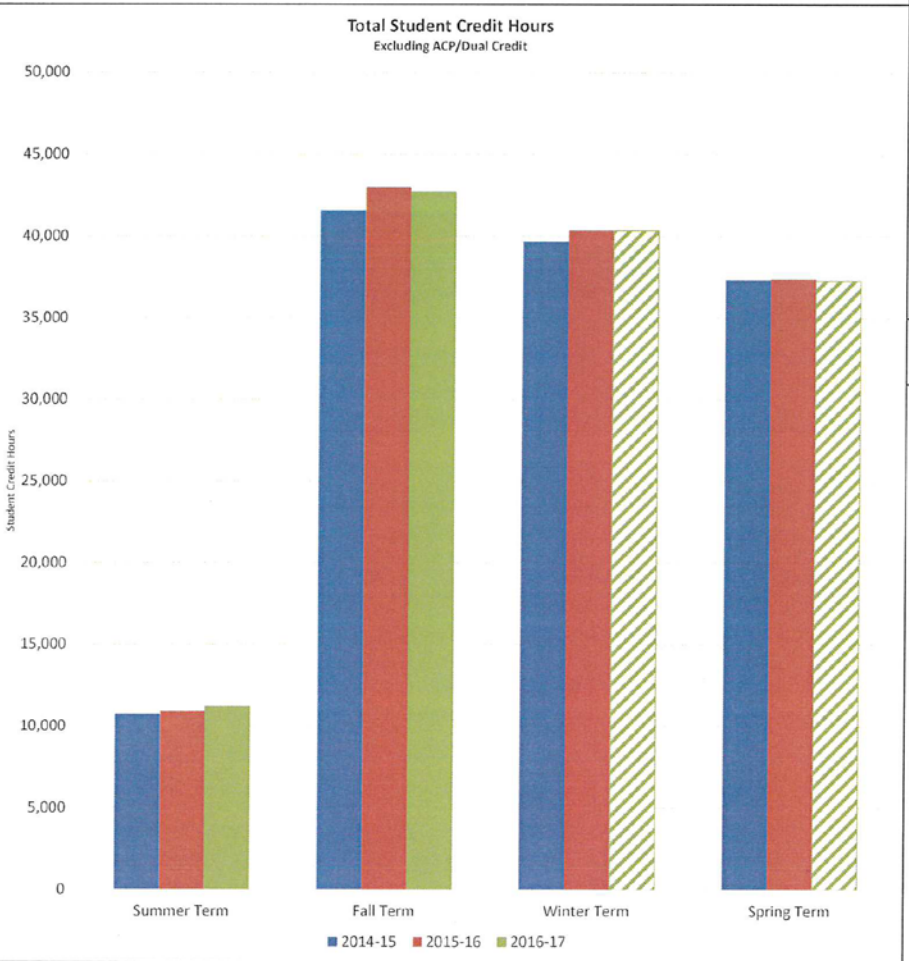
- I. Financial and Enrollment Metrics
- II. Detailed Budget Review and Variance Analysis
- III. Facilities and Capital Projects
- IV. Equipment Purchases and Replacement
- V. Audit Status

I. Financial and Enrollment Metrics

Oregon Tech Financial Dashboards (DRAFT)



Oregon Tech Financial Information							
			June 30,				
(\$ in thousands)	Sept 30, 2016	2017 Est.	2016	2015			
Fund Balance	54.7%	28.7%	35.6%	20.0%			
Cash on Hand	\$	33,745	tbd	\$	34,417	\$	25,143
E&G Cash on Hand	\$	11,091	tbd	\$	10,499	\$	4,349
E&G Days Cash on Hand		102.43	tbd		77.11		33.86
Debt Burden Ratio	n/a	tbd	4.8%	5.5%			
Quasi Endowment	n/a	n/a	n/a	n/a			
Foundation Assets	n/a	n/a	\$	22,829	\$	24,046	
Deferred Maintenance Backlog	tbd	tbd	tbd	tbd			
Deferred Maintenance Spending	tbd	tbd	tbd	tbd			
Tuition & Fees		AY17	AY16	AY15			
UG	Resident	\$ 7,543	\$ 7,324	\$ 6,975			
	Non-Resident	\$ 24,010	\$ 23,311	\$ 22,201			
	WUE	\$ 11,315	\$ 10,986	\$ 10,463			
	Differential - Resident (1)	\$ 8,675	\$ -	\$ -			
	Differential - Non-Resident (1)	\$ 27,612	\$ -	\$ -			
	Differential - WUE (1)	\$ 13,012	\$ -	\$ -			
Grad	Resident	\$ 14,082	\$ 13,672	\$ 13,248			
	Non-Resident	\$ 23,639	\$ 22,951	\$ 22,239			
	Resident ETM	\$ 16,195	\$ 15,723	\$ 14,573			
	Non-Resident ETM	\$ 27,185	\$ 26,393	\$ 24,463			
Other	Online - UG	\$ 10,215	\$ 10,215	\$ 9,900			
	Online - Grad	\$ 11,088	\$ 11,088	\$ 11,088			
	Boeing - UG	\$ 23,760	\$ 23,760	\$ 23,760			
	Boeing - Grad	\$ 24,300	\$ 24,300	\$ 24,300			
	Boeing - Online (2)	\$ 17,820	\$ 17,820	\$ 17,820			
	Chemeketa Resident- UG	\$ 8,097	\$ 7,862	\$ 7,862			
	Chemeketa Non-Resident - UG	\$ 26,297	\$ 25,531	\$ 25,531			
	Paramedic Resident- UG	\$ 8,250	\$ 8,010	\$ 8,010			
	Paramedic Non-Resident - UG	\$ 11,831	\$ 11,486	\$ 11,486			
	MLS Resident- UG	\$ 10,433	\$ 10,130	\$ 10,130			
	MLS Non-Resident - UG	\$ 18,864	\$ 18,315	\$ 18,315			
	ACP/HST per credit	\$ 25	\$ 25	\$ 25			



Enrollment and Completion Information						
Enrollment (SCH)						
		Fall 2016	16-17 Forecast	15-16	14-15	3 Year Δ
UG	Resident	26,798	79,326	81,893	82,791	-4.2%
	Non-Resident	3,995	11,925	12,334	11,436	4.3%
	WUE	4,179	11,525	11,412	11,357	1.5%
Grad	Resident	236	620	574	866	-28.4%
	Non-Resident	191	650	597	706	-7.9%
	Boeing	753	3,012	3,412	3,798	-20.7%
Other	Online	6,552	24,471	21,400	18,369	33.2%
	ACP	5,757	14,157	10,244	4,546	211.4%
Completions						
		16-17 Forecast	15-16	14-15	3 Year Δ	
UG	Resident	573	557	529	8.3%	
	Non-Resident	199	193	144	38.2%	
	Total	772	750	673	14.7%	
Grad	Resident	9	8	9	0.0%	
	Non-Resident	20	16	12	66.7%	
	Total	29	24	21	38.1%	
Grand Total		801	774	694	15.4%	

Notes:
Tuition & Fees calculated at 15 credits
FY16 data unaudited
AY = Academic Year (Fall term through Summer term)
FY = Fiscal Year (July 1 - June 30)
Enrollment projection dates as of 10.31.16

Definitions

(1) Differential - Resident

- For AY16 and AY15, Differentials expressed separately for College of ETM and Allied Health Majors, respectively
 - College of ETM majors charged a higher rate based on major
 - Allied Health charged the regular, respective undergraduate tuition rate (e.g. resident, non-resident, WUE), plus an additional amount per credit per applicable course.
 - Starting AY17, differential tuition rate consistent for all College of ETM and Allied Health majors

(2) Boeing Online charged for Online courses associated with Boeing. Boeing online courses are not Oregon Tech Distance Education program courses.

Budget: A financial plan that identifies the resources necessary to meet a set of goals for a period of time.

