AGENDA

1. CALL TO ORDER/ROLL CALL/WELCOME

2. REPORT ITEM
   a. Update on current capital projects (Simonton)

3. DISCUSSION ITEMS
   a. Human Resource Planning Process for the Finance Function (Green) ..................... 1
      The Human Resource Planning process is intended to become an ongoing process to build and maintain a “best in class” finance function within OUS.
   
   b. New Debt Management Approach (Green).............................................................. 19
      The System currently maintains separate accounts within its sinking funds for each bond allocation within each debt-paying entity for each institution. Implementation of a pooled debt management approach will allow the elimination of these separate accounts and streamline the flow of funds and the accounting for those transactions.

4. ADJOURNMENT
AGENDA

1. CALL TO ORDER/ROLL CALL/WELCOME

2. REPORTS
   a. Chancellor’s Report
   b. Interinstitutional Faculty Senate (IFS) President
   c. Oregon Student Association (OSA) Chair

3. CONSENT ITEM
   a. OSU, Graduate Certificate in Water Conflict Management and Transformation ...... 25
      Oregon State University seeks Board approval to offer an instructional program leading to
      a Graduate Certificate in Water Conflict Management and Transformation.

4. REPORT ITEM
   a. UO, Arena Update
      President Frohnmayer will provide an update to the Board on the status of the arena
      project.

5. DISCUSSION ITEM
   a. OUS, Strategic Planning (Weeks)
      Discussion of the Department of Administrative Services and Legislative Fiscal Office
      Budget Note: Report on Performance Measures for Best Practices for Boards and
      Commissions.

6. COMMITTEE REPORTS
   a. Standing Committee Reports
   b. Other Board Committees

7. PUBLIC INPUT
8. **BOARD COMMENTS**

9. **DELEGATION OF AUTHORITY TO BOARD’S EXECUTIVE COMMITTEE**

   “Pursuant to Article II, Section 5 of the Bylaws of the Board of Higher Education, the Board delegates to the Executive Committee authority to take final action as here designated or deemed by the committee to be necessary, subsequent to the adjournment of this meeting and prior to the Board’s next meeting. The Executive Committee shall act for the Board in minor matters and in any matter where a timely response is required prior to the next Board meeting.”

10. **ADJOURNMENT**

Note: All docket materials are available on the OUS website at: http://www.ous.edu/board/meetingmaterials.htm. Please contact the Board’s office at (541) 346-5749 if you have any questions regarding these materials. This agenda may be amended at any time prior to 24 hours before the Board meeting. Estimated starting times for the agenda items are indicated; however, discussions may commence, or action may be taken, before or after the suggested times. Any item on the agenda may be considered at any time out of order at the discretion of the President of the Board. During the meeting, the Board may convene in Executive Session to receive legal advice regarding any item on the agenda or for any reasons permitted under Oregon law.
Oregon State Board of Higher Education

April 4, 2007
Oregon Health & Science University
Portland, Oregon

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Consent Item
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Human Resource Planning Process for the Finance Function

**Background:**
The Oregon University System has undergone tremendous change over the last 10 years, moving toward a more decentralized operating environment and moving transaction processing and approval from the Chancellor's Office to the campuses. The implementation of the Banner Finance System also moved OUS from having one central finance system that was controlled by the Chancellor’s Office to eight separate finance systems operated by the institutions, with certain baseline structures to ensure consistent reporting. In addition, the development and implementation of the Resource Allocation Model, where the tuition earned is retained by each institution, moved each institution toward a more self-sustaining model. Consequently, with each institution being more on their own to generate sufficient revenues for operation and to manage and control expenditures, and responsible for more of the day-to-day transaction processing, the financial risks for each institution have multiplied. All of these things together serve to change the risk profile surrounding the financial management of OUS and point out the need for a continued evaluation of the System’s financial infrastructure.

