OREGON STATE BOARD OF HIGHER EDUCATION
COMMITTEE ON BUDGET AND FINANCE
Erb Memorial Union Ballroom
University of Oregon
Eugene, Oregon
February 15, 2002
7:30-9:15 a.m.

AGENDA

Call to Order

Roll Call

Action Items
  Approval of December 21, 2001, meeting minutes

  Land Purchase (OIT)

  Classroom Building Purchase (PSU)

  Optional Retirement Plan Amendments

Discussion Items
  OUS Fiscal Accountability Framework

Report Items
  Fiscal Status of Intercollegiate Athletics–Fiscal Year 2001

  Annual External Audit Report (Deloitte & Touche)

Adjournment
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Land Purchase (OIT)

Executive Summary
(Action Item)

Purpose
Oregon Institute of Technology (OIT) seeks Board approval to authorize the Vice Chancellor of Finance and Administration to complete the transfer of 17.4 acres of unimproved land, located adjacent to the campus, to be purchased from the O’Connor family for a maximum of $215,000 plus closing costs.

The University expects to use equal amounts of General Fund and Article XI-G bonds from their capital repair allocation to cover the purchase price and closing costs. This expenditure will utilize existing system wide spending limitation, without requiring additional Legislative approval.

Background
OIT is currently nearing, or at capacity with regard to its present utilization of student housing, and plans to use this land to accommodate future growth. The O’Connor property represents one of the few opportunities to purchase undeveloped land adjacent to the campus. The proposed purchase will also protect a very valuable underground geothermal energy asset.

Staff Recommendation
Staff recommends that the Board approve Oregon Institute of Technology’s request to purchase 17.4 acres of land, located at Bryant Williams Drive, Klamath Falls, Oregon, from James, Rhonda, John, and Joanne O’Connor, for $215,000 assuming all conditions are met and that the final transfer details are agreed upon by all parties, subject to final approval by the Vice Chancellor for Finance and Administration.
Classroom Building Purchase (PSU)

Executive Summary
(Action Item)

Purpose
Portland State University (PSU) seeks Board approval to authorize the Vice Chancellor of Finance and Administration to complete the proposed purchase of an office building, (aka 5th Avenue Business Center) located at 2130-2136 SW Fifth Avenue and 521 SW Jackson Avenue in Portland, Oregon, from the Walter R. and Velma A. Peterson Trust, for a maximum of $3.5 million plus closing costs and a modest allowance for deferred maintenance and upgrades to the building. Board approval and Legislative authorization are being sought to purchase the facility using Article XI-F(1) bonds. The University expects to expend $3.5 million to cover the purchase price and closing costs, with an allowance for deferred maintenance, renovation/upgrades and move-related expenses.

Background
PSU's enrollment continues to grow to historic high levels, with classroom space, offices, and parking in short supply. The 5th Avenue Business Center Building represents an opportunity to purchase a pre-existing facility, with associated parking within the University District of downtown Portland, at a very affordable price. (See Exhibit 1 for location.)

Purchase of the property would provide PSU with an additional 36,000 square feet of classroom and office space with parking for 27 vehicles and surface lot with space for 16 vehicles located on Jackson Street. The building is currently leased to multiple commercial and not-for-profit entities. PSU will continue to lease the facility to the existing tenants until their leases expire, at which time the facility will be converted to PSU classroom, office, and parking use.

Staff Recommendation
Staff recommends that the Board approve PSU’s request to purchase the 5th Avenue Business Center facility, located at 2130-2136 SW Fifth Avenue and 521 SW Jackson Avenue in Portland, Oregon, from the Walter R. and Velma A. Peterson Trust, for a maximum of $3.1 million plus closing costs, assuming all conditions are met and that the final purchase details are agreed upon by all parties, subject to final approval by the Vice Chancellor for Finance and Administration, plus a $400,000 allowance for deferred maintenance costs and building upgrades.
Optional Retirement Plan Amendments

Executive Summary
(Action Item)

Summary
Changes in the Internal Revenue Code related to retirement plans require amendments to the Optional Retirement Plan (ORP). The investment consulting firm of William M. Mercer, Incorporated, has been hired to update the Plan document to comply with six tax laws known as GUST, the Economic Growth and Tax Reconciliation Relief Act of 2001 (EGTRRA), and liberalized Minimum Required Distribution rules promulgated by the IRS in 2001. Board approval is requested to submit the restated Plan for an IRS determination letter of qualified plan status and to adopt the restated plan upon final approval of the amendments by the IRS.

Staff Report to the Board
Since the Optional Retirement Plan received its initial favorable IRS determination letter in November 1996, several tax laws affecting retirement plans have been passed.

GUST amendments must be submitted to the IRS by February 28, 2002, to ensure compliance with the combined Uruguay Round Agreements Act (GATT), USERRA, SBJPA, RRA 97, RRA 98, and The Community Tax Relief Act of 2000.

EGTRRA, passed in 2001, permits participants to defer additional retirement savings and increases portability of retirement benefits by recognizing an expanded menu of “qualified” plans eligible to receive rollover contributions. EGTRRA amendments will become effective April 1, 2002.

In 2001, a unified table for determination of benefits for participants and beneficiaries was adopted by the IRS, which permits more choices in the form of benefit elected by individuals who must begin receiving Plan benefits after achieving age 70½ or retirement. The effective date for the new Minimum Required Distributions rule is January 1, 2002.