Cash on Hand: Total amount of any accessible cash

Days Cash on Hand: Number of days that an organization can continue to pay its operating expense, given the amount of cash available

Debt Burden Ratio: The ratio of total monthly installment of debt and total income. $\text{Ratio} = (\text{Total monthly installment of debt} / \text{total Income}) * 100$

Deferred Maintenance Funds: Funds made available to OIT (outside of the institutional budget) from the State of Oregon, which are allocated for capital repair and deferred maintenance

E&G (Education and General Fund): Represents state approved appropriations used for the general operating expenses of instructional programs and support functions

Expense Burn Rate: Percentage of expenses to projected expenses

Endowment Funds: Funds used to record gifts when the principal must remain intact in perpetuity; income earned by the endowment may be unrestricted to restricted as specified by the donor

Fiscal Period: A unit of time into which the fiscal year is divided; period 1 is July 1-31

Fiscal Year: The period of time used of financial reporting purposes. OIT has a July 1-June 30 fiscal year

Fund Balance: Defined as the difference between the assets and liabilities of a fund

Fund Balance %: Calculated as fund balance divided by revenues

General Fund: The main University fund used to record state appropriation, tuition and expenses related to the University's core mission

Quasi Endowment Fund: Funds functioning as endowments, used to report resources that the University, rather than a donor has determined are to be retained and managed like an endowment

Revenue Earn Rate: Percentage of revenues earned to projected revenues

ACP – Advanced Credit Program is a partnership between Oregon Tech and participating high schools. The high schools partner with our faculty, to teach the same course at the high school that is offered on campus, for a much lower cost

Boeing – Students enrolled in the Boeing Program

G – Graduate Student

Online – Courses at Oregon Tech taught through the Internet

UG – Undergrad Student

WUE – Students enrolled in the Western Undergraduate Exchange program, which pay 150% of resident tuition

II. Budget Review and Variance Analysis

OREGON INSTITUTE OF TECHNOLOGY

Periodic Report

As of September 30, 2016

For the Fiscal Year ended June 30, 2017

	2015-16 End Actual	2015-16 YTD Actual	Current YTD Actual	YTD as a % of Projected Budget	2015-16 as a % of PY Actuals	Board Approved Budget	Projected Budget	Variance from Initial Budget	Notes
<i>(in thousands)</i>									
EDUCATION & GENERAL									
State General Fund	\$ 24,908	\$ 8,668	\$ 9,391	\$ 0	\$ 0	\$ 26,135	\$ 26,388	\$ 253	(1)
Tuition & Resource Fees	30,867	11,837	12,932	40%	38%	32,552	32,552	0	(2)
Fee Remissions	(3,180)	(777)	(894)	26%	24%	(3,415)	(3,415)	0	
Other	940	4,353	224	21%	463%	1,053	1,053	0	(3)
Total Revenues	53,535	24,081	21,653	38%	45%	56,325	56,578	253	
Unclassified	(20,664)	(2,862)	(3,037)	13%	14%	(23,048)	(23,102)	(54)	(4)
Classified	(4,715)	(1,116) #	(1,263)	24%	24%	(5,366)	(5,366)	0	
Student	(724)	(148)	(134)	18%	20%	(739)	(741)	(2)	(4)
GTA	(31)	0	0	0%	0%	(40)	(40)	0	
OPE	(12,157)	(1,942)	(2,031)	15%	16%	(13,717)	(13,743)	(26)	(4)
Supplies & Services	(8,192)	(1,768)	(2,067)	21%	22%	(9,772)	(9,898)	(126)	(4)
Internal Sales	1,244	285	300	23%	23%	933	1,294	362	(5)
Debt Services	(1,529)	(896)	(531)	36%	59%	(1,472)	(1,472)	0	(6)
Capital	(350)	(112)	(137)	9%	32%	(807)	(1,552)	(745)	(7)
Utilities	(1,386)	(208)	(168)	15%	15%	(1,107)	(1,107)	0	
Transfers Out	(1,193)	0	(677)	46%	0%	(1,190)	(1,458)	(268)	(8)(9)
Total Expenditures	(49,697)	(8,767) #	(9,745)	17%	18%	(56,325)	(57,185)	(860)	
Net from Operations	3,838	15,314	11,908			0	(607)	(607)	
Transfers In	73	0	7	88%	0%	0	8	8	
Sale of Harmony	4,200	0	0					0	
OMIC, Cornett Match, Planned Use carryforward		0	0			(3,327)	(2,176)	1,151	(4)
Fund Additions/(Deductions)	1,533	0	0	N/A	0%			0	
Change in Fund Balance	9,644 #	15,314 #	11,915			(3,327)	(2,775)	(552)	
Beginning Fund Balance	9,394	9,394	19,038			19,038	19,038		
Ending Fund Balance	\$ 19,038	\$ 24,708	\$ 30,953			\$ 15,711	\$ 16,263	\$ (552)	
% Operating Revenues	35.6%	46.2%	54.7%			27.9%	28.7%		

Notes:

- (1) SSCM True Up
- (2) Revenue realization rate in FY17 period 3 higher due to timing difference in receipt of revenues, period 4 projected to show decrease in revenues from FY17 Budget
- (3) FY16 Realization rate higher due to Sale of Harmony Building, \$4.2M
- (4) Move budget from "Planned Use of Fund Balance" into correct categories
- (5) Move ~\$180k from Wilsonville Aux for rent to E&G to cover debt service; change methodology in distribution of overhead assessment ~\$180K
- (6) Burn rate higher in FY17, reversal of accrual for FY15 interest not recorded until FY16 period 5
- (7) Burn rate lower in FY17, Capital Expenditure purchases deferred until later in year
- (8) FY16 GF support to Athletics transfer began in period 5, in FY17 began in period 1
- (9) Move budget from "Planned Use of Fund Balance" to transfers out of E&G for Semon Hall remodel

Oregon Tech University All Funds - Operating Budget 2016-17						
	E&G	Designated Operations	Service Departments	Auxiliary Enterprises	Restricted Funds	Total All Funds
Tuition and fees, net of remissions	\$ 29,136,894	\$ 25,750	\$ -	\$ 3,135,988	\$ -	\$ 32,298,632
Government resources & allocations	26,387,657			401,824		26,789,481
Gifts, grants and contracts	80,157			54,675	5,297,833	5,432,665
Internal sales	21,500		1,040,262	357,773		1,419,535
Sales and services revenue	266,771	27,800		5,765,720		6,060,291
Interest income	590,336	326		15,891		606,553
Other revenue	94,143			40,536	13,144,068	13,278,747
Total Revenue	56,577,458	53,876	1,040,262	9,772,407	18,441,901	85,885,904
Salaries and wages	29,250,711	36,163	70,116	2,603,262	393,009	32,353,261
Other payroll expenses	13,741,617	14,333	26,749	1,241,973	162,773	15,187,445
Service and supplies	9,709,208	53,053	959,768	6,592,300	414,037	17,728,366
Capital outlay	1,552,025		-	55,774	17,709,682	19,317,481
Student aid and student loan related expense				187,273	36,000	223,273
Debt service	1,471,570		6,675			1,478,245
Depreciation			51,133	909,395		960,528
Total Expense	55,725,131	103,549	1,114,441	11,589,977	18,715,501	87,248,599
	852,327	(49,673)	(74,179)	(1,817,570)	(273,600)	(1,362,695)
Transfers in	8,047			1,734,806	425,600	2,168,453
Transfers out	(1,459,898)			(708,555)		(2,168,453)
Total Transfers	(1,451,851)	-	-	1,026,251	425,600	-
	(599,524)	(49,673)	(74,179)	(791,319)	152,000	(1,362,695)
Planned Use of Fund Balance	(2,176,000)					
	\$ (2,775,524)	\$ (49,673)	\$ (74,179)	\$ (791,319)	\$ 152,000	\$ (3,538,695)
	\$ 19,038,680	\$ 225,308	\$ 363,266	\$ 12,687,258	\$ 2,565,105	\$ 34,879,617

III. Facilities and Capital Projects

The following information is in draft form and is continuing to be verified by Facilities and Capital Projects.