For the last several years, our auditors have stressed the importance of ensuring that appropriate financial infrastructure is considered. In their communication to the Board relating to the audit of the 2006-07 financial statements, our auditors noted that a strong internal control environment requires adequate staffing levels at the Chancellor’s Office and at the universities. It also requires appropriately educated and experienced finance personnel, with ongoing training and mentoring. With that in mind, they made the following recommendation:

“We recommend the State Board of Higher Education and the System remain cognizant of appropriate financial operational infrastructure. A strong internal control environment is one of the cornerstones to all great organizations and will help the Board manage the System and its institutions efficiently and effectively. We acknowledge the System’s progress in this area and commend their review of the financial operational infrastructure during their human resource planning process.”

In addition, the OUS Board has been working over the last several years to amplify and clarify the statutory role of the Chancellor as the Chief Executive Officer of OUS. As such, ensuring that the organizational structure of OUS is consistent and complementary with this objective is a key step in furthering this goal. It is with this as a backdrop that the Oregon University System has undertaken this Human Resource Planning process.
Objectives:
The Human Resource Planning (HRP) process is intended to become an ongoing process to build and maintain a “best in class” finance function within OUS. The attributes of a strong finance function are:

- Financial performance – achievement of OUS financial goals, financial performance above peer benchmarks and cost-effective finance functions
- Functional excellence/capability – core functions and specialist functions (treasury, tax, risk management, business recovery, internal audit) are strong at the institutions and Chancellor’s Office, and both core and specialist functions are focusing on mastering their related fundamentals, are credible and connected to the business, and are carried out in a professional and ethical manner
- Quality individuals in key finance positions – experienced leaders in the key finance positions set the tone, with the right mix of “pros” and “developing leaders,” taking action to help ensure the diversity (gender/race/nationality) of the group and that staff stay motivated, loyal, passionate, and committed
- Effective and efficient systems and processes – continual improvement is made and measured in the cost-effectiveness of the key business systems and processes within OUS
- Positive work environment – taking action to ensure appropriate training and professional development opportunities are provided, career paths are more clearly delineated, staff are recognized for their achievement, and that compensation levels and plans are appropriate.

The HRP process will serve to strengthen the internal control structure of OUS by helping to ensure:

- Consistent application of policies
- Stronger adherence to System goals
- Sufficient “bench strength” for key finance positions.

In order to ensure that the objectives of the HRP process are achieved, it is critical that policies and standards are established that set the tone and expectations of the Board. These policies and standards are:

- A standard organization structure throughout the finance function of OUS that incorporates clearly delineated reporting relationships and desired segregation of key finance functions
- Standards for key finance positions within OUS, including basic roles and responsibilities, as well as required education and experience
• A more robust and inclusive recruitment, evaluation, and development process that is reflective of the finance organization structure and includes identification and assessment of bench strength for key finance positions

**Organization Structure:**
Attachment A illustrates the standard organization structure, with desired reporting relationships and segregation of functions. The key attributes of this structure are:

• Vertical integration of the finance function from each institution to the System’s Chief Financial Officer
• Separation of the control and financial planning functions

**Vertical Integrated Finance Function**
The organization structure illustrated in Attachment A shows each institution’s control and financial planning functions reporting both to their institution’s Chief Financial Officer and to their counterpart at the System office, the latter being via a dotted-line relationship. The dotted-line reporting is intended to portray primary responsibility to an institution’s business objectives while properly recognizing the responsibility to the System established policies and goals. Functionally, this dotted line relationship will occur via the hiring process, the evaluation process, and the continual coordination of policy setting and implementation of new processes and procedures. Additionally, these dotted line relationships provide an avenue for an institution to broaden the discussion within their institution to include counterparts at the Chancellor’s Office when working through challenging financial issues. Broadening the discussion in such cases helps ensure consistency and compliance.

**Separation of the Control and Financial Planning Functions**
The organization structure illustrated in Attachment A separates the control and financial planning functions at each institution and the Chancellor’s Office. This separation serves to more clearly focus the roles that each party fills, allowing a narrower set of fundamentals that must be mastered and fostering a productive tension between these two different functions that can help produce an environment of “controlled” innovation/change. While on their face these two functions are not necessarily incompatible from an internal control perspective, it is recognized that the performance measures that may be employed to drive and evaluate performance may create undesired incentives that can weaken internal controls if the functions were combined.