The Plan will be restated and submitted to the IRS no later than February 28, 2002. The full text of the Plan amendments is available upon request to the Retirement Committee, care of the OUS Human Resources Division.
OUS Fiscal Accountability Framework

Executive Summary
(Discussion Item)

Background
The Board of Higher Education, in its April 20, 2001, meeting, authorized the Chancellor’s Office to undertake a project to design a Fiscal Accountability Framework consistent with fulfilling the fiduciary responsibility of the Board, Chancellor’s Office, and institutions, while recognizing the increased responsibilities of the individual institutions. For purposes of this project, a Fiscal Accountability Framework is defined as the management structure, controls, and guidance that assist the Oregon University System (OUS) Board, Chancellor’s Office, and institutions in setting fiscal-related goals and monitoring the performance of those goals.

In this context, the System’s external auditors expressed increasing concern about the diminution of internal controls. In an October 2000 letter to the Board of Higher Education related to their audit of the System’s Fiscal Year 2000 Financial Statements, the auditors recommended the strengthening of accountability within the System through a focused effort to update fiscal policies and to establish a system for management review of financial information. The undertaking of the Fiscal Accountability Framework project was a necessary and appropriate response to these concerns.

Significant changes have taken place over the past several years affecting fiscal accountability within OUS. These include:

- The Higher Education Efficiency Act (Senate Bill 271), which transferred selected fiscal authority from the State Department of Administrative Services (DAS) to the System.
- The implementation of new systems, which enabled increased responsibility by end users.
- The establishment of a new budgeting model, which allocates funds to individual institutions based largely on student enrollment.
- A rapidly changing competitive environment, which requires faster response from institutions.

The project findings and recommendations were ratified by the Steering Committee of the Fiscal Accountability Framework project at their meeting on January 16, 2002.

This report represents recommendations by the Steering Committee associated with a Fiscal Accountability Framework for OUS. This includes the following key deliverables of this project:

- Documentation of the Constitutional Articles, Oregon Administrative Rules (OARs), Oregon Revised Statutes (ORSs), and Internal Management Directives (IMDs) that delineate the governance and administration of OUS.
- Documentation of the roles and responsibilities of the institutions and the Chancellor’s Office with respect to each of the functional areas examined.
- Creation of a new managerial reporting structure that will provide the Board, the Chancellor, and institution presidents the financial information necessary to fulfill their fiduciary responsibilities.
• Codification of ORSs, OARs, IMDs, and Board policies that govern each of the functional areas examined.

• Identification of key issues and recommendations for change to strengthen the fiscal accountability within OUS.

• Formalization of a policy to address future formulation, issuance, and revision of System fiscal policies.

These deliverables represent the collective efforts of more than 100 OUS personnel on behalf of the Fiscal Accountability Framework project for the period of August 2001 through January 2002.

The following recommendations, once implemented, will shift authority and/or responsibility review to various administrative processes to OUS institutions:

• The Vice Chancellor for Finance and Administration should transfer authority and responsibility for the Facility and Administration rate proposal process to the presidents of Oregon State University (OSU), Portland State University (PSU), and the University of Oregon (UO). Additionally, a schedule should be established with dates on which Eastern Oregon University (EOU), Oregon Institute of Technology (OIT), Southern Oregon University (SOU), and Western Oregon University (WOU) will have the opportunity to assume such authority and responsibility in the future. An election by an institution to assume this authority and the related responsibilities will represent a permanent commitment to fulfill the responsibilities or to have them fulfilled at the institution’s expense. OSU, PSU, and UO are currently prepared to make that commitment.

• The Controller’s Division of the Chancellor’s Office should establish a pilot program at one OUS institution for decentralization of the Treasury Management function. This pilot should involve the institution performing all processes related to Treasury Management, including the reconciliation of bank accounts. The Controller should closely monitor the progress of this endeavor, and use the experience gained to evaluate the prospects for further decentralization of this functional area in the future.

• The Vice Chancellor for Finance and Administration should formally assign responsibility for the maintenance of positive fund balances to the institutional Vice Presidents for Finance and Administration, with the understanding that further delegation may take place at the institutional level.

• IMD 6.140 should be modified to allow institutions to classify all non-designated donations up to $100,000 as either unrestricted or quasi-endowment. Additionally, exceptions by the Board enabling institutional classification over that limit should be allowed up to $500,000.

• The Department of Legal Services within the Chancellor’s Office should draft an OAR or an IMD articulating the role of the Chancellor’s Office and each institution relative to Student Financial Aid. This OAR/IMD should formally delegate the authority and responsibility to participate in and administer financial aid programs to each institution president.

• The Controller’s Division of the Chancellor’s Office should replace the approval process detailed in the Financial Administration Standard Operating Manual (FASOM) relative to Designated Operating Funds (DOF) with a reporting process in which the institutional Vice Presidents for Finance and Administration will report any DOF balance in excess of the greater of $25,000 or 20% of annual revenue to the fund to the Controller at the end of each biennia.
In addition to the recommendations above related to authority and responsibility, four FAF work groups considered whether OUS should pursue the establishment of a multiple taxpayer identification number (TIN) structure. This determination may impact the delegation of responsibilities within several OUS functional areas. The work groups were tasked to consider this issue based strictly on the impact a multiple TIN structure would have on the processes in their respective functional areas.

Based on the recommendations and analyses prepared by the Payroll, Research and Sponsored Programs, Taxation, and Treasury Management Work Groups relative to this issue, the Controller's Division of the Chancellor's Office should continue to actively investigate the feasibility of establishing multiple TINs within OUS. After considerable project effort relative to this issue, we have noted no prohibitions against a multiple TIN structure for OUS.

Other recommendations relative to OUS fiscal processes are designed to accomplish one or more of the following:

- Increase the autonomy of OUS,
- Reduce restraints on OUS fiscal operations that cause operational or organizational inefficiency,
- Instigate further internal consideration of proposed programs (i.e., a cohesive risk management program for OUS),
- Promote understanding of the distribution of roles and responsibilities within OUS, and
- Promote communication and knowledge sharing across OUS.

