

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
655 Research Parkway, Oklahoma City

MINUTES OF THE
COMMITTEE-OF-THE-WHOLE
Thursday, May 28, 2020

1. **ANNOUNCEMENT OF FILING OF MEETING NOTICE AND POSTING OF THE AGENDA IN ACCORDANCE WITH THE OPEN MEETING ACT.** The Committee-of-the-Whole met via Zoom videoconference at 10:30 a.m. on Thursday, May 28, 2020. Notice of the original meeting had been filed for February 5, 2020 on November 21, 2019 and was cancelled due to weather. This special meeting was filed with the Secretary of State on May 26, 2020. A copy of the agenda for the meeting had been posted in accordance with the Open Meeting Act. A copy of the agenda had been posted as required by the Open Meeting Act.
2. **CALL TO ORDER.** Participating in the meeting via Zoom videoconference were Regents Jack Sherry, Jay Helm, Jody Parker, Ann Holloway, Dennis Casey, Michael C. Turpen, and Steven W. Taylor. Regent Parker called the meeting to order. Regent Ron White joined the meeting in progress via videoconference at 10:40 a.m. Regent Jeff Hickman joined the meeting in progress via videoconference at 11:15 a.m.
3. **MERCER.** Ms. Beth Johnson, Mr. Tim Westrich, and Mr. Matt Reckamp from Mercer provided an update on the status of higher education-related investments.

Mr. Westrich began by discussing the market environment in March and that differing stimulus packages and improvements in restrictions led to a pretty strong bounce back in April, with double digit returns across most equity markets but that it still left markets across the board in negative numbers. He stated that it is projected that this will be a longer recovery period and that despite continuing to receive negative news, the markets are starting to see some recovery. He stated that we are probably looking at the end of 2021 before we see the GDP levels and employment levels back to where they were before the pandemic, but that there could be some permanent changes.

Discussing how far the portfolio is down year-to-date, Ms. Johnson added that we are down 6 to 7 percent year-to-date from the high in February and probably close to flat from a year ago. She mentioned that in May, the SNP is up almost 5 percent and that international markets have not fared as well and ignoring withdrawals, that we are down a little under 10 percent in April and that there will be a little tick up for May. A discussion began about growth to value with Mr. Westrich discussing certain sectors such as streaming and online services, but that for the broader market this time has been difficult for most industries. Addressing a question about the high-water mark, Mr. Westrich mentioned some withdrawals from the first quarter which brought the denominator down. He noted that on a year-to-date basis through April, the portfolio was down about 7 percent and that May is probably down around 5 percent year-to-date for performance. Ms. Johnson added that there were quite a few withdrawals in January and February.

Briefly discussing private equity, Mr. Reckamp stated that looking calendar year to calendar year, private equity firms are raising significant dollars but that exit activity has seen a decline. He stated that this directly relates to valuations and that private equity valuations have definitely increased.

Looking at recommendations, Ms. Johnson discussed a re-up with a manager that OSRHE already has a commitment to. Mr. Reckamp provided background on the private equity firm Clayton, Dubilier & Rice, their strategies, and OSRHE's history with this firm. He then discussed Mercer's recommendation that OSRHE commit \$7 million to CD&R Fund XI.

Ms. Johnson discussed the 6.7 percent target return of the endowment and that she believes the managers themselves will bring that number up and that the number can also be brought up by investing appropriately and consistently with managers that are out-performing in private market space. She also discussed asset allocation and the need to look at what liquidity we have that is flexible.

4. **BREAK.** Five minutes break for videoconference meeting. Following the break, the meeting was called back to order and the roll was called. Participating in the meeting were Regents Sherry, Turpen, Parker, Holloway, Taylor, Helm, White, and Casey.

5. **TASK FORCE ON THE FUTURE OF HIGHER EDUCATION.**

a. **FISCAL VIABILITY REVIEW.** Mr. Glenn McLaurin, Ms. Lilly Leyh-Pierce, and Mr. John Curry from Huron presented a summary presentation of the fiscal viability reviews conducted for the state system of higher education.