Capital Projects

Major Projects					
Project Name	Stage	Start Date	Est. Completion Date	% Complete	Size (\$)
Scappoose OMIC Facility	Acquisition	October 2016	January 2018	N/A	\$ 4,200,000
Cornett Remodel-Phase I	Design	October 2016	October 2018	0 %	\$11,700,000
Soccer Field	Fencing	December 2015	June 2017	90 %	\$ 1,880,112
Power Plant	Modifications	2008	FY2017	98 %	\$13,249,310
Minor Projects					
Project Name	Stage	Start Date	Est. Completion Date	% Complete	Size (\$)
Future Projects					
Project Name	Stage	Start Date	Est. Completion Date	% Complete	Size (\$)
Storm Drain Replacement	Bond Sell	Apr 2017	September 2018	0 %	\$ 4,273,500
Electrical 12 kV Replacement	Bond Sell	Apr 2017	October 2017	0 %	\$ 763,125
Rec. Center/Tennis Courts/Track	Funding?	Aug 2017	September 2018	0 %	\$ 5,000,000
New Engineering Building & Cornett Remodel - phase II	Funding?	Oct 2018	September 2021	0%	\$42,000,000
New Student Services Building	Hold	TBD	TBD	0%	\$16,800,000
New Recreation Building	Hold	TBD	TBD	0 %	\$ 9,000,000
Remodel Boivin Hall	Hold	TBD	TBD	0 %	\$ 7,400,000

Deferred Maintenance/Capital Renewal

Fiscal Year 2017 Projects					
Project Name	Stage	Start Date	Est. Compl. Date	% Complete	Size (\$)
Storm Drain Replacement -Phase I	Completed	May 2016	Aug 2016	100 %	\$ 60,581
Well #1 Replacement	Controls VFD	Aug 2016	June 2017	80 %	\$ 26,000
Chiller VFP Replacement	Completed	June 2016	Oct 2016	99 %	\$ 10,000
Ext. Door Replacement	Bidding	Nov 2016	May 2017	10 %	\$ 112,000
Well #4 Replacement	Bidding	May 2016	Sept 2017	10 %	\$ 380,000
Purvine Hall Re-roof	Design	Oct 2016	Sept 2017	1 %	\$ 450,000
ADA Improvement	Construction	Jul 2016	June 2016	70 %	\$ 20,000
Future Projects					
FY 2018		FY 2019		FY 2020	
Description	Size (\$)	Description	Size (\$)	Description	Size (\$)
Purvine Patio/Sidewalk	\$ 80,000	Semon/Boivin Sidewalk	\$ 55,000	Boivin Siesmic	\$350,000
Semon HVAC	\$ 250,000	DDC Controls-Pr/Sn/LRC	\$ 300,000	Security Access – Phase #1	\$250,000
Purvine HVAC Controls	\$ 65,000	Purvine Carpet Rm 208	\$ 40,000	DDC controls Boivin	\$ 125,000
Owens Heat Exchanger	\$ 5,000	Transformer Boivin ext.	\$ 85,000	LRC elevator	\$ 80,000
Facilities HVAC unit	\$ 110,000	Transformer LRC & P/E	\$ 160,000	Boivin return fan	\$ 75,000
Facilities Roll Up Door	\$ 15,000	Geo well #5	\$ 150,000	Geo well #7	\$ 180,000
Boivin Fume Hoods	\$ 140,000	Facilities Roll Up Door	\$ 15,000	Fire alarm Semon	\$ 200,000
Fire Alarm Phone Lines	\$ 8,000	Snell Hall carpet hall	\$ 25,000	Fire alarm LRC	\$ 200,000
Geo Heat “C” Injection	\$ 120,000	Fuel Station Program	\$ 20,000	LRC bathroom #1	\$ 80,000
Paint Boivin & Semon	\$ 80,000	Repair Ext. Lighting	\$ 20,000	Water tank level gauge	\$ 5,000
Exterior Doors #2	\$ 40,000	Boivin/Snell sidewalks	\$ 85,000	Resurface Fountain	\$ 25,000
Contingency	\$ 100,000	Contingency	\$ 100,000	Replace 12kV lines	\$ 400,000
Total	\$1,013,000	Total	\$1,055,000	Total	\$1,970,000

Deferred Maintenance Needs Over The Next Eight Years					
Building Name	Roof	Utility	Mechanical	Exterior	Other
Boivin Hall	\$ 0	\$ 610,000	\$ 300,000	\$ 735,000	\$ 765,000
Dow Center	\$ 0	\$ 0	\$ 85,000	\$ 0	\$ 130,000
Facilities	\$ 385,000	\$ 330,000	\$ 295,000	\$ 740,000	\$ 450,000
LRC	\$ 0	\$ 235,000	\$ 230,000	\$ 900,000	\$ 545,000
Owens Hall	\$ 0	\$ 0	\$ 445,000	\$ 0	\$ 150,000
Power Plants	\$ 75,000	\$ 905,000	\$ 85,000	\$ 5,000	\$ 0
Purvine Hall	\$ 0	\$ 200,000	\$ 565,000	\$ 820,000	\$ 285,000
Semon Hall	\$ 0	\$ 530,000	\$ 225,000	\$ 760,000	\$ 615,000
Snell Hall	\$ 20,000	\$ 50,000	\$ 225,000	\$ 215,000	\$ 440,000
Campus Wide/Grounds	\$ 0	\$ 1,885,000	\$ 0	\$ 0	\$ 1,733,000
Est. Sub	\$ 480,000	\$ 4,745,000	\$ 2,445,000	\$ 4,175,000	\$ 5,113,000
Total					
Grand Total	\$16,958,000				

Notes:

The above Deferred Maintenance plan is a living document which will adjust as campus needs adjust and is not all inclusive
 Auxiliary Services have additional Deferred Maintenance needs not listed above
 Some capital renewal and replacement could be deferred for a complete building renovation project
 Figures above do not include Wilsonville Campus
 Cost above does not reflect Furniture, Fixtures, Class Equipment, IT, and basic interior renovations

Facilities/Maintenance

Current Projects					
Project Name	Stage	Start Date	Est. Compl. Date	% Complete	Size (\$)
Res. Hall Shower Remodel	Construction	June 2016	Sept 2017	35 %	\$15,000
Way Finding Signs	Design	Aug 2016	May 2017	15 %	\$ 50,000
Village Lighting Retrofit – Phase II	Design	Jan 2017	Mar 2017	0 %	\$ 25,000
Campus Beautification	Continuing	Mar 2017	Sept 2017	0 %	\$100,000
Future Projects					
FY 2018		FY 2019		FY 2020	
Description	Size (\$)	Description	Size (\$)	Description	Size (\$)
Total	\$	Total	\$	Total	\$

IV. Equipment Purchases and Replacement

Finance and Administration staff will continue work with ITS, the Provost, Deans and other administrative offices to establish equipment inventories, life cycle and replacement costs. This information will be displayed in summary form, including purchasing schedules and upcoming investments by major functional area.

This is expected to be completed in phases throughout the fiscal year in order to inform the budget development process during winter and spring terms of academic year 2016-1.

V. Audit Status

Internal Audit

In June 2016, Oregon Tech's Board of Trustees Audit Committee authorized staff to enter into a contract with Kernutt Stokes LLP (KS) for internal audit services for the year ending June 30, 2017 with possible contract extension through June 30, 2019.

Staff engaged KS during summer 2016. Upon engagement, KS began the internal risk assessment process, including developing a Department Risk Questionnaire to ascertain information to be used as guiding information in development the first annual risk assessment. The first annual risk assessment will be used as a guide, prioritize the areas for internal audit work to be performed through the term of the contract and develop a multi-year internal audit schedule; and monitor and perform case management of Oregon Tech's Fraud, Waste, and Abuse Ethics line.

To-date the internal audit function has met the following milestones:

- Drafted an Internal Audit Charter for Audit Committee review and approval
- Developed and issued Department Risk Questionnaire to certain university employees for use in first annual risk assessment
- Conducted employee interviews for use in first annual risk assessment
- Met with certain university executives and Board members
- Developed first Annual Risk Assessment and FY 17 Audit Plan

Quarterly written updates on the internal audit function will be provided to the Audit Committee on a go-forward basis with periodic presentations from KS.

Annual Financial and Compliance Audit

In May 2016 Oregon Tech's Board of Trustees Audit Committee authorized staff to enter into a contract with CliftonLarsonAllen LLP for an audit of the Oregon Tech financial statements, and a compliance audit for the years ending June 30, 2016; June 30, 2017; and June 30, 2018 with possible contract extension through the year ending June 30, 2022. Oregon Tech's independent governance status requires the university to contract for these services.