These recommendations and the related analyses are included in Section 6 of the Final Project Report.

Cost of Services
The complexity and duration of the project required significant consultant expertise and a continuous presence. The assumption was made that to aggressively coordinate the efforts of 17 work groups, Project Management Team, and the Steering Committee over six months, an external resource was critical for the project’s ultimate success.

The original contract was set at a $500,000 ceiling. Funding would be split between the operating budget and a System reserve. The final cost of $425,000 was allocated as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial Reporting</td>
<td>100,000</td>
</tr>
<tr>
<td>Governance / Administration</td>
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<tr>
<td>Regulatory Research</td>
<td>25,000</td>
</tr>
<tr>
<td>Roles and Responsibilities*</td>
<td>150,000</td>
</tr>
<tr>
<td>Key issues / Recommendations **</td>
<td>125,000</td>
</tr>
<tr>
<td>**Total</td>
<td>**425,000</td>
</tr>
</tbody>
</table>

* Assessed/defined System and university roles and responsibilities across all 17 work groups.
** Translated policy issues raised in work groups into a comprehensive action plan.
Fiscal Status of Intercollegiate Athletics
Fiscal Year 2001

Executive Summary
(Report Item)

Introduction
The purpose of this report is to provide a review and update of the fiscal status of the Intercollegiate Athletics Departments (Athletics) at Oregon State University (OSU), Portland State University (PSU), and University of Oregon (UO) at June 30, 2001. The information presented in the attached comparison (see further detail section) was provided by the respective universities and reviewed by the Chancellor's Office.

Background
In Fiscal Year 1992, OSU, PSU, and UO each reported deficits in their athletics departments. At its May 22, 1992 meeting, the Board instituted policies directing the three universities to take certain actions to reduce and eliminate those deficits; additionally, the universities were directed to incur no increased deficits. Plans were put in place with the expectation that the institutions would systematically clear their respective deficits.

OREGON STATE UNIVERSITY
In Fiscal Years (FY) 1993 and 1994, Oregon State University (OSU) made initial reductions in its deficit. Then in FY 1995 the deficit began to increase. That trend of increasing deficits continued into FY 1998 when it stood at $8.3 million. In April of 1998, President Risser presented to the Board the University's plan to reduce its Athletics deficit; it showed that the deficit would be reduced to $6.0 million by June 30, 1999, and completely eliminated by June 30, 2005. That plan was revised in May 1999 and April 2000. The present plan runs through June 2003 when the deficit is committed not to exceed $3.8 million. A plan to reduce the deficit to zero is not currently in place.

The original plan and the revisions yielded the following commitments for deficit reduction and actual operations yielded the following results during the last three years:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Deficit Commitment</th>
<th>Actual Deficit</th>
<th>Met / (Unmet)</th>
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<td>5,393,000</td>
<td>5,850,000</td>
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</tr>
<tr>
<td>2001</td>
<td>4,724,000</td>
<td>5,324,000</td>
<td>(600,000)</td>
</tr>
</tbody>
</table>

OSU has reduced its Athletics deficit by approximately $3 million over the last three fiscal years; From $8.3 million at June 30, 1998, to $5.3 million at June 30, 2001. During that same three-year period, annual revenues have increased from $13.3 million to $25.4 million, annual expenditures have grown from $19.6 million to $29.2 million, and Education and General (E&G) fund support expended for Athletics has grown from $3.7 million to $4.3 million per year.

According to the plan submitted to the Board in March 2000, the commitment for deficit balances at June 30, 2002, is approximately $4.4 million. In order to meet this commitment, Athletics would need to generate a surplus of $0.9 million (the $5.3 million deficit at June 30, 2001, less the $4.4 million deficit commitment) during the current fiscal year. University Management advises that they currently project an $0.8 million loss in the current year; however, they plan to increase fund raising efforts and reduce expenditures to fill this gap and meet the deficit reduction target for this fiscal year.
PORTLAND STATE UNIVERSITY
At June 30, 1999, Portland State University (PSU) Athletics reported a cumulative deficit of $1.3 million. In FY 2000, PSU cleared their deficit through the application of $1.3 million of E&G Funds. The attached comparison (see further detail section) shows that PSU is in compliance with the Board's requirement and, as of June 30, 2001, shows a positive fund balance in its athletic department. E&G Fund support necessary to balance the athletics department budget, which totaled $3.4 million in FY 2001, increased by approximately $1 million from the previous fiscal year. The increase in E&G fund support was necessary to balance the athletic department budget and remain in compliance with Board policy.

UNIVERSITY OF OREGON
The attached comparison (see further detail section) shows that University of Oregon has met the Board's balanced budget requirement and, as of June 30, 2001, shows a positive fund balance in its athletic department. E&G fund support to Athletics totaled $1.6 million in FY 2001.

Conclusion
Both the PSU and UO Athletics departments have met the Board's mandate of balanced budgets, after the application of E&G Funds.

OSU has not met its Athletics deficit reduction commitment at June 30, 2001. Current projections indicate a $0.8 million shortfall for FY 2002; however, University Management has stated that they plan to increase fund-raising efforts and reduce expenditures to fill this gap and meet the deficit reduction target. OSU must take steps to ensure that its fiscal commitments to the Board are met.