Mr. Glenn McLaurin began by discussing that the report is divided into three sections, comparing metrics for all institutions, identifying and analyzing system-wide trends, and then discussing the current response to the COVID-19 crisis and the future. He stated that the greater purpose of the system-wide review is to help identify how to make students, institutions, and the state of Oklahoma successful. Mr. McLaurin discussed three key drivers that are related to the decrease in state appropriation funding across the state system in the FY14 through FY18 time period and stated that the financial position of each institution has been shaped by these drivers.

Ms. Leyh-Pierce stated that the system-wide average CFI score for FY19 with the foundation included is 2.71, which indicates that institutions are turning the corner from evaluating their operations for institutional effectiveness, to the implementation of initiatives that promote financial sustainability. Discussing the FY19 primary reserve ratios, she noted that 14 institutions have primary reserve ratios above the target of 0.4, indicating that they have significant expendable resources that can be tapped to support operating expenses in FY21. For the viability ratio, which measures an institution's ability to settle its long-term debt solely using reserves, she added that 17 institutions have improved their viability ratios as institutions have sought to shore up financial stability and reduce leverage in the face of recent state funding reductions. Looking at net operating revenue ratios which indicate whether an institution can cover its operating expenses with its operating revenues, 15 institutions currently maintain negative margins. Lastly, Ms. Leyh-Pierce discussed the return to net position ratio which describes the change in net position generated by an institution and she stated that there are only four institutions who have experienced negative bottom-line changes in FY19.

Ms. Leyh-Pierce stated that Huron identified four preliminary risk indicators, including significant historical operating expense reductions and an increasing debt burden, to calculate an overall score for each institution. These risk indicator factors are: expendable reserve metric, operating performance metric, net position metric, and debt leverage metric. She stated that institutions meeting multiple risk factors will have limited

financial flexibility in coming fiscal years. She noted that seven of the ten institutions that met at least two risk factors are community colleges, suggesting that two-year institutions may be the most susceptible to future financial distress given state budget cuts in coming fiscal years. There was discussion about this being a national trend but that there could also be a potential trend to see higher enrollment for community colleges as students may prefer to live at home and not in student housing in light of the current pandemic.

Ms. Leyh-Pierce stated that based on the change in CFI score over time, it is evident that there is a larger decrease in CFI score in the northwest quadrant of the state, which is also the least densely populated region of Oklahoma. She also discussed tuition and fee price impacts as well as enrollment changes based on tier. She noted that two-year community colleges have experienced the largest declines in enrollment across the system, despite their relative affordability and similar pricing increases to other four-year institutions. A discussion began about the correlation between unemployment rates and enrollment and it was noted that additional concerns about health and social distancing could push enrollment declines by 15 to 20 percent for the Fall 2020 semester. Mr. Curry added that it is also important to focus on the impact of enrollment declines on auxiliary enterprises such as housing and dining revenues, bookstores, athletics, and in some cases, university medical centers.

Ms. Leyh-Pierce discussed that reductions in state appropriations have constrained growth in EBIDA margins for four-year institutions, though significant cost reductions at many two-years have allowed for large improvements despite revenue challenges. She added that reversing EBIDA declines at many four-year institutions will be key to meeting debt service requirements and addressing capital asset needs. She stated that maintaining adequate liquidity should be a priority for institutions as unrestricted cash and investment resources can be utilized to 'bridge the gap' and meet operating expenses in the near term. She noted that statewide trends suggest that institutions with improving operating results have been more successful in improving their days cash on hand ratio, while others have struggled to grow unrestricted cash and investments. She reiterated that maintaining liquidity to hedge against future financial shocks will continue to be increasingly important.

Mr. McLaurin discussed financial and nonfinancial metrics that should be used to assess institutional health. He highlighted leading nonfinancial indicators, including new student and transfer applications, admission and yield rates, and first year and second year retention rates. Looking at leading financial indicators, Mr. McLaurin mentioned line of credit availability, tuition and housing deposits, prior year unrestricted net assets/budgets, deferred maintenance estimates, and scholarship/institutional aid budgets. He also noted nonfinancial and financial lagging indicators, stating that these reflect past activity but also provide a clearer connection to outcomes and performance. He discussed how these key performance indicators can help OSRHE improve oversight of financial conditions. Mr. McLaurin reviewed how analysis of key performance indicators can help identify institutions facing the greatest risks associated with debt management, cash flow, enrollment, and other challenges relative to the system.