Typical Audit Cycle for the financial and compliance engagements is as follows:

Scheduling:	January-February
Internal planning:	February
Internal year-end work begin:	April
Control Testing:	May/June
Fieldwork:	Summer
Reporting:	Fall
Board Committee Presentation:	First quarter meeting, calendar year

Staff engaged CliftonLarsonAllen LLP in early summer 2016. Staff began internal year-end planning in April 2016 with year-end work beginning in May 2016.

To-date the annual financial and compliance audit function has met the following milestones for the fiscal and compliance audits for the year ending June 30, 2016:

- Scheduling
- Internal planning
- Internal year-end work
- Control testing
- Fieldwork
- Draft reporting

The VPFA Office oversees the progression and completion of annual financial and compliance audits with work performed by the Business Affairs Office. CliftonLarsonAllen LLP performed on-site fieldwork during September and October 2016 with off-site work, wrap-up, and reporting performed during October and November. Wrap-up of audit testing and reporting expected to be complete in November 2016. The State of Oregon requires audit and compliance reports to be issued and submitted to the State by November 30, 2016. Oregon Tech will meet this requirement.

CliftonLarsonAllen LLP is scheduled to present at the Audit Committee's next regularly scheduled meeting on February 23, 2017.

At the conclusion of the fiscal year 2016 audit, Oregon Tech staff will begin scheduling and planning for the fiscal year 2017 audit. Scheduling will occur in January – February 2017 for interim fieldwork to be conducted during May and June 2017. Internal department planning within the VPFA Office and the Business Affairs Office will begin February 2017 with internal year-end audit related work beginning in April 2017. The annual financial and compliance audit is a year-round endeavor in the Business Affairs Office.

Action Item

Agenda Item No. 4.1

Recommendation to Approve Creation and Funding of Quasi-Endowment

Background

Oregon Tech ended FY 16 with a strong Operating Budget fund balance, at approximately 35.6 percent of Educational & General (E&G) revenues. The Board through its policy on Operating Budget Fund Balance specifies that “Oregon Tech shall develop budgets that target an ending annual budgeted operations fund balance of approximately ten to 15 percent of annual budgeted operations revenues.” Further, if fund balances exceed 33 percent or fall below five percent staff are required to present a plan to work down or increase fund balance back to the minimum range.

The significant increase in fund balance from FY 15 to FY 16 were due to several transitory factors which are unlikely to repeat in the coming years. These include a significant increase in state funding, unanticipated salary savings and delayed equipment purchases. The FY 17 adopted E&G budget forecasts an ending fund balance of 28.7 percent, though a decline from the prior year still significantly above operating necessity. Oregon Tech’s strong balance sheet provides capacity for the Board of Trustees to invest in initiatives which better position the institution over the long term. These initiatives should be focused in accordance with the Board’s one-time funding budget philosophy. In general, ongoing needs of the institution should be funded from operating revenues – largely state general fund support and tuition.

The institution’s overall capital structure provides a relatively thin level of endowment or capital support outside of operating fund balances. Though the Oregon Tech Foundation is a component unit of Oregon Tech for financial reporting purposes, it remains an external entity which maintains an endowment to support its mission. The Oregon Tech Foundation is crucial to the institution’s ongoing success, its resources are not at the discretion of the Oregon Tech Board of Trustees. In order to effectively maintain Oregon Tech’s long-term competitive advantage it must create sources of seed investment in new initiatives, programs, projects and priorities. Much of this advantage is due to its industry focused mission and hands on approach. This advantage is, however, equipment and resource intensive.

Staff recommends the creation of a quasi-endowment fund, which would be funded with E&G reserves in excess of the Board Policy on Operating Budget Fund Balance is ten percent to 15 percent range. This quasi-endowment would provide protected resources for critical long-term needs, strategic initiatives of the institution and a buffer against revenue shocks, such as declines in state general fund investment. Further, the creation of the quasi-endowment would allow for a more optimum cash management and investment strategy, and importantly increase budget discipline. Quasi-endowment funds would be sequestered as a separate fund and management spending would be limited by current Board delegated authorities. Operating surpluses which result in E&G fund balances at fiscal year-end in excess of Board policy would be transferred into the quasi-endowment at the discretion of management (below \$1 million) or upon approval of the Board (above \$1 million) at the closing of each fiscal year.

Oregon Tech, through the Public University Fund (PUF) invests its cash balances through investments in Oregon State Treasury's (OST) Short Term Fund, Intermediate-Term Pool and Public University Fund Long-Term Pool. There is significant difference in return between the three funds, as outlined in Table 1, below. Oregon Tech's cash holdings are biased towards the Short-Term Fund and Intermediate-Term Pool which returned 0.5 percent and 1.5 percent, respectively, during the prior fiscal year. The Public University Fund Long-Term Pool returned 2.4% over the same period. Through creation of the quasi-endowment, the portion of these funds expected to be held untouched each fiscal year would be invested further out the yield curve to maximize interest earnings.

Table 1. Public University Fund Investment Performance			
Fund	Quarter Ended 6/30/2016	Prior Fiscal YTD	3 Year Average
Oregon Short-Term Fund	0.2%	0.5%	0.6%
Oregon Intermediate-Term Pool	1.4%	1.5%	N/A
P.U.F. Long-Term Pool	1.5%	2.4%	4.5%

By establishing the quasi-endowment Oregon Tech would structure its financing environment and cash strategy to set operating reserves (Operating Budget fund balance) to the level necessary to effectively manage ongoing operations, with increased investment in a Board-guided strategic reserve (quasi-endowment) focused on the long-term needs of the institution. This will increase management discipline by limiting access to strategic reserves and create a stronger balanced budget imperative. Quasi-endowment funds would be accessible by management in accordance with previously established Board Policy on Delegation of Authority.

Oregon Tech ended FY 16 with approximately 35.6 percent ending E&G Fund Balance, and is forecasting an ending fund balance as of June 30, 2017 of 28.7 percent. In order to manage E&G Fund Balance to comply with Board Policy a staff recommend establishment of a quasi-endowment fund with Board approval of initial funding totaling \$7.5 million. As a result, projected ending E&G fund balance at June 30, 2017 would be \$8.8 million or approximately 15.5 percent of E&G budgeted operating revenues, slightly above the Policy threshold.

Quasi-Endowment Structure

Oregon Tech Business Affairs Office staff are prepared to establish the accounting structure for a quasi-endowment upon direction from executive management. Staff have prepared recommend guidance as follows for the management of a quasi-endowment fund;

- Quasi-endowment assets would be managed in consultation with the PUF and OST staff to maximize interest earnings through a long-term investment bias, creating incremental interest earnings.
- Quasi-endowment funds would be spent at a four percent annual rate, with cash transferred to the General Fund and expended at the discretion of the President, or delegate.
- Transfers into or from the quasi-endowment would be governed by Board Policy on Delegation of Authority Section 1.6.8, which limits authority of the President to \$1.0 million transactions without prior board approval.

The establishment of a quasi-endowment accounting structure can be undertaken by management through previously delegated authorities.

Proposed Action

For the purposes of more effectively and efficiently managing operating and non-operating reserves and maximizing interest earnings, Staff recommends the funding of a quasi-endowment from General Fund reserves that are in excess of guidance provided by the Board Policy on Operating Budget Fund Balance. Management and spending of quasi-endowment assets would be set at a four percent annual spend rate at the discretion of the President, or delegate in accordance with the Board Policy on Delegation of Authority.

Staff Recommendation

Staff recommends the Committee recommend to the Board funding of a quasi-endowment from the E&G Fund, for the purposes described in the docket at a level of \$7,500,000.00.

Action Item

Agenda Item No. 4.2

Recommendation to the Board Approval of the Emergency Electrical & Storm Drainage Project

Background

In the 2015-17 Legislative session, Oregon Tech received an authorization for bonds for the infrastructure repair project in the North Utility Corridor Electrical Supply Feed and the College Union Building Storm Drainage System. The budget/bond bill language for this project is as follows:

HB 5202 2015-17 Legislative Session:

Oregon Institute of Technology: Approved \$5,070,000 in Article XI-Q bonds to repair infrastructure failures in the North Utility Corridor Electrical Supply Feed and the College Union Building Storm Drainage System. The approved amount includes \$5,000,000 in project costs and \$70,000 in issuance costs. Debt service will be paid with General Fund.