**Standards for the Key Finance Positions within OUS:**
Attachment B delineates a set of roles and responsibilities and required education and experience for the key finance positions within OUS. This document is initially limited to the key finance positions within OUS, with possible future expansion to include other positions within each campus. With regard to the roles and responsibilities listed, the intent was not to be all inclusive; rather, the roles and responsibilities listed are the key responsibilities necessary to help ensure a sound internal control structure. This matrix
has been reviewed and discussed by the Administrative Council (the Vice Presidents for Finance and Administration from each institution and the Vice Chancellor for Finance and Administration).

All position descriptions for the key finance positions (CFO, Control, and Financial Planning) will need to be updated to reflect these standards. In addition, a review of the résumés/vitae of the incumbents in these positions to determine areas for focused training will be undertaken.

Recruitment, Development, and Evaluation Process:
A key to ensuring a high quality finance function is a human resource management process that hires the right people, provides development opportunities and identified career paths, including identification of bench strength for the key finance positions, and evaluates performance against clear performance goals and specific development plans. Recognizing the goal of a more vertically integrated finance function, the recruitment, development, and evaluation process for key finance functions within OUS will include both campus and Chancellor’s Office representatives, based primarily on the reporting structure delineated in Attachment A. Recruitment, development, and evaluation of key Chancellor’s Office personnel may include, at the Board’s discretion, a member(s) of the Board’s Finance and Administration Committee.

Conclusions:
Implementation of this plan will make certain implied relationships express and codify protocols that are currently informal. It will also bring new requirements to the key finance positions within OUS. Implementation of a robust HRP will require additional allocation of resources to the administrative functions within each institution and the Chancellor’s Office.

Future Steps:
- Board approval of HRP policies (May)
- Status report on implementation and any additional policy issues to be addressed (June/July)
Attachment A