Regarding the current COVID-19 pandemic, Mr. McLaurin discussed how Huron is tracking institutions nationwide to understand how the industry is responding to the current climate. He discussed four crisis response pillars that have been identified as integral to the stabilization of institutions and will require thoughtful consideration as a

plan for the state system is being developed: people, mission, operations, and environment.

In regard to Oklahoma's system, Huron identified four opportunities for system-level reforms that will help drive efficiency and effectiveness across the state, keeping the current nationwide crisis top of mind. Mr. McLaurin mentioned coordinated strategic planning, evaluating opportunities for maximizing economies of scale, an analysis and repositioning of how state funding is allocated, and guidance and support for optimizing financial aid to improve yield and enrollment. Mr. Curry discussed economies of scale.

There was a brief discussion about how to best disseminate the data to respective governing boards, as well as how to continue updating key performance indicator information. Mr. Curry suggested that Huron could develop an electronic reporting format, so institutions can routinely complete it online on a routine basis.

In his conclusion, Mr. McLaurin presented projections including the 3.95 percent cut for FY21 with the potential for additional mid-year cuts based upon uncertainty with oil and gas revenues and Oklahoma state tax revenue as it correlates to average oil prices. He then presented a forecasting model demonstrating an expected nationwide decline in enrollment as well as a model demonstrating steeper declines in enrollment and continued depression of oil revenues. Mr. McLaurin concluded by discussing future expense reduction capacity of the institutions by tier, noting that community colleges have cut expenses at the highest rate, constraining opportunities to further material reductions and potentially creating the need for significant actions. He stated that in order to minimize the burden of these declines, institutions will need to significantly cut expenditures, dip into reserves, or begin consideration of mergers and/or closure, reduction/realignment of academic programming, reorientation of programs towards job markets, mission right-sizing, administrative cost reductions strategies, and space utilization analysis.

State Regents expressed their desire to have Huron present in-person at the June meeting to discuss next steps.

- b. **BREAK.** Five minute break for videoconference meeting. Following the break, the meeting was called back to order and the roll was called. Participating in the meeting were Regents Sherry, White, Helm, Parker, Holloway, Casey, Hickman, Turpen, and Taylor.
- c. **MICRO-CREDENTIALS.** Senior Vice Chancellor for Academic and Student Affairs Dr. Blanke presented on the progress toward the development of micro-credentials.

Dr. Debbie Blanke began by presenting a survey from Strada that shows that a large portion of 18 to 24-year olds are changing their education plans but that it seems that adults are still following their educational plans. She noted that those with a postsecondary degree or credential are more likely to enroll in all types of education in order and that those already in the workforce are looking for additional skills through online opportunities.

She discussed what badging and micro-credentials are, stating that they are competency-based digital forms of certification that could be used for professional development, coursework, or training. She noted that these micro-credentials could be bundled or stacked and could support employers who are looking for employees with certain

professional learning experiences. Dr. Blanke then discussed the structure of a micro-credential, describing how they are issued, what they are comprised of, and the expected outcomes in terms of requirements and competencies. She mentioned examples of how the micro-credentials could work and discussed micro-credentials and certificates and that they are viewed as complimentary. She then discussed the benefits of micro-credentials, noting that they are transferable, digital, provide more specificity to employers on skills and competencies, and provide students with ongoing professional development. Dr. Blanke also discussed state benefits, including strengthening transfer across the state system, expanding the data at the OSRHE, increasing opportunities to leverage data analytics, shortening the time to degree completion, expanding opportunities with employers, and that on the national lens micro-credentials are seen as ways to close some equity gaps.

Dr. Blanke mentioned other initiatives that micro-credentials would align with and discussed the next steps to develop and implement the credentials. There was continued discussion about degrees, certificates, and micro-credentials.