The bonds issued to finance the Infrastructure Repair project will have no impact on the cash flows or the liabilities of the university as they are obligations of the State of Oregon. Reimbursable construction related expenses will be managed with existing cash reserves until reimbursements from the state are made.

Oregon Tech is requested approximately \$800,000 in emergency repair funds to pay for engineering analysis, emergency electrical repair and replacement of the failing College Union electrical supply feed; and \$4,200,000 for emergency storm drainage repair and replacement of the failing College Union storm drainage system.

In October 2015 the College Union (CU) experienced two separate life-safety incidents involving the north utility corridor electrical supply feed and the building's storm drainage system. Each of these incidents caused the CU in whole or part to be shut down. The CU is an integral part of campus and until the electrical and storm systems can be repaired/replaced, the structure could be subject to repeat electrical failures and additional water damage.

Oregon Tech requested emergency capital funding through the Higher Education Coordinating Commission, which approved the request and forwarded it on to the Legislature. The request went before the Legislature as part of the 2016 session where it was approved in HB5202 (2016).

On February 2, 2016 the Committee received a similar update of this project.

Proposed Action

Oregon Tech has obtained Legislative approval for the project bonds. Therefore, staff is seeking the Committee's and Board's approval to authorize issuance of state funded debt and to proceed with this project.

Oregon Tech will enter into a reimbursement resolution to use bond proceeds from the sale of the bonds for any subsequent project expenditures that occur before the bonds are sold.

Reimbursement resolutions can only be used to cover expenditures that occur up to 180 days prior to the bond sale which is planned for February 2017.

Staff Recommendation

Staff recommend that the Finance and Facility Committee endorse the project and recommend approval to the full Board at its November 16, 2016 meeting to undertake this \$5,000,000 repair project and authorize the issuance of state funded debt.

Action Item

Agenda Item No. 4.3

Risk Analysis and Internal Audit Plan

Background

The Board of Trustees Audit Committee engaged Kernutt Stokes, LLP (KS), a public accounting firm based in Eugene, Oregon, to provide internal auditing services. Oregon Tech leadership, in particular Interim President Kenton, Vice President for Finance and Administration Fox, and Director of Business Affairs Meyer have worked extensively with KS in the design and implementation of a department risk questionnaire distributed to certain university personnel in all operating units of the institution. KS analyzed the results of the department risk questionnaire and followed up with certain staff in one-on-one interviews to complement KS' understanding of the operating and control environment of the institution. This provided the basic information necessary for KS to establish a *draft* Risk Assessment and *draft* Internal Audit Plan which will be presented separately by KS.

Timeline of Work Performed:

Aug. 2016	Kickoff Meeting between KS and Oregon Tech management
Sept. 2016	Department Risk Questionnaire distributed to certain Oregon Tech staff, and follow up interviews.
Oct. 2016	KS meeting with Interim President, VPFA and Trustee Sliwa
Nov. 2016	KS releases draft Risk Assessment and draft Internal Audit Plan

Staff Recommendation

Staff recommends the Audit Committee delegate authority to a Committee member to act as the Committee's authorized representative to task Internal Audit, as deemed necessary by the authorized representative, to begin execution of internal audits. Further, the authorized representative will work with the President, Vice President for Finance and Administration and Internal Audit to establish a final work plan for adoption at the Audit Committee's next regularly scheduled meeting on February 23, 2017. All actions of the authorized representative will be reported to the Audit Committee at the next regularly scheduled committee meeting, subsequent to when the action(s) was taken.

Attachments

Risk Assessment and Internal Audit Plan to be provided by Kernutt Stokes, LLP at the November 15, 2016 meeting of the Finance and Facilities Committee, sitting as the Audit Committee.

Report

Agenda Item No. 5.1

Student Recreation Center Update

Background

Oregon Tech included in its capital submission to the Higher Education Coordinating Commission (HECC) \$5.0 million in Article XI-F bonds for a Student Recreation Center (SRC) upgrade project. These bonds are state-backed, but institution funded bonds. Oregon Tech engaged DiMella Shafer Architects to provide a construction estimate and conceptual renderings. The HECC included these bonds in the capital construction portion of their Agency Recommended Budget submitted to the Governor earlier this year. Historically self-funded XI-F bond projects have been supported by the Governor and Legislature at very high rates as they have little to no budget impact on the state.

The SRC project, as currently conceptualized, would require a joint partnership between students and the institution. Discussions have centered on an approach which would require an institutional investment of \$1.0 million with the balance of the project being financed by students through a building fee or incidental fees, or some combination thereof. Assuming a 25 year bond term and five percent interest rate each \$1.0 million in financing has a yearly cost of approximately \$71,000. Interest rate terms are expected to come in below the five percent interest, however this rate has been used for conservative planning purposes. Early cost projections place the project at a \$2.7-\$3.5 million scope. This would translate into a roughly \$45-\$55 per term fee for students, covering both debt service and operations. This pro forma does not include any additional revenue associated with faculty or staff gym memberships which could be used to offset the cost to students. For reference, local fitness options available for students range from approximately \$25-\$30 per month or \$75-\$90 per term.

Because the project is focused on improving student welfare through improving auxiliary space and includes both an institutionally financed and a student funded portion staff believes it is important to ensure this project is a partnership between students and the institution. For legislative approval student support will be key. To these ends, VP of Finance and Administration Fox and VP of Student Affairs Foley have been engaged in discussions with ASOIT as well as participated in an open forum with students to discuss the project and collect feedback. Another open forum will be scheduled to collect final input from students. Student Affairs has circulated a survey to collect input.

There has been a strong and positive response from a diverse set of students. Over 250 responses from students have been collected, respondents represent the vast majority of majors offered on the Klamath Falls campus and include a broad distribution in class standing from freshmen to graduate students. Some highlights of the survey are listed below:

- On a 0-to-5 scale students ranked the importance of having student recreational space on campus a 4.06.
- Over 83% of respondents supported converting the existing pool and creating a basketball/sports court, expanded weight room, multipurpose space and improved locker rooms.
- Slightly less than half of students were willing to pay \$30-\$39 per term, slightly more than

half were willing to pay \$40 or above (ranging up to \$70-\$79 per term) in a new student fee to support operations.

Student comments were generally supportive, with many indicating understandable reservation about increases in student fees and expressing caution that rules be established to ensure the general campus community maintains priority access in the new facilities. Many students recognized the inadequate nature of the current recreational facilities. Comments and a straw poll during the student open forum were strongly supportive of moving forward with a project. Some typical responses are included below:

"If you want to retain more OIT students to the school and alumni to the area, recreation is a much need[ed] area of improvement."

"This would be great! I would also suggest using the dance/aerobic rooms for community use..."

"I don't think it is right to charge any fee to students for filling in the pool. I absolutely disagree with a mandatory fee especially for something [t]hat not all students will use."

"I appreciate this survey very much. Our school has been lacking extracurricular fun for their students for a long time. In my opinion, it makes our school seem less appetizing for future students and quite frankly, feels like our school doesn't care much about student quality of life."

"I don't care what you do to the pool exactly just do something to make that usable space for students instead of the waste of space it is now."

If the institution moves forward with a SRC upgrade project the institution may wish to expand the scope under the bonds, at the institution's expense, to include needed deferred maintenance upgrades to the gymnasium building, including siding and bathroom/locker room remodels on the first floor.

Next Steps

Staff and ASOIT will organize another student open forum and finalize results of the survey. In order to garner legislative support for the authorization of bonds, and for staff to feel comfortable perusing the project an expression of support by the student body or through their duly elected student government, ASOIT, will be pursued. If students indicate their support for the project Oregon Tech Capital Projects and Purchasing and Contracting Services will initiate the RFP process and Legislative Affairs staff will continue to pursue authorization during the 2017 Legislative Session.

In conversations with ASOIT staff has indicated that a decision must be reached in December 2016 in order for our teams to reach a fall 2018 completion date.

Staff Recommendation

No action required. Item is for discussion only.