The deficit reduction commitments made to the Board by OSU Athletics have changed several times from April 1998 to April 2000. This has led to misinterpretations with regard to the commitments that are currently in force. The amounts shown above are in accordance with the latest plan presented in April 2000. However, that plan does not culminate with a complete elimination of the deficit. In addition, the budget of athletics has grown significantly and the nature of operations has changed over the past several years, potentially providing different opportunities for deficit reduction than when the last plan was prepared. Therefore, it is recommended that an updated plan be prepared by OSU and reviewed and accepted by the Board.
Land Purchase (OIT)
Further Detail

Summary
Oregon Institute of Technology (OIT) seeks Board approval to authorize the Vice Chancellor of Finance and Administration to complete the transfer of 17.4 acres of unimproved land, located adjacent to the campus, to be purchased from the O’Connor family for a maximum of $215,000 plus closing costs.

The University expects to use equal amounts of General Fund and Article XI-G bonds from their capital repair allocation to cover the purchase price and closing costs. This expenditure will utilize existing system wide spending limitation, without requiring additional Legislative approval.

Staff Report to the Board

Background
OIT is currently nearing, or at capacity with regard to its present utilization of student housing, and plans to use this land to accommodate future growth. The O’Connor property represents one of the few opportunities to purchase undeveloped land adjacent to the campus. (See Exhibit 1 for location)

Statement of Need
The proposed property purchase will provide the following benefits:

- Provide for future campus expansion
- Protect OIT’s geothermal wells, their primary source of heat, from outside development
- Allow OIT to access their existing water tank and wells entirely from OIT land.

OIT is experiencing increasing pressure on its boundaries, as adjacent properties are being developed into commercial and residential uses. With the expansion of both the Industrial Park and Hospital on the south and west campus boundaries, the purchase of this property on the east side of campus will reserve space for future growth, especially for much needed student and family housing.

The protection of this land from outside developers is also critical to maintaining the geothermal wells that OIT uses to heat their entire campus. If this source of energy were lost, OIT would need to replace approximately 50,000 MMBTUs of energy per year. This equates to approximately $240,000 in natural gas costs alone, not to mention the millions of dollars of infrastructure that would be required in order to utilize the natural gas in lieu of the geothermal energy.

This property is also adjacent to OIT’s cold water wells and water storage tank. The purchase of this property would provide access for maintenance, inspections, and repairs without the need of easements from adjacent property owners.

Schedule
Closing to occur on or about April 30, 2002.

Financial Considerations
The average appraised value of the property is $198,500. However, the property owner is not willing to accept this price and has counter-offered at the amount equal to the higher of the two appraised values. Since the property purchase will protect a valuable energy asset, the $16,500 premium in price can be justified.
Legal Considerations
Several conditions remain open and must be satisfactorily resolved prior to settlement. These conditions include, but are not limited to, the following items:

- Approval by the State Board of Higher Education.
- Conveyance approved by the Assistant Attorney General and executed by the Board President and Secretary.

Staff Recommendation
Staff recommends that the Board approve OIT’s request to purchase 17.4 acres of land, located at Bryant Williams Drive, Klamath Falls, Oregon, from James, Rhonda, John, and Joanne O’Connor, for $215,000 assuming all conditions are met and that the final transfer details are agreed upon by all parties, subject to final approval by the Vice Chancellor for Finance and Administration.
(Exhibit 1 map is available in the OUS Board’s Office)
Summary
Portland State University (PSU) seeks Board approval to authorize the Vice Chancellor of Finance and Administration to complete the proposed purchase of an office building, (aka 5th Avenue Business Center) located at 2130-2136 SW Fifth Avenue and 521 SW Jackson Avenue in Portland, Oregon, from the Walter R. and Velma A. Peterson Trust, for a maximum of $3.5 million to include closing costs and a modest allowance for deferred maintenance and upgrades to the building. Board approval and Legislative authorization are being sought to purchase the facility using Article XI-F(1) bonds.

Staff Report to the Board

Background
PSU's enrollment continues to grow to historic high levels, with classroom space, offices, and parking in short supply. The 5th Avenue Business Center Building represents an opportunity to purchase a pre-existing facility, with associated parking within the University District of downtown Portland, at a very affordable price. (See Exhibit 1 for location.)

Purchase of the property would provide PSU with an additional 36,000 square feet of classroom and office space within two stories and is located on .48 acres with underground parking for 19 vehicles, space for 8 additional vehicles on the south perimeter, and an associated 2,000 square foot surface lot with space for 16 vehicles located on Jackson Street. The building is currently leased to multiple commercial and not for profit entities. PSU will continue to lease the facility to the existing tenants until their leases expire, at which time the facility will be converted to PSU classroom, office, and parking use.

Statement of Need
PSU's enrollment continues to grow to historic high levels, creating a shortage of classroom space, office space, and parking. The Fall 2001-2002 term enrolled more than 21,000 students, the highest in PSU history. PSU continues to pursue additional facilities within the university district in order to accommodate continued growth. As more of the district is developed, real estate values will continue to appreciate, making the purchase of this property attractive at this time.

Schedule
Closing to occur on or about April 30, 2002.

Financial Considerations
The asking price for the property is $3.1 million; as part of the due diligence process, two independent appraisals will be performed to determine the market value of the property. PSU will negotiate the final price to be at or below the average of the two appraisals.

As the negotiations progress, we continue to explore other funding options, but the most likely scenario will use existing non-taxable Article XI-F(1) bonds from the 2001A sale, to be repaid with PSU operating funds. The IRS only allows 5% of non-related private use from each non-taxable bond sale. However, this purchase is well within our current system wide capacity for private use activities.
Legal Considerations
The following conditions remain open and must be satisfactorily resolved prior to settlement:

**Buyer - PSU**
- Approval by the State Board of Higher Education.
- Two independent appraisals
- Examination of all books, records, and lease agreements associated with the property.
- Receipt of a satisfactory Level I environmental report.
- Conveyance approved by the Assistant Attorney General and executed by the Board President and Secretary.