Building Functional Excellence Across OUS Finance

Box delineates initial stage
### Attachment B

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<tr>
<th>Position Title</th>
<th>Roles/Responsibilities</th>
<th>Required Education/ Credentials</th>
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| Vice President for Finance and Administration - and - Vice Chancellor for Finance and Administration | • Establish and maintain internal control as defined and delineated by the COSO integrated framework  
• Ensure financial statements accurately reflect the university’s/System’s financial position in accordance with Generally Accepted Accounting Principles (GAAP)  
• Ensure the overall financial health of the university/System  
• Develop comprehensive annual and long-range fiscal plans, including operations, facilities development, physical plant design, construction and renovation to support the long-range plan of the university/System  
• Develop operating and capital budget monitoring process to help ensure achievement of the institution’s/System’s long range plan  
• Report any significant fiscal challenges within operating units of the institution/System to the Chancellor’s Office/Board’s Finance and Administration Committee, along with the institution’s corrective action plan  
• Develop, implement, and maintain appropriate administrative computing systems and ensure data integrity and security | • Master’s degree in finance, accounting, business administration, public administration, or related field (Professional licensure with experience may be substituted) | • Earned doctorate in finance, accounting, business administration, public administration, or related field  
• CPA or CMA | • 10+ years of progressively responsible administrative management experience with 7+ years senior financial management experience  
• Proven record as an effective leader | • Significant higher education or administrative management experience, including positions at large, complex organizations | • Effective management and interpersonal skills  
• Excellent oral and written communication skills  
• Knowledge of GAAP for higher education  
• Knowledge of internal control principles (COSO)  
• Knowledge of finance, business law, auditing, IT, capital construction, budgeting and human resources  
• Ability to communicate complex issues in a manner understandable to a broad range of constituents  
• Demonstrated commitment to ethical management and diversity |
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<th>Position Title</th>
<th>Roles/Responsibilities</th>
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<th>Preferred Education/ Credentials</th>
<th>Required Experience</th>
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<th>Required Skills/Knowledge</th>
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</table>
| Associate/Assistant Vice President For Finance and Administration / Controller | • Establish and maintain internal control as defined and delineated by the COSO integrated framework  
• Ensure financial statements accurately reflect the university’s financial position in accordance | Bachelor’s degree in finance, accounting, business administration, or related field | CPA  
• Master’s Degree in Finance, accounting, business administration, or public administration | 7+ years of progressively responsible administrative management experience with 3+ years senior financial | Higher education or administrative management experience, including positions at large, complex organizations | Thorough knowledge of internal control principles (COSO)  
• Thorough knowledge of GAAP for public higher education institutions  
• Excellent oral and... |
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<th>Position Title</th>
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<th>Required Skills/Knowledge</th>
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</table>
| Director of Business Affairs / Chief Business Officer / Controller | • Establish and maintain internal control as defined and delineated by the COSO integrated framework  
• Ensure financial statements accurately reflect the university’s financial position in accordance with GAAP and OUS Policy  
• Ensure the overall financial health of the university  
• Report any significant fiscal challenges within operating units of the institution to the Vice President for Finance and Administration | • Bachelor’s degree in finance, accounting, business administration, or related field | • CPA  
• Master’s degree in finance, accounting, business administration, public administration, or related field | • 5+ years progressive experience in business/financial services, including accounting and financial reporting  
• Developing, implementing, and maintaining internal controls and related policies and procedures  
• Grant and contract management  
• Generating timely and accurate financial reports | • Higher education or administrative management experience, including positions at large, complex organizations | • Thorough knowledge of internal control principles (COSO)  
• Thorough knowledge of GAAP for public higher education institutions  
• Excellent oral and written communication and interpersonal skills  
• Developing and administering fiscal plans, financial systems, and policies and procedures. |
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<td>Administration and Associate Vice Chancellor for Finance and Administration and Controller</td>
<td>• Ensure compliance with state and federal laws, rules, and regulations, as well as Board, System, and institution fiscal, human resource, and information technology policies • Develop and maintain institution fiscal policies • Establish and maintain fiscal systems, including: o cashiering o billing o procurement o accounts payable o fixed assets o general accounting o contracting o payroll o collections o grant and contracts o auditing • Annually certify management representations made to external auditors</td>
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<td>• Ability to lead and motivate staff and manage personnel matters • Demonstrated commitment to ethical management and diversity</td>
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<td>Associate / Assistant Director of Business Affairs or Associate / Assistant Chief Business Officer</td>
<td>• Establish and maintain internal control as defined and delineated by the COSO integrated framework • Ensure financial statements accurately reflect the university’s financial position in accordance with GAAP and OUS Policy • Ensure the overall financial health</td>
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| Associate Vice Chancellor for Finance and Administration and Controller | - Establish and maintain internal control as defined and delineated by the COSO integrated framework  
- Develop and maintain System fiscal policies  
- Ensure the financial statements accurately reflect the System’s financial position in accordance with GAAP  
- Ensure the overall financial health of each university within OUS  
- Develop and maintain fiscal monitoring processes  
- Report any significant fiscal challenges within operating units of OUS to the Vice Chancellor for Finance and Administration, the Chancellor, and the Board’s Finance and Administration Committee.  
- Develop, implement, and maintain appropriate administrative processes | Bachelor’s degree in finance, accounting, business administration, or related field  
CPA | Master’s degree in finance, accounting, business administration, or public administration | 7+ years of progressively responsible administrative management experience with 3+ years senior financial management experience  
Proven record as an effective leader | Higher education or administrative management experience, including positions at large, complex organizations | Effective management and interpersonal skills  
Excellent oral and written communication skills  
Extensive knowledge of GAAP for higher education  
Extensive knowledge of internal control principles (COSO)  
Knowledge of finance, business law, auditing, IT, capital construction, budgeting and human resources  
Ability to communicate complex issues in a manner understandable to a broad range of constituents  
Demonstrated commitment to ethical leadership and integrity |
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<tr>
<td>Director of Accounting and Reporting</td>
<td>Establish and maintain internal control as defined and delineated by the COSO integrated framework. Ensure financial statements accurately reflect the System’s financial position in accordance with GAAP, including developing fiscal monitoring processes to help ensure the compliance with accounting principles and policies and the continued fiscal health of each institution. Report any significant fiscal challenges within operating units of OUS to the Associate Vice Chancellor for Finance and Administration and Controller and Vice Chancellor for Finance and Administration. Develop, implement, and maintain appropriate administrative computing systems and ensure data integrity and security. Ensure compliance with state and federal laws, rules, and regulations as well as Board and OUS fiscal, human resource, and information technology policies. Annually certify management representations made to external auditors.</td>
<td>Bachelor’s degree in finance, accounting, business administration, or related field. CPA. CPA.</td>
<td>Master’s degree in finance, accounting, business administration, or related field. CPA. CPA.</td>
<td>5+ years of progressively responsible administrative management experience with 3+ years senior financial management experience. Proven record as an effective leader.</td>
<td>Higher education or administrative management experience, including positions at large, complex organizations.</td>
<td>Effective management and interpersonal skills. Excellent oral and written communication skills. Extensive knowledge of GAAP for higher education. Extensive knowledge of internal control principles (COSO). Knowledge of finance, business law, auditing, IT, capital construction, budgeting and human resources. Ability to communicate complex issues in a manner understandable to a broad range of constituents. Demonstrated commitment to ethical management.</td>
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| Budget Director    | • Establish and maintain internal control as defined and delineated by the COSO integrated framework | • Bachelor’s degree in finance, accounting, business administration, or related field | • Master’s degree in finance, accounting, business administration, public administration, or related field | • 5+ years progressive experience in accounting and budgeting operations | • Higher education or administrative management experience, including positions at large, complex organizations | • Knowledge of GAAP for Higher Education  
• Knowledge of financial analysis and research procedures  
• Ability to:  
  o design, analyze and use databases and spreadsheets for financial analysis  
  o prepare, interpret, review, reconcile, analyze, maintain and retain comprehensive financial statements, technical documents, records, accounts and reports  
  o analyze fiscal reports, spreadsheets, charts, graphs, tables and other materials and draw logical conclusions  
  o develop and present recommendations and solutions to financial problems  
  o prepare clear and concise reports  
  o communicate                                                                 |
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| Assistant Budget Director | • Establish and maintain internal control as defined and delineated by the COSO integrated framework  
• Perform complex financial analyses including:  
  o extracting, interpreting and analyzing internal & external financial and organizational data from a multitude of sources  
  o collecting, compiling, and analyzing data related to students, faculty, staff, facilities, and other institutions of higher education  
  o building, maintaining, and   | • Bachelor’s degree in finance, accounting, business administration, or related field | • Master’s degree in finance, accounting, business administration, or public administration  
• CMA or CPA | • Same experience as financial analyst plus  
• Experience interacting with senior leadership and external constituencies | • Higher education or administrative management experience, including positions at large, complex organizations  
• Experience in policy development | • Knowledge of GAAP for Higher Education  
• Knowledge of financial analysis and research procedures  
• Ability to:  
  o design, analyze, and use databases and spreadsheets for financial analysis  
  o prepare, interpret, review, reconcile, analyze, maintain, and retain comprehensive financial statements, technical documents, |
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|                | enhancing computer models and applications | • Perform director level duties when necessary | | | | | records, accounts, and reports
|                | | | | | | o analyze fiscal reports, spreadsheets, charts, graphs, tables, and other materials and draw logical conclusions
|                | | | | | | o develop and present recommendations and solutions to financial problems
|                | | | | | | o prepare clear and concise reports
|                | | | | | | o communicate complex issues in a manner understandable to a broad range of constituents
|                | | | | | | • Excellent oral and written communication and interpersonal skills
|                | | | | | | • Developing and administering fiscal plans, financial systems, and policies and procedures
|                | | | | | | • Demonstrated commitment to ethical management and diversity