Discussion

Agenda Item No. 5.2

Tuition Setting and Budget Development Process

Background

Oregon Tech on a yearly basis engages in a process to establish tuition levels and budget for operations and investments in plant and equipment. Staff has begun meeting with campus stakeholders to establish a tuition and budget process and timeline in accordance with relevant Board policy, including the Board Policy on Tuition and Fee Process, Board Policy on Operating Budget Fund Balance and the adopted Strategic View of Budget and One-Time Funding Budget Philosophy. The tuition setting process will be significantly affected by the state's revenue outlook. Additional information will become available after the posting of this docket which will allow staff to provide an up-to-date budget and tuition setting calendar. This will be distributed subsequently.

Staff Recommendation

No action necessary. For discussion purposes only.

Attachments

The draft tuition and budget development process plan will be provided as a separate hand out to the Committee at its meeting on November 15, 2016.

REPORT

Agenda Item No. 5.3

Public University Fund Investment Update

Report on Investments

Market Background

(Provided by Callan Associates, Oregon Investment Council consultant)

Macroeconomic Environment

The second quarter of calendar year 2016 was reasonably uneventful and markets were relatively placid until June 23, when British voters narrowly approved the Brexit (British Exit) referendum. Investor complacency was replaced with shock, and markets reacted fiercely. Volatility spiked, global bond yields fell sharply, the pound hit a thirty-one-year low with a record intra-day swing of more than 10.0 percent, stock markets plunged, and gold surged. Two trillion dollars were erased from global equity markets in one day, marking the largest daily loss ever. While markets stabilized to some degree in ensuing days, much uncertainty remains around virtually every aspect of this unexpected outcome, and we can expect continued volatility as the process unfolds over the foreseeable future. Following the vote, the United Kingdom (U.K.) was downgraded by Standard & Poor's (S.&P.) and Fitch to AA and, while the full implications of this decision will be unknown for some time, economic conditions in the U.K. are widely expected to deteriorate with monetary easing likely sometime this summer.

While Brexit has taken a near-term Federal Reserve rate hike off the table, the U.S. economy appeared to gain some momentum after a sluggish first quarter. First quarter Gross Domestic Product (G.D.P.) was revised to a +1.1 percent increase from +0.8 percent, but remained weaker than the +2.4 percent rate in 2015. Retail sales rose 0.5 percent in May following a 1.3 percent jump in April, and housing remained a bright spot with existing home sales up 4.5 percent in May, the highest since 2007. Manufacturing continued to firm following last year's weakness; the Institute of Supply Management Composite Index of manufacturing activity increased to 53.2, marking a 16-month high. However, inflation remained tame with the Federal Reserve's favored measure, the Personal Consumption Expenditures Index, up only 0.9 percent year-over-year through May. Headline Consumer Price Index was also benign at +1.0 percent year-over-year; ex-Food & Energy +2.2 percent despite higher energy prices. In stark contrast to most economies overseas, the Atlanta Federal Reserve predicts a healthy +2.7 percent G.D.P. report for the second quarter of calendar year 2016.

At its June meeting (prior to the Brexit vote), the Federal Open Market Committee opted to leave rates unchanged, given worries over a surprisingly weak labor report in May and amid an uncertain global economic picture. While a June rate hike seemed plausible going into the month, the employment report released in early June was unexpected. Non-farm payrolls increased by only 38,000, the smallest since 2010 and well below estimates for a gain of 155,000. Given a shrinking labor force participation rate (62.6 percent), the unemployment rate actually fell to 4.7 percent. The Federal Reserve's most recent "dot plot" continues to imply two rate hikes in 2016, but the number of hikes expected in 2017 and 2018 was modestly reduced. Further, longer term projections for the Federal Reserve Funds rate came down from 3.25 percent to 3.0 percent.

While Brexit completely overshadowed everything else that happened during the quarter, continued efforts by the European Central Bank (E.C.B.) to stimulate euro zone economies should not go unnoticed. As a part of its asset purchase program, the E.C.B. began buying corporate bonds on June 8, 2016 and had purchased nearly €5 billion as of quarter-end, including purchases from troubled issuers such as Volkswagen and Telecom Italia. The average yield on investment grade European corporate debt dropped to less than 1 percent, a record low, according to data from Bank of America (B.ofA.) Merrill Lynch. Global bond yields across many developed markets also hit all-time lows, and the German 10-year bund closed the quarter at -0.13 percent. In Switzerland, the entire stock of government debt now trades at negative yields, and negative yielding government debt swelled to nearly \$12 trillion in the wake of the results of the referendum. Euro zone countries continued to grapple with ten percent unemployment, and, while Japan posted a relatively good first quarter G.D.P. number (+1.9 percent), it faces growing challenges from a strengthening yen, and its two percent inflation goal remains elusive. Core consumer prices fell 0.4 percent in May (year-over-year), the biggest drop since April 2013.

Equity Market Results

In spite of the late quarter fireworks from the European Union, U.S. equity benchmark performance was positive for the quarter but masked significant volatility. The S.&P. 500 staged a strong recovery in the wake of the sharp Brexit-related decline in late June and closed up 2.5 percent for the quarter. At quarter end, the Index stood just 1.5 percent below its all-time high (May 21, 2015). Mid and small capitalization stocks outperformed the S.&P. 500 by a modest margin in the quarter as the Russell Mid Cap Index gained 3.2 percent and the Russell 2000 Index rose 3.8 percent. Value exceeded Growth across market capitalizations with the largest difference seen in large caps as the Russell 1000 Value Index outperformed its growth counterpart by 4.0 percent.

The excess return of value over growth was largely attributable to sector performance. The two largest growth sectors, Technology (29 percent of the Russell 1000 Growth) and Consumer Discretionary (21 percent), were the only two sectors to post negative returns in the quarter. The two sectors were down 2.8 percent and 0.9 percent, respectively. Conversely, Energy, with a healthy 14 percent weight in the Value Index and virtually no representation in the growth benchmark, was the strongest performing sector, up 12 percent. Interest rate-sensitive sectors such as Utilities and Telecom, both more prominently represented in the value indices, benefited from the sharp decline in interest rates and were up roughly 7 percent for the quarter. Financials (+2.1 percent) nearly matched the S.&P. 500 return, a positive considering the impact of Brexit on most of the large U.K. banks. Barclays, Royal Bank of Scotland and Lloyds Banking Group all posted sharp declines: -12 percent, -26 percent and -22 percent, respectively. Real Estate Investment Trusts (+7.4 percent) benefited from the decline in interest rates and U.S. economic stability. Energy Infrastructure Master Limited Partnerships (M.L.P.s) continued to rebound strongly along, with oil prices up sharply for the quarter. The Alerian M.L.P. Index surged 19.7 percent for the quarter.

International developed markets continued on their negative trajectory in the second quarter with a -1.5 percent return (Morgan Stanley Capital Index (M.S.C.I.) – Europe, Australasia and Far East Index (E.A.F.E.)), while emerging markets held on to post a +0.7 percent (M.S.C.I. Emerging Markets Index). For the calendar year, emerging markets have outperformed both international developed and U.S. stocks, yet maintain a price-to-book value near the financial crisis low. With the brewing economic turmoil in Europe, it was little surprise that Switzerland was the strongest performing European country (+2 percent), while Italy (-10 percent) and Spain (-8 percent) were among the worst performers. Canada (+3.4 percent) was the best performing country in the

E.A.F.E. Among the emerging markets, commodity producers such as Brazil (+14 percent) and Russia (+4 percent) benefited from the rebound in oil prices.

Fixed Income Market Results

Interest rates were range-bound for much of the quarter but fell sharply after the surprise outcome from the referendum in the U.K. The ten-year U.S. Treasury approached record lows, closing the quarter at 1.49 percent, nearly 30 basis points lower than the previous quarter and nearly 80 basis points below the calendar year-end level. The ten-year Treasury returned 3.0 percent for the quarter and is up nearly 8 percent for six months. The Barclays Aggregate Index gained 2.2 percent, bringing its 2016 result to +5.3 percent. Long duration assets posted double-digit returns with the Barclays Long U.S. Government/Credit +6.6 percent for the quarter and +14.3 percent for six months. Given very strong performance in April, high yield was the best performer for the quarter; the Barclays High Yield Index returned +5.5 percent for the quarter and is up 9.1 percent thus far this calendar year.