**Seller- Walter R. and Velma A. Peterson Trust**
- Acceptance of a negotiated purchase price; up to a maximum of $3.1 million plus closing costs, or the average appraised market value if less.

**Staff Recommendation**
Staff recommends that the Board approve PSU's request to purchase the 5th Avenue Business Center facility, located at 2130-2136 SW Fifth Avenue and 521 SW Jackson Avenue in Portland, Oregon, from the Walter R. and Velma A. Peterson Trust, for a maximum of $3.1 million plus closing costs, assuming all conditions are met and that the final purchase details are agreed upon by all parties, subject to final approval by the Vice Chancellor for Finance and Administration, plus a $400,000 allowance for deferred maintenance costs and building upgrades.
(Exhibit 1 map is available in the OUS Board’s Office)
Introduction
The purpose of this report is to provide a review and update of the fiscal status of the Intercollegiate Athletics Departments (Athletics) at Oregon State University (OSU), Portland State University (PSU), and University of Oregon (UO) at June 30, 2001. Additionally, the report addresses any concerns noted as a result of such review. The information presented in the attached comparison was provided by the respective universities and reviewed by the Chancellor’s Office.

Background
In Fiscal Year 1992, OSU, PSU, and UO each reported deficits in their athletics departments. At its May 22, 1992, meeting, the Board instituted policies directing the three universities to take certain actions to reduce and eliminate those deficits; additionally, the universities were directed to incur no increased deficits. Plans were put in place with the expectation that the institutions would systematically clear their respective deficits.

OREGON STATE UNIVERSITY
In Fiscal Years (FY) 1993 and 1994, Oregon State University (OSU) made initial reductions in its deficit. Then in FY 1995 the deficit began to increase. That trend of increasing deficits continued into FY 1998 when it stood at $8.3 million. In April of 1998, President Risser presented to the Board the University's plan to reduce its Athletics deficit; it showed that the deficit would be reduced to $6.0 million by June 30, 1999 and completely eliminated by June 30, 2005. That plan was revised in May of 1999 and April of 2000. The present plan runs through June 2003 when the deficit is committed not to exceed $3.8 million. A plan to reduce the deficit to zero is not currently in place.

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OSU has reduced its Athletics deficit by approximately $3 million over the last three fiscal years: From $8.3 million at June 30, 1998, to $5.3 million at June 30, 2001. During that same time period, annual revenues have increased from $13.3 million to $25.4 million, annual expenditures have grown from $19.6 million to $29.2 million, and Education and General (E&G) fund support expended for Athletics has grown from $3.7 million to $4.3 million per year. As is noted above, the deficit was reduced by approximately $0.5 million this past fiscal year, after the application of the $4.3 million of E&G funds.

As noted above, the University's Athletics deficit at June 30, 2001, is $0.6 million in excess of the balance to which they committed. Management advised that revenues sufficient to cure the excess deficit, which were expected to be received in FY 2001, had been deposited subsequent to year-end; however, upon review it was found that such was not the case.

According to the plan submitted to the Board in March 2000, the commitment for deficit balance at June 30, 2002, is approximately $4.4 million. In order to meet this commitment, Athletics would need to
generate a surplus of $0.9 million (the $5.3 million deficit at June 30, 2001, less the $4.4 million deficit commitment) during the current fiscal year.

University management advises that they currently project an $0.8 million loss in the current year due to budget reductions in E&G Funds, as well as lower than planned Lottery revenues. In addition, OSU Athletics purchased the “Jumbotron” (electronic sign and replay screen) at Reser Stadium for approximately $2 million, which increases the challenge in meeting the current year deficit reduction target. However, University Management has stated that they plan to increase fund-raising efforts and reduce expenditures to fill this gap and meet the deficit reduction target for this fiscal year.

During the current year, the University made a partial redistribution of the liability for compensated absences from the General Fund to self-supporting operations, such as Athletics. This transaction does not affect current year operations but does increase the athletics deficit by $309,000. The effect of this transaction will need to be considered in meeting future deficit reduction commitments.

As discussed in the separate report on OSU’s E&G Funds, Athletics continues to require infusions of cash from E&G funds. E&G Fund expenditures for Athletics totaled $2.6 million for the first six months of the current year compared to $2.1 million for the first six months of the prior year (an increase of $500,000). The Athletics cash account remained overdrawn some $3.2 million at December 31, 2001. That overdraft takes into account E&G Funds of $8 million advanced to Athletics as of December 31, 2001 to cover short term cash requirements. At December 31, 2000, the cash overdraft stood at $10.0 million. No advances of E&G Funds were outstanding at that time. The University will depend on its distribution from the PAC-10 Conference in June 2002 to repay the advances due at year-end. (Monies received from the PAC-10 in June 2001 totaled approximately $5.6 million.) Unless the results from operations improve, additional subsidies from E&G funds may be necessary if Athletics is to meet its deficit reduction target at June 30, 2002.

PORTLAND STATE UNIVERSITY
At June 30, 1999, Portland State University (PSU) Athletics reported a cumulative deficit of $1.3 million. In FY 2000, PSU cleared their deficit through the application of $1.3 million of E&G Funds. The attached comparison shows that PSU is in compliance with the Board's requirement and, as of June 30, 2001, shows a positive fund balance in its athletic department. E&G Fund support necessary to balance the athletics department budget, which totaled $3.4 million in Fiscal Year 2001, increased by approximately $1 million from the previous fiscal year.

University management indicated that the increase in E&G Fund support was due, in part, to increases in expenditures associated with their move to Division 1. In addition, the refurbishment of Civic Stadium during the Fiscal Year 2001 football season required that home football games be held away from downtown Portland. This caused a reduction in revenues during FY 2001. The increase in E&G fund support was necessary to balance the athletic department budget and remain in compliance with Board policy.