Oregon State Board of Higher Education
F&A Committee
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DISCUSSION ITEMS
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| Assistant Vice Chancellor for Budget Operations | - Establish and maintain internal control as defined and delineated by the COSO integrated framework  
- Develop the Systemwide operating budgets for the university System including education and general fund limited, other funds limited, and other funds non-limited  
- Ensure compliance with budget notes, and DAS and Board policies  
- Provide analytical support for various budget and cost feasibility studies  
- Monitor and report on financial performance of System and campuses versus budget and legislative limitation. | Bachelor’s degree in finance, accounting, business administration, or related field | Master’s degree in finance, accounting, business administration, public administration, or related field | 5+ years progressive experience in accounting and budgeting operations  
- Experience as Board staff  
- Experience representing institution to external constituents such as state government  
- Experience generating timely and accurate financial information and reports  
- Enterprise computing systems  
- Ability to research and formalize accounting treatment of significant transactions  
- Experience in policy development | Higher education or administrative management experience, including positions at large, complex organizations  
- Previous campus leadership experience | - Knowledge of GAAP for Higher Education  
- Knowledge of financial analysis and research procedures  
- Ability to:  
  - design, analyze, and use databases and spreadsheets for financial analysis  
  - prepare, interpret, review, reconcile, analyze, maintain, and retain comprehensive financial statements, technical documents, records, accounts, and reports  
  - analyze fiscal reports, spreadsheets, charts, graphs, tables, and other materials and draw logical conclusions  
  - develop and present recommendations and solutions to financial problems  
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New Debt Management Approach