Yields dropped to record lows overseas, and the German ten-year bund ended the quarter at -0.13 percent, seemingly poised to march even lower. The E.C.B. began purchasing corporate bonds in early June, driving corporate bond yields in the Euro zone to record lows. Nearly 40 percent of the B.ofA. Merrill Lynch Global Government Bond Index (which includes all Euro members) carries a negative yield. The Barclays Global Aggregate ex-U.S. returned +3.4 percent (+2.7 percent hedged) for the quarter. The dollar lost ground versus the safe-haven yen, which surged more than 8 percent versus the greenback over the quarter but gained versus the euro (-2 percent) and pound (-7 percent). Emerging markets debt indices also posted solid returns for the quarter. The dollar-denominated J.P. Morgan Emerging Market Bond Global Diversified Index returned +5.0 percent, and the local currency J.P. Morgan Global Bond Emerging Market Global Diversified Index logged a +3.0 percent result.

Municipal bond yields hit historic lows in the quarter-end flight to quality. Benchmark 30-year AAA bond yields dropped to 2.1 percent, according to Thomson Reuters Municipal Market Data, the lowest rate in the 35 years that the curve has been published. The muni curve flattened and lower quality outperformed as investors continued to stretch for yield. The Barclays Muni Bond Index returned +2.6 percent for the quarter. Demand remained robust with strong inflows continuing for 28 consecutive weeks. In credit news, President Obama signed a bill allowing Puerto Rico to begin on a restructuring package, following the commonwealth's default on a July first payment on its general obligation debt. Illinois was downgraded to BBB during the quarter but finally reached a deal on a six-month spending plan.

Other Asset Results

Commodities were the best performing asset class. Oil prices firmed to \$48/barrel, an increase of more than 25 percent from the previous quarter. The energy-heavy S.&P. Goldman Sachs Commodity Index rose 12.7 percent, while the more balanced Bloomberg Commodity Index rose 12.8 percent. Broadly, commodities rallied more than 12 percent and turned in their best quarterly results since the fourth quarter of 2010. The gains were broad-based, with energy, agriculture and precious metals all advancing more than 10 percent. Gold continued its strong run, rising nearly 7 percent and pushing year-to-date gains to nearly 25 percent, the best performance anywhere in the capital markets.

Closing Thoughts

The quarter ended with a Brexit-induced bang, leaving no shortage of uncertainty and virtually guaranteeing elevated volatility in coming months. Economies around the world are on divergent paths, and global politics have emerged as an equally important influence on markets. Nonetheless, prudent asset allocation with appropriate levels of diversification and a long-term perspective remain Callan's recommended course.

Public University Fund

(Prepared by the Public University Fund Administrator)

The Public University Fund (P.U.F.) earned a total return of 1.0 percent for the quarter and 2.5 percent for the fiscal year ending June 30, 2016. The Oregon Short-Term Fund outperformed its benchmark for the quarter and the fiscal year by 10 and 40 basis points, respectively. The Oregon Intermediate-Term Pool (O.I.T.P.) outperformed its benchmark for the quarter by 20 basis points while underperforming its benchmark for the fiscal year by 60 basis points. The Long-Term Pool (L.T.P.) underperformed its benchmark for the quarter and fiscal year by 10 basis points and 140 basis points, respectively.

In late June, 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. For a second quarter in a row, fixed income markets posted strong returns as the ten-year U.S. Treasury approached record lows, returning 3.0 percent for the quarter and long-duration assets, as tracked by the Barclays Long U.S. Government/Credit Index, returned 6.6 percent for the quarter. The fiscal year underperformance of the O.I.T.P. was due to an underweight in longer duration (maturity) securities compared to the benchmark. The relative underperformance by the L.T.P. during the quarter and fiscal year, is due to an underweight in longer duration securities compared to the benchmark and an underweight in the mortgage-backed securities sector. As of June 30, 2016, the O.I.T.P. and L.T.P. average portfolio duration was 2.6 years and 3.7 years, respectively, compared with each pool's policy benchmark's average portfolio duration of 3.0 years and 4.1 years, respectively. Mr. Lofton has been reluctant to extend the average portfolio duration, from current levels, due to the present low interest rate environment. Mr. Lofton believes U.S. interest rates will move higher, in the coming months.

During the quarter, investment earnings distributed to Oregon Tech totaled \$139,726. The market value of OIT's allocable share of the P.U.F. was \$32,236,697 on June 30, 2016.

Oregon Tech Endowment Fund

(Prepared by University Shared Services)

The Oregon Tech Endowment Fund returned 1.0 percent for the fourth quarter and 2.5 percent for fiscal year 2016, ending the quarter with a market value of \$301,615. The endowment assets are currently invested in the Public University Fund.

Oregon Tech
Investment Summary
as of June 30, 2016
 (Net of Fees)

	Quarter Ended 6/30/2016	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	0.2%	0.5%	0.6%	0.6%	2.9%	1.7%	\$ 9,777,408	30.6%	¹
Benchmark - 91 day T-Bill	0.1%	0.0%	0.2%	0.1%	0.1%	1.1%			
Oregon Intermediate - Term Pool	1.4%	1.5%	3.1%	N/A	N/A	N/A	\$ 14,009,853	43.9%	¹
Benchmark - Barclay's U.S. Aggregate 3-5 Yrs.	1.2%	1.2%	3.7%	2.4%	2.0%				
² Combined Historical Returns				2.4%	2.8%				
P.U.F. Long - Term Pool	1.5%	2.4%	4.5%	N/A	N/A	N/A	\$ 8,147,821	25.5%	¹
Benchmark - Barclay's U.S. Aggregate 5-7 Yrs.	1.6%	2.7%	5.9%	3.7%	3.7%				
² Combined Historical Returns				3.3%	3.5%				
Total Public University Fund Investment	1.0%	1.4%	2.5%				<u>\$ 31,935,082</u>	<u>100.0%</u>	
OIT Endowment Assets									
Public University Fund	1.0%	N/A	2.5%	N/A	N/A	N/A	\$ 301,615	100.0%	
Total Endowment Funds	1.0%	4.0%	2.5%				<u>\$ 301,615</u>	<u>100.0%</u>	

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.
 Note: Outlined returns underperformed their benchmark.

Staff Recommendation

No action necessary. For discussion purposes only.

REPORT

Agenda Item No. 5.4

Cornett Hall Renovation Project Update

Background

During the 2015-17 Legislative Session, Oregon Tech received an authorization for state-backed bonds for the Center for Excellence in Engineering Technology – Phase One totaling \$11.705M. This was to be the first phase of a multi-phased project to both build a new engineering building and renovate Cornett Hall. Subsequent to legislative approval Oregon Tech engaged DiMella Shaffer Architects to assist re-conceptualizing the project as it became clear the total funding package was insufficient to meet the teaching, laboratory and applied research needs of students and faculty.

The Oregon Tech Board of Trustees approved the Cornett Hall Renovation Project at its June 30, 2016 meeting, including the authorization of state financing and committing of institutional funds. Since that time Oregon Tech staff have pursued a dual track strategy to ensure legislative repurposing of approved state bonds and gearing up for construction during the 2017 building season.

Government Relations and Finance staff have held conversations with relevant legislators, legislative staff, and executive agency personnel. Early in the 2017 Legislative Session a “cleanup bill” will run with legislative fixes stemming from the 2015-17 session. Staff currently expect this will include the necessary adjustments to authorize the Cornett Hall Remodel Project. Finance staff is actively engaging with the Department of Administrative Services and the Oregon State Treasury to manage the bond sale process.

Capital Projects staff, in consultation with faculty and student users of Cornett Hall have continued the pre-construction planning process to remain on track for beginning during the 2017 construction season. Procurement and Capital Projects staff released an RFP for architectural services on September 29, 2016 for the revised Cornett Renovation Project. The RFP closed in mid-October and a workgroup including faculty representative from Civil and Mechanical Engineering, Environmental Sciences, the Interim Dean of Engineering, Technology and Management and two students selected a firm, and have issued an intent to award. Staff expects to finalize a contract in mid-November and begin expending funds for development in early December. This will allow for a successful, though aggressive design and construction schedule.