UNIVERSITY OF OREGON
The attached comparison shows that University of Oregon (UO) has met the Board's balanced budget requirement and, as of June 30, 2001, shows a positive fund balance in its athletic department. E&G fund support to Athletics totaled $1.6 million in Fiscal Year 2001.

Conclusion
Both the PSU and UO Athletics departments have met the Board's mandate of balanced budgets, after the application of E&G Funds.
Oregon State University has not met its Athletics deficit reduction commitment at June 30, 2001. Current projections indicate a $0.8 million shortfall for Fiscal Year 2002; however, University management has stated that they plan to increase fund-raising efforts and reduce expenditures to fill this gap and meet the deficit reduction target. OSU must take steps to ensure that its fiscal commitments to the Board are met.

The deficit reduction commitments made to the Board by OSU Athletics have changed several times from April 1998 to April 2000. This has led to misinterpretations with regard to the commitments that are currently in force. The amounts shown above are in accordance with the latest plan presented in April 2000. However, that plan does not culminate with a complete elimination of the deficit. In addition, the budget of athletics has grown significantly and the nature of operations has changed over the past several years, potentially providing different opportunities for deficit reduction than when the last plan was prepared. Therefore, it is recommended that an updated plan be prepared by OSU and reviewed and accepted by the Board.

During the preparation of this report, information received from OSU by the Chancellor's Office was found to be inaccurate. It is critical for proper and effective management that complete, timely, and accurate information be provided for management review and oversight. In order to address the conditions noted above, steps must be taken by OSU to ensure that fiscal information provided is complete, timely and accurate.
### Athletics Departments
Fund Balance, Revenue, and Expense Analysis
Fiscal Year 2001

<table>
<thead>
<tr>
<th>Description</th>
<th>OSU</th>
<th>PSU</th>
<th>UO</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Fund Balance (Deficit)</strong></td>
<td>($5,849,822)</td>
<td>$53,822</td>
<td>$1,219,371</td>
</tr>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating</td>
<td>16,254,056 64%</td>
<td>783,820 24%</td>
<td>20,603,249 76%</td>
</tr>
<tr>
<td>Student Fees</td>
<td>1,140,086 4%</td>
<td>1,793,905 55%</td>
<td>1,154,230 4%</td>
</tr>
<tr>
<td>Lottery</td>
<td>495,841 2%</td>
<td>326,902 10%</td>
<td>512,456 2%</td>
</tr>
<tr>
<td>Gifts/Foundation/Booster</td>
<td>6,842,197 27%</td>
<td>282,438 9%</td>
<td>4,499,355 17%</td>
</tr>
<tr>
<td>Other</td>
<td>687,642 3%</td>
<td>62,620 2%</td>
<td>436,606 2%</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$25,419,822 100%</td>
<td>$3,249,685 100%</td>
<td>$27,205,896 100%</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating</td>
<td>24,202,356 83%</td>
<td>4,673,218 71%</td>
<td>24,681,230 85%</td>
</tr>
<tr>
<td>Scholarships</td>
<td>4,490,179 15%</td>
<td>1,910,972 29%</td>
<td>4,225,073 15%</td>
</tr>
<tr>
<td>Other</td>
<td>535,254 2%</td>
<td>34,195 1%</td>
<td>0 0%</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$29,227,789 100%</td>
<td>$6,618,385 100%</td>
<td>$28,906,303 100%</td>
</tr>
<tr>
<td><strong>Net Income (Loss) from</strong></td>
<td>(3,807,967)</td>
<td></td>
<td>(1,700,407)</td>
</tr>
<tr>
<td><strong>Fund Balance (Deficit) Before</strong></td>
<td>(9,657,789)</td>
<td></td>
<td>(481,036)</td>
</tr>
<tr>
<td>Institutional Funds Subsidy</td>
<td>4,333,484</td>
<td>3,378,626</td>
<td>1,568,625</td>
</tr>
<tr>
<td><strong>Ending Fund Balance (Deficit)</strong></td>
<td>($5,324,305)</td>
<td>$63,748</td>
<td>$1,087,589</td>
</tr>
<tr>
<td><strong>Required Ending Fund Balance</strong></td>
<td>($4,724,000)</td>
<td>Positive</td>
<td>Positive</td>
</tr>
<tr>
<td>Requirement Met/Not Met</td>
<td>Not Met</td>
<td>Met</td>
<td>Met</td>
</tr>
<tr>
<td>Cash Balance (Overdraft)</td>
<td>($1,912,316)</td>
<td>($148,982)</td>
<td>$3,647,464</td>
</tr>
<tr>
<td>Loans Outstanding Due General</td>
<td>$1,000,000</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Unmet Requirement</td>
<td>($600,305)</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>
Minutes

Meeting Participants: Tom Imeson, chair; Geri Richmond; Don VanLuvanee; and Tim Young.

OUS University Presidents: Phillip Creighton, EOU; Martha Anne Dow, OIT; Dan Bernstine, PSU; Dave Frohnmayer, UO; and Betty Youngblood, WOU.

Chancellor’s Office staff: Joe Cox, Chancellor; Tom Anderes, Vice Chancellor for Finance and Administration; Robert Simonton, Manager, Facilities Business Services; Patricia Snopkowski, Director, Internal Audit Division; and Loren Stubbert, Director, Campus Budget Services.

Meeting attendees also included other institutional representatives, other members of the Chancellor’s Office staff, and interested observers.

The meeting was called to order at 8:10 a.m.

MINUTES FROM October 19, 2001
A motion was made to accept the minutes from the October 19, 2001, and the motion was approved.