In order to improve the management of the System’s Article XI-F(1) debt, we plan to begin managing this debt on a portfolio basis, rather than on a transactional or project-specific basis. The System will take on an appropriate amount of variable rate debt to lower its overall cost of capital. In addition, we plan to begin utilizing a commercial paper program to provide interim financing for capital construction projects. The benefits of these changes are:

- Minimizing the cost of capital
- Managing volatility in interest rates
- Providing greater flexibility and clearer planning horizons
- Maximizing allowable arbitrage earnings
- Simplifying the administration of the debt portfolio

Conceptual Framework:
Currently, the System finances capital construction of its self-supporting and self-liquidating facilities exclusively with long-term fixed rate debt. Typically, the System issues long-term debt once or sometimes twice per year. This is done to spread the cost of such issuance over a larger pool of debt. Debt is issued in anticipation of campus needs and the proceeds, along with the obligation to make the debt service payments related to a particular debt issuance, are allocated to particular projects at a particular campus. The System simply acts as a conduit for the campuses to the capital markets. In addition, up until this point in the history of the System, no interim financing vehicles were available to fund construction costs in advance of long-term debt issuance or during construction, and the System did not have authority to issue variable rate debt or interest rate swaps. The current structure has the following disadvantages:

- Each campus takes market interest rate risk with each project financing, being captive to the interest rate at the time of debt issuance (with possible future reduction if the interest rate market allows for a refunding of the original debt)
- Issuance of long-term debt before a project has been started and/or in amounts that are not needed immediately to fund construction costs exposes the System to unnecessary interest costs and higher project costs
- Direct linkage of the debt service payments on a particular allocation of bond proceeds to the campus:
  - eliminates the ability to take advantage of the lower costs of variable rate debt as the volatility risk of variable rate debt would not be spread over a sufficient base
  - creates a significant accounting and processing burden to manage these distinct allocations (see diagram below)
• Not having an interim financing vehicle available has created unnecessary project timing constraints due to the timing of long-term debt issuance.

Below is an illustration of the current debt repayment related to the 70 discrete allocations of bond proceeds to the corresponding universities for the four most recent issuances of F-Bonds.