- d. **COLLEGE DEGREE COMPLETION.** Senior Vice Chancellor for Strategic Planning, Analysis, Workforce and Economic Development Tony Hutchison presented the Degrees Conferred Report.

Mr. Hutchison began by reminding Regents about how dramatically less people are unemployed if they have a college degree and how much more weekly earnings tend to be for those who have degrees. He mentioned that some people are stacking graduate certificates in lieu of pursuing master's degrees. He then highlighted the top five fields for Bachelor's degrees, noting that the vast majority of degrees are in STEM and healthcare degrees followed by business, liberal arts, and education.

Mr. Hutchison also highlighted the percent of degrees conferred among minorities, noting the increase in the Hispanic population in high school and that though this population is helping to keep the rate of high school graduates steady, many of the Hispanic students are not going directly to college and that there needs to be more done to market to these students and helping them navigate their way to college. He noted the large portion of females earning degrees in Oklahoma. He also noted the increase in STEM degrees in Oklahoma over the last few years but cautioned that some STEM graduates who are not U.S. nationals cannot stay and work in the areas of aerospace and defense and are leaving.

There was a discussion regarding remediation and working with K-12 to receive transcript data. Mr. Hutchison concluded by stating that a degree is still valuable in the economy. The presentation ended with a discussion on how to better present the essential information to the public in a concise form.

6. **BREAK.** Five minute break for videoconference meeting. Following the break, the meeting was called back to order and the roll was called. Participating in the meeting were Regents Sherry, White, Helm, Parker, Holloway, Casey, Hickman, Turpen, and Taylor.
7. **COVID-19.** Chancellor Glen D. Johnson provided an update on higher education's response to COVID-19.

Chancellor Johnson stated that Oklahoma higher education has been very aggressive and responsive throughout the wake of COVID-19. He stated that the State Regents' office has played a large role in coordinating with the twenty-five institutions, coordinating weekly meetings with the presidents, the creation and daily update of a campus response document, and a frequently asked questions document. He discussed institutions' future plans for the Summer and Fall 2020 semesters, noting that all institutions were planning to continue online courses for the summer and many had already stated their intent to return to in-person in the fall. He then highlighted the institutions' response in regard to housing, their community impact, their grading policies, and their use of federal stimulus dollars.

Chancellor Johnson mentioned his selection to co-chair the SREB task force on the response and recovery to COVID-19. He stated that the task force focused on four key areas: funding and cost, safety and health, online and distance education technology, and student support both financial, academic and personal support. He mentioned that Oklahoma State University President Burns Hargis presented to the SREB regarding their institution's plan to reopen in the fall and the protocols they will implement.

There was then discussion on how the institutions gave CARES Act money to students and the general criteria institutions looked at.

8. **BUDGET REPORT AND REVENUE UPDATE.** Chancellor Glen D. Johnson and Interim Vice Chancellor for Budget and Finance Sheri Mauck reported on the State budget, gross production tax, and revenue.

Chancellor Johnson began by stating that he was pleased and appreciative of the 3.95 percent reduction. Ms. Mauck stated that the April revenue has been noted as a historic miss for the state's collection of general revenue. She added that the oil and gas decline, the economic shutdown due to COVID-19, and the postponement of the income tax deadline all added to this decline. She stated that the April collections were down \$416.2 million or 44 percent below the estimate. For total general revenue taking the collections for the first ten months of the fiscal year, they were down \$486.9 million or 8.5 percent, and so we did reach a revenue shortfall at the end of April. She noted that the legislature and the Governor had anticipated that so they agreed to measures to access the one-time revenue stabilization and rainy-day funds to ensure that FY20 state appropriations were met. She added that for July through April, the income tax revenue was down 5.9 percent, gross production was down 29.5 percent, and sales tax was down 7.5 percent and motor vehicle taxes were up 41.4 percent, for a total shortfall of 8.5 percent decline in state general revenue for the period.

9. **LEGISLATIVE UPDATE.** Vice Chancellor for Governmental Relations LeeAnna McNally provided the legislative update.