ACTION ITEMS

Amendment to OAR 580-040-0035, 2002 Summer Session Fee Book
Vice Chancellor Anderes introduced Loren Stubbert of the OUS Budget and Management Division, who presented the 2002 Summer Session Fee Book for Board approval. An important note pertaining to the fee schedule was the compliance with the legislative budget note limiting tuition increases to 3%. This compliance will delay the campuses’ strategic goal of aligning summer session fees more closely to the academic year fee schedule. Stubbert added that the energy resource surcharge has been suspended for the summer term. However, it was necessary for some campuses to implement incidental and health fee strategies in order to offset cost-of-living increases while continuing to supply services to students.

No significant policy changes were submitted for this term and no issues were raised by the campuses or the public concerning the proposed fee schedule.

Roll Call Vote
Chair Imeson called for a motion to adopt the summer session fee book as proposed; Director VanLuvanee made the motion and Director Richmond seconded the motion. A roll call vote was held, those in favor: Directors Imeson, Richmond, VanLuvanee, and Young; there was no opposition. The motion was carried.

Office Building Purchase (UO)
Robert Simonton, Director of Capital Planning and Budget, advised that the University of Oregon is seeking Board approval to authorize the Vice Chancellor of Finance and Administration to complete the proposed purchase of an Office/Client Consultation facility, located at 299 East 18th Avenue in Eugene, Oregon, from Gary T. and Janice Balogh, for $850,000 plus closing costs. The proposed property acquisition will provide centralized space for the Early Childhood Coordination Agency for Referrals, Evaluations, and Services in Lane County (EC CARES), a program that has been a part of the College of
Education at the University of Oregon since 1977. The University will use existing Systemwide spending limitation, and will not require further legislative authorization for the transaction. The University expects to use $664,000 of Article XI-F(1) bond proceeds to cover the purchase price and closing costs. Debt service on the 15-year bonds is estimated at $67,000 per year. The UO has also committed $300,000 towards the acquisition, including a $114,000 allowance for deferred maintenance. The acquisition is subject to satisfaction of several standard terms and conditions.

Motion to Approve
Director VanLuvanee made the motion to approve the UO’s request to purchase the Office/Client Consultation facility in Eugene, Oregon, for $850,000 plus closing costs; Director Young seconded the motion. The motion was carried.

REPORT ITEMS

Budget Reductions Followup Report
Vice Chancellor Anderes advised that the Senate Budget Rebalance Committee and the House Special Committee on Budget Prioritization hearings were held on December 11 and 12. These hearings were held for fact-finding purposes and to provide the legislature with a better understanding of the impacts of the reductions to OUS campuses. The Chancellor lead the discussion following a brief presentation, and then responded to the committees’ questions. The second day of hearings included a panel of presidents who spoke to the potential impact on their campuses. The committee members were specifically interested in impact to the Statewide Public Services programs, engineering, OSU-Cascades campus, and access and cost to students. The committees were sympathetic to the impact on the System and campuses; but acknowledged the dilemma with which state agencies are faced.

Governor Kitzhaber will provide his rebalance recommendations to the legislature in January 2002. However, Chancellor Cox advised that the Governor’s announcement may not come before there is a consensus by the committees, followed by a month for committee deliberations. In February, OUS will respond to the Governor's proposal.

Director VanLuvanee asked for the anticipated budget shortfall amount. Chancellor Cox answered that the amount is projected to be $900 to $940 million; however, that number is fluctuating. VanLuvanee asked that if the number fluctuates over the anticipated amount, the Board. Chancellor Cox stated that his staff will keep the Board informed of the situation; however, the Board should be prepared to implement a 10% reduction to the budget (an approximate $80-90 million reduction). The Chancellor concluded the briefing by stating that OUS did receive an appreciative comment from the committees as to the direction OUS took in the reduction exercise, and that the campuses did not prematurely increase tuition.

Energy Surcharge Report
Vice Chancellor Anderes provided a six-month update of the energy surcharge, which revealed campuses have either reduced or eliminated the surcharge. As background, he advised that through the 2001-02 Academic Year Fee Book, adopted July 20, 2001, the Board authorized institutions to assess an Energy Surcharge Fee of "up to $40 per term." In the months preceding the adoption of the fee book, there was much speculation of extraordinary fee increases as had been experienced in California and uncertainty over prolonged drought conditions. It was necessary to authorize the fee in anticipation of institutions needing the aid in meeting the potential unprecedented cost increases.

The policy adopted by the Board included the provisions that the fees "will remain in effect until: the energy rates return to current levels; sufficient outside financial assistance reduces the need for the fee; or, if the
energy rate increases appear permanent, the surcharge is integrated into the base tuition rate.” Since the adoption of the Energy Surcharge, the anticipated energy cost increases, while being larger than previously experienced, have not been as large as predicted earlier. As a result, institutions have each made decisions to either reduce or discontinue assessment of the fee effective winter term (EOU will review with students in January 2002). All revenues generated through the assessment of the Energy Surcharge Fee have been dedicated to either direct energy utility bills or energy conservation projects to reduce future costs. In addition to the revenue collected through this fee, all institutions have undertaken numerous energy conservation measures and projects to further reduce energy costs. These include specific upgrades of lighting and heating systems to periodic closures of campuses to altered work-week schedules.