Staff Recommendation

No action required. For discussion purposes only.

Attachments

Presentation and additional material to be provided during the November 15, 2016 Finance and Facilities Committee meeting.

Report

Agenda Item No. 5.5

Information Technology Services Strategic Plan

Background

At the request of Trustee Sliwa Information Technology Services has developed a Strategic Plan for review with the Finance and Facilities Committee.

Staff Recommendation

No action required. For discussion purposes only.

Attachments

Information Technology Services Strategic Plan



Oregon TECH

Information Technology Services Strategic Planning

Board of Trustees
November 15 2016

The slide has a yellow background with a blue vertical bar on the left. The Oregon Tech logo is at the top. The title "Information Technology Services" is in blue. Below it is a bulleted list containing the mission statement and a website link. The tagline is at the bottom right.

Oregon TECH

Information Technology Services

- Our Mission Statement: *"The ITS Department's mission is to assist its clients with their needs in a manner that demonstrates professionalism, ability, commitments and efficiency to drive Oregon Tech to greater levels of success for its students, faculty and staff."*
- www.oit.edu/its

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Who We Are and What We Leverage

- ITS is comprised of 14 staff at Klamath Falls and two staff in Wilsonville.
- As of June 1, 2016 ITS decentralized one staff member at Wilsonville who now reports to the Vice President of Wilsonville to better implement their hub and spoke strategic plan .
- Our operating budget is \$2.9 million and we are finishing up a \$1.9 million capital Q bond project.

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Strategic Goals

- **Goal 1: Enhance the Environment-** Provide excellent connectivity and infrastructure as well as virtual environments for all activities by developing the optimum technology and information resources. (2020 Strategic Action Plan Goal #2- Faculty and Staff Success: *"Attract and retain first-rate faculty and staff..."*)
- **Goal 2: Provide Robust Administrative Solutions-** Ensure reliable and secure business functions for all academic and administrative processes through collaborative structures. (2020 Strategic Action Plan Goal #5- *"...invest in new opportunities that serve our students and mission..."*)

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- **Goal 3: Leverage Information Resources-** Provide continuous improvement in student outcomes and business effectiveness by working closely with Institutional Research, the Business Affairs Office and Enrollment Management. (2020 Strategic Action Plan Goal #1-Student Success: *"Deliver applied, hands-on educational experiences..."*)
- **Goal 4: Improve Information Technology Services (ITS)-** Provide continuous improvement in the daily and long term services of ITS to meet and exceed expectations in order to keep pace with an environment of increased demand for services.

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SWOT

- **Strengths-** Team oriented staff with low turnover; strong knowledge, skills and abilities base
- **Weaknesses-** Not accustomed to a continuous improvement environment; past history of limited direction from leadership
- **Opportunities-** New leadership with increased vision and direction; increased support for innovation
- **Threats-** Limited financial resources; time sinks of older systems and processes; technology debt

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Key Tactical Projects Q Bond Status

- Klamath Falls and Wilsonville campuses
- Network fiber backbone, server, firewall, switch and router upgrades.
- Video teleconferencing upgrades to all conferencing rooms
- Classroom and lab technology upgrades and additions to many classrooms
- Addition of a second data center and other projects at the Klamath Falls campus
- Estimated completion is within the first quarter of calendar 2017

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Customer Relationship Management Implementation

- We use Banner for Enterprise Resource Planning (ERP) and Recruiter for Customer Relationship Management (CRM).
- Recruiter is managed by Admissions, supported by ITS and came online in early 2015.
- Implementation is broad based and also involves Financial Aid, the Registrar's Office and Institutional Research.
- Key issues at this point: supporting Admissions as they improve web interfaces and business processes, shorten application processes, ensure clean data and deploy the system to the academic community.

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Document Management

- This project analyzes business processes and data flows. It converts most documents to electronic format to improve efficiency and effectiveness.
- Financial Aid, Admissions and Registrar's Office are in production.
- Business Affairs Office has started production with additional implementations on the way. H/R is on the horizon.
- Due to a company buyout ITS is shifting systems from Perception NoliJ to Lexmark Content 7. This will take place over the next two years.

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Enterprise Reporting

- Enterprise reporting is an ongoing project. Previously only Banner reporting was used with custom reports created by ITS.
- A new reporting system called FAST was introduced about two years ago. This system provides greatly increased tools for end users creating their own reports in addition to standard reporting structures through self-serve reporting- allowing users to create many of their own reports in a timely manner.
- Both systems will continue to be used as ITS works on improvements to both products.

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Banner in the Cloud

- ITS evaluated moving Banner to the cloud in Fall, 2015.
- USSE similarly evaluated moving all TRUs at about the same time.
- Both exercises were found not to be feasible
- In October TRU VPs of Finance, CIOs and USSE met with Ellucian to consider preliminary cloud proposals. At this time these appear to be less expensive and utilize a more experienced cloud provider.
- Expected implementation would not begin until second quarter calendar 2017 with 9 to 12 months to complete.

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Educational Technology

- Audio/Video is resurging in education and now in ITS.
- ITS hired an Educational Technologist in June, 2016.
- ITS worked with the Commission on College Teaching (CCT) to match the latest technologies with classrooms.
- Klamath Falls campus has 58 classrooms, 70 labs and 57 other room types for a total of 155 spaces with 464 PCs. At this point 32 spaces have no electronic technology.
- Wilsonville has a total of 46 classrooms/labs with 347 computers. Many of these spaces are dual function. All of the spaces have some form of electronic technology.

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Software Status

- Software continues to comprise a large part of the ITS budget.
- Total cost of software, including purchases and support, for the past two fiscal years are:
2015-\$937,578 (purchased Recruiter software)
2016-\$827,599.
- In order to better manage purchases and ensure that there are minimal overlaps with various software packages, an inventory process had begun.
- The software inventory is to be completed by the end of the first quarter of calendar 2017.

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Wilsonville ITS Decentralization

- ITS Klamath Falls and ITS Wilsonville was centralized before June 1, 2016. It was then decentralized by agreement between Klamath Falls and Wilsonville management as improved communications, agreement on standards and collaboration had been developed.
- Klamath Falls and Wilsonville have been developing Service Level Agreements) SLAs for Wilsonville enterprise support as they move toward their hub and spoke strategic plan. SLAs will then be developed for the Klamath Falls campus.

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Upgrade Telephone System to IP

- Oregon Tech is one of six (EOU dropped out) public institutions utilizing Inter-institutional Network Operating Center (iNOC) for telephone support services.
- Due to changes in needs and technologies, iNOC and the public institutions have planned a “graceful spin down” of iNOC, with its last day of service on 12/31/17.
- ITS is considering a third party vendor in the interim to shifting to IP telephony.

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Longer Term Tactical Projects

- Support IR for Data Warehouses and Dashboards
- Continuously improve reporting
- Disaster Recovery Plan
- Co-location/cloud for backup data
- Secondary ISP
- Risk assessment
- Cybersecurity training
- Improved imaging management of all PCs.

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Funding and Stakeholders

- Estimates of sinking funds for IT equipment at both campuses:
 1. \$70K per year: replace classroom/faculty PCs, four year cycle.
 2. \$40K per year: replace classroom technology, six year cycle.
 3. \$100K per year: replace new network/server equipment, six to eight year cycle.
- ITS is working with the VP of Finance to provide categorized inventories of hardware and software for standardizing funding for procurement, support and replacement of assets.
- ITS is formulating an ITS Steering Committee. The first item to address will be Office 365 strategies.

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How We Measure Success

- Student, faculty, and staff inter-working relationships
- Business processes internally and externally
- Project completion within parameters
- Surveys: ITS is working with the Library to administer the Measuring Information Service Outcomes (MISO) survey during the Spring 2017 term.

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Changing the Way We Think

- The best plans will only work if we change the way we think.
- “The significant problems we face cannot be solved by the same level of thinking that created them” Albert Einstein
- “Two CIOs say innovation happens in settings where collaboration is paramount and failure is acceptable.” CIO Magazine, October, 2016.

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What is Next?

Questions and Comments

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