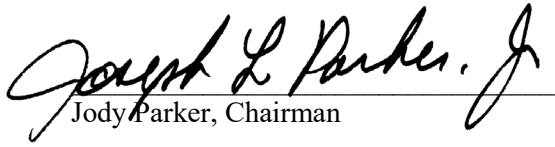
Ms. LeeAnna McNally began by stating that 176 pieces of legislation advanced to the Governor's desk compared to 535 pieces of legislation last year, demonstrating the impact of COVID-19 on the session. She briefly touched on companion bills House Bill 2753 and House Bill 4141, relating to the transfer of Quartz Mountain to the Department of Tourism. She stated that House Bill 2753 provides details of the transfer effective October 1, 2020 and House Bill 4141 which provides approximately \$508,000 to implement the transfer as outlined in House Bill 2753. The \$508,000 is not part of the State Regents appropriation and is specifically addressed in the legislation to pay off the outstanding debt service. Chancellor Johnson added that when the transfer occurs on October 1, 2020, the funding will fully go to the Department of Tourism.

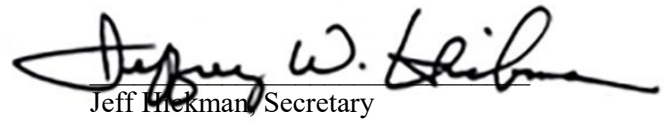
Ms. McNally also mentioned two bills relating to the Endowed Chairs program, House Bill 2749 and House Bill 2750. She noted that House Bill 2749 caps the state matching funds for the program at no more than \$671.2 million, sunseting the program. She added that this amount includes the current backlog of \$161 million. She stated that companion bill House Bill 2750 authorizes increasing the bonding amount for the endowed chairs program to cover the current state matching backlog, thus providing the infrastructure for funding of the current backlog of \$161 million into the future.

10. **TASK FORCE REPORTS.**

- a. **Online Education Task Force.** Senior Vice Chancellor for Academic and Student Affairs Dr. Debbie Blanke discussed the Online Education Task Force meeting earlier in May, mentioning a couple of presentations at the meeting. She noted that Mr. Gary Dotterer at Rogers State University was selected as the new COLE Chairperson during the Online Education Task Force meeting. Dr. Blanke updated State Regents on the online consortium, noting that 23 out of 25 of the institutions are now members and that work is ongoing on a website, logo development, and portal for Noodle courses on professional development. She added that the OCO has offered 16 webinars with 3,000 participants so far this spring, and that the number of participants has increased in light of COVID-19. She added that OCO and COLE are planning a collaborative workshop to do some strategic planning for next year and that the Online Education Task Force is next scheduled to meet on June 25.
 - b. **State Regents Campus Safety and Security Task Force.** Associate Vice Chancellor for Communications Angela Caddell provided an update on the Campus Safety and Security Task Force, mentioning the ongoing planning for the Campus Safety and Security Summit scheduled for October 29, 2020 at the Reed Center in Midwest City but that they are making contingency plans in the event that they are not able to hold the summit as they usually do. She stated that they are continuing to work closely with their partners and that if they are able to hold the summit in a face-to-face venue, that it is their goal to work with the Midwest City police department to execute a live exercise scenario. Ms. Caddell stated that they have been able to engage with their keynote speaker, Mr. Scott Lewis from TNG, who is a nationally recognized expert in helping optimize campus behavioral intervention teams. She stated that they are also hoping to engage a representative from a campus that has experienced a recent incident to discuss best practices and lessons learned. She added that other content options that they are looking to cover are: maximizing table-top exercises, Title IX considerations, tactical response, campus incident communication plans, preventing and dealing with ransomware and cyber-attacks, and several fronts in partnership with mental health. She concluded by stating that the next meeting is set for Wednesday, June 3.
11. **BEST OF HIGHER EDUCATION.** Regents received the May 2020 update on institutional activities via e-mail on Thursday, May 28, 2020.
 12. **CALENDAR OF EVENTS.** Regents received the Calendar of Events via e-mail on Thursday, May 28, 2020.
 13. **ADJOURNMENT.** With no other items to discuss, the meeting was adjourned.

ATTEST:


Jody Parker, Chairman


Jeff Hiebman, Secretary