The following is a brief status report of each institution:

<table>
<thead>
<tr>
<th>Institution</th>
<th>Fee Fall Term</th>
<th>Winter Term</th>
<th>Revenue Collected Fall 2001</th>
<th>Usage</th>
<th>Other Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOU</td>
<td>$30/term</td>
<td>To be determined.</td>
<td>$60,750</td>
<td>Funds have not yet been expended.</td>
<td>Campus administration, with consultation of students will reevaluate the continued need for the fee in early January 2002. A variety of energy conservation measures are being taken, from careful monitoring building usage to complete campus closures during holiday.</td>
</tr>
<tr>
<td>OIT</td>
<td>$10/term</td>
<td>Discontinued.</td>
<td>$21,004</td>
<td>Dedicated to energy bill payment.</td>
<td>A variety of energy conservation measures have been undertaken including operating on a four 10-hour day work-week over the summer months to reduce energy cost.</td>
</tr>
<tr>
<td>OSU</td>
<td>$20/term (originally approved at $30/term)</td>
<td>$20/term</td>
<td>$340,774 ($1,338 OSU-Cascades)</td>
<td>Funds are used for increases in energy prices and to support energy conservation programs and projects.</td>
<td>If energy rates moderate such that the anticipated increases are less than projected, OSU will reduce the fee in the second and subsequent years to keep students’ fees under the ”student contributions ratio” policy.</td>
</tr>
<tr>
<td>PSU</td>
<td>$0/term</td>
<td>$0/term</td>
<td>$0</td>
<td>PSU did not assess an energy surcharge, although it has implemented a variety of energy conservation measures.</td>
<td>Other Action:</td>
</tr>
</tbody>
</table>
SOU

Fee Fall Term: $0/term  
Winter Term: $0/term
Revenue Collected Fall 2001: $0
Usage: SOU did not assess an energy surcharge, although it has implemented a variety of energy conservation measures.

Other Action:

UO

Fee Fall Term: $30/term  
Winter Term: $20/term
Revenue Collected Fall 2001: $537,000
Usage: Funds are applied to energy utilities expense to offset projected $2.3 million deficit in the UO Ed and General utilities budget.

Other Action: A variety of energy conservation measures have been taken. To the extent the projected deficit declines, savings will be passed along to the students as a lower surcharge.

WOU

Fee Fall Term: $20/term  
Winter Term: Discontinued.
Revenue Collected Fall 2001: $83,457
Usage: Funds have been used for energy conservation projects to reduce heating and lighting expenses.

Other Action: The campus will also be closing entirely December 24 and 31 as well as closing certain buildings for extended periods of December 26-28.

The campuses continue to 1) make efforts to reduce their energy utility costs; 2) work with local utility providers for more advantageous contracts; and 3) meet with student representatives concerning the need for the continued use of the Energy Surcharge Fee.

Discussion
Director Young stated that he has been impressed with the energy awareness campaign by the student leadership at the University of Oregon, which has been effective and visible.

Internal Audit Resource Allocation and Progress Report
Vice Chancellor Anderes stated that the Internal Audit Division (IAD) report was deferred from the November 2001 meeting. He advised the goals and work plan implemented by IAD are vital and must be kept at the forefront.

Patricia Snopkowski, Director, IAD, reported that a new structure has been implemented with resources allocated specifically to information technology and the campuses. Recently, an auditor has been hired who will be assigned to PSU, and an auditor is to be hired at UO in the spring. The payroll and cashier audit cycles have been completed, with the purchasing cycle currently at the mid-point. A budget audit cycle has been included in the new plan and will begin in January at OSU. Various additional audits have been completed as a result of management requests at the campuses (e.g., OIT information technology center), as well as regularly scheduled audits. Subsequent to the audits, management responds to the audit comments, and audit recommendations are then reviewed during a scheduled follow-up.
Snopkowski advised one important item scheduled during the year is the continued enhancement of the IAD functionality and usefulness. OUS auditors will be audited by four national peer institution internal auditors specializing in higher education audits. These auditors will be interviewing clients to ensure compliance with acceptable auditing standards, independence, and adequate allocation of resources to the campuses. Interview times will be scheduled with Board members for their views as to the effectiveness of IAD.

**Discussion**

Director VanLuvanee emphasized the need for high level reporting to the Board for the purposes of ensuring the Board is informed of important audit issues at the campus and System levels. Snopkowski advised that the presidents, provosts, and vice presidents for finance and administration are all apprised of audits affecting their campuses and stated audit follow up reports will be provided to the Board at future meetings. Director Imeson asked if Snopkowski was “comfortable” with the resources allocated to the IAD, given the size, complexity, and changes occurring in the OUS. She stated that having auditors assigned to the campuses is important for a number of reasons including accreditation, therefore continual funding is needed for existing positions.

Vice Chancellor Anderes added that the relationship between IAD and the Secretary of State (SOS) audit division has been valuable over the past year. The SOS audit division provides services and independent audits to the System. Ms. Snopkowski has acquired a better understanding as to SOS issues and audit procedures, and has given the System a better connectivity to the SOS’ agenda and she was also helping SOS better understand the function of IAD.

Given the current demands on IAD, Director Imeson requested an external auditor be hired to assist with the OSU budget audit, and to provide further independence given the importance of the audit. Chancellor Cox stated it would be helpful for the Board members to understand the relationship as to when IAD auditors and/or external auditors are used. Is there a threshold for an audit scope or are the audits assigned case-by-case? Anderes stated that as Ms. Snopkowski reviews available resources, the scope of the audit and how it fits in the audit plan, if the desire is to have greater independence from the System, or when a specific expertise is needed, she would then recommend the use of internal or external auditors. Another factor is that audit cycles may encompass five years, and can be delayed to six or seven years, depending on the audit subject, and can contribute to the need of external audit support. Chancellor Cox added that the review of athletics and recommendations resulting from that audit created the need for an external audit to give the support and corroboration of the internal audit process.

**MEETING ADJOURNMENT**
The meeting adjourned at 8:45 a.m.