**Current Operating System of Recent Series F-Bonds:**

With the passage of House Bill (HB) 2199 during the 2007 legislative session, OUS now has the ability to issue variable rate debt, thus permitting a blended portfolio approach with variable and fixed rate debt. Also permitted under HB 2199 is the ability for OUS to enter into short-term financing vehicles and interest rate swap agreements. With these new authorities, the System plans to implement a commercial paper (CP) program to provide interim financing for construction projects and to begin pooling and managing its Article XI(F)1 debt as a portfolio. Under this approach, utilizing low cost CP, campuses would be able to begin their capital projects on a time schedule that is uninhibited by the timing of long-term debt issuances. The System would time and structure the underlying long-term debt issuance to provide for the lowest cost of capital, utilizing a mix of fixed and floating rate debt. The System would provide the funds to repay the CP and/or fund the remainder of the construction costs to the campus via a loan from the System to the campus at a cost of capital that is established based on the interest costs of the entire portfolio of debt—a blended cost of capital. This will effectively de-link the debt payments by the campuses to the System from the debt service payments from the System to the bond-holders. As this approach is implemented, the System will act less like a pass-through vehicle for the universities to the capital markets. Instead, the System will act more like an active financing vehicle strategically managing the debt portfolio via continuous management of the entire debt portfolio and setting an equitable blended rate to all universities.
This new approach to the management of long-term Article XI-F(1) debt will have the following advantages:

**Minimizing the Cost of Capital**
The System will minimize its cost of capital by utilizing a commercial paper program for interim financing to lower interest costs during construction and minimize the portion of taxable debt and maintaining a portion of the System’s outstanding debt on a floating rate basis.

The System will manage its debt portfolio to minimize its taxable component. Unlike tax-exempt debt, taxable debt will not be considered a perpetual component of the System’s liabilities. Taxable debt will be utilized to fund projects ineligible for tax-exempt financing or for those projects for which the System wants to preserve maximum operating flexibility.

Due to the financing flexibility and typically low interest cost associated with variable rate debt, it is desirable to maintain a portion of the System’s aggregate debt on a floating rate basis. However, variable rate debt also introduces volatility to the System’s debt service obligations. Therefore, the System will balance the mix of variable and fixed rate debt according to a target guideline that will be established based on the System’s ability to hedge such exposure either through interest earned on its operating cash balances, through reserves maintained for that purpose, or some combination thereof. The actual percentage of variable rate debt outstanding will fluctuate from time-to-time due in part to financing needs, utilization of the CP program, and prevailing market interest rates.

The use of interest rate swaps will be employed primarily to manage the System’s variable rate exposure. The System will utilize a framework to evaluate potential interest rate swaps through the evaluation of its variable rate allocation, market and interest rate conditions, the compensation for undertaking counterparty exposure, and their costs and benefits. Under no circumstances will an interest rate swap be utilized that is not fully understood by the System or that imposes inappropriate risk on the System. The OUS’ swap activity will follow the parameters outlined in the State of Oregon’s swap policy, which is incorporated by reference in the System’s debt policy.

**Managing Volatility**
The System will manage interest rate volatility by establishing a standard “blended cost of capital” charged to the campuses that is sufficient to cover debt interest costs, fund the administrative costs of debt management, and build a reserve to hedge variable rate movement.

**Providing Greater Flexibility and Clearer Planning Horizons**
The System will provide greater flexibility and clearer planning horizons to the campuses by de-linking the actual debt service payments on outstanding debt from the campus projects that the debt funded. Utilizing internal loans from the System to fund their capital projects, campuses can:
• better predict their debt service costs at the beginning of a project
• take out debt on terms more tailored to their specific project
• repay debt early
• focus their concern on managing the project and less on the financing

By establishing a blended cost of capital, campuses can worry less about the interest rate markets and the timing of bond issuances, focusing instead on the project itself.

Maximizing Allowable Arbitrage Earnings
The System will maximize allowable arbitrage earnings by more strategically entering the capital markets and by more strategic management of debt sinking funds to help avoid arbitrage rebate.

Simplifying the Administration of the Debt Portfolio
The System currently maintains separate accounts within its sinking funds for each bond allocation within each debt-paying entity for each institution. Implementation of a pooled debt management approach will allow the elimination of these separate accounts and streamline the flow of funds and the accounting for those transactions.

The following diagram illustrates the simplification of the debt repayment process that this approach affords.

Central Bank Blended Cost and Pooled Funding Approach:

Estimated Cost Savings:
A recent study performed by PFM, the System’s financial advisors, shows that, with a 30 percent variable rate debt exposure, the System could achieve average annual debt service savings of approximately $1.7 million (based on the actual debt issued and the interest rate environment over the past three years). Currently, OUS does not retain the investment earnings on its operating cash balances, which prevents the traditional approach of utilizing this natural hedge against variable rate debt volatility. The System
plans to ask the 2009 Legislature for the authority to retain the interest on its operating cash balances. The inability to retain interest on the operating cash balance does not change the underlying fundamentals - that exposure to the variable rate debt market will lower the overall cost of capital. It does, however, change the manner in which the System will hedge such exposure and the planning horizon within which a large variable rate exposure can be undertaken.

**Conclusion:**
OUS has been given new tools by the Legislature with which to manage its Article XI-F(1) debt. The ability to utilize interim financing, issue variable rate debt, and enter into interest rate swap agreements provides the System the flexibility to reengineer its debt management process and improve its financial performance by:

- **Minimizing the cost of capital**
- **Managing volatility**
- **Providing greater flexibility and clearer planning horizons**
- **Maximizing allowable arbitrage**
- **Simplifying the administration of the debt portfolio**

Over the next several months, we will move toward implementation of these new strategies through work sessions with the State Treasurer’s office, the Department of Administrative Services, the Legislative Fiscal Office, and campus administrators. Over those months, we will bring proposed changes to existing policy and new policy constructs that will provide the framework for this structure to the Board for discussion and implementation.

**Next Steps:**

- **April** – Meeting(s) with the State Treasurer’s office, the Department of Administrative Services, and the Legislative Fiscal Office to ensure the ultimate viability of the program
- **April/May** – Meeting(s) with campus administrative leaders to develop a detailed implementation plan, including identification of needed new policies and/or changes in existing policies. Examples include:
  - Governance and administration
  - Setting of blended cost of capital
  - Type and level of reserves needed
  - Level of variable rate debt exposure
- **May/June** – Implementation plan discussion and first read of policy changes with Finance and Administration Committee
- **June/July** – Policy approval by Finance and Administration Committee
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OSU, Graduate Certificate in Water Conflict Management and Transformation

1. Describe the purpose and relationship of the proposed program to the institution’s mission and strategic plan.

This certificate program contributes to the goals of the Oregon State University’s (OSU) strategic plan and integrates OSU’s mission of teaching, research, and outreach in four of its five multidisciplinary thematic areas: (1) advancing the arts and sciences as the foundation for scientific discovery, social and cultural enhancement, and progress in the applied professions by delivering strong research and curricular activities that are strengthened by interdisciplinary connections with professional programs; (2) increasing the understanding of the origin, dynamics, and sustainability of the Earth and its resources by linking social, ecological, economic, and political systems as they apply to water resources; (3) optimizing enterprise, innovation, and economic development by helping to develop a network of professionals capable of the success of emerging and growing organizations across natural resource and technology sectors; and (4) helping in managing natural resources that contribute to Oregon’s quality of life and growing and sustaining natural resources-based industries by providing tools and skills to prevent or resolve conflict over water and move towards collaborative and less confrontational approaches that build community – an essential component to the existence of natural resources important to the state’s economy.

2. What evidence of need does the institution have for the program?

OSU has been tasked with the training component for the United Nations Educational, Scientific, and Cultural Organization (UNESCO) – a lead water cooperation facility. UNESCO, through its recent five-year program Potential Conflict to Cooperation Potential, identified key needs to alleviate the conflict potential over shared waters and found the lack of training in conflict management among stakeholders and water managers to be of paramount importance. Of the universities involved, OSU has the strongest core faculty and experience in these issues and is thus poised to take the lead in this international initiative.

Even without a formal program, OSU faculty have already led training efforts in water conflict management throughout the U.S. and the world, including for the US Bureau of Reclamation, the US Army Corps of Engineers, the North Atlantic Treaty Organization, the US Agency for International Development, the Water Ministry of Mexico, UNESCO, and the World Bank. OSU faculty have been asked by the World Bank to design a course in international water conflict management based on their bi-annual course for water ministers, to meet what they see as a growing demand for the field at the professional and graduate student levels throughout the world.

More locally, over 90 local watershed councils formed over the past decade as a result of the water/watershed governance vision of Oregon Plan for Salmon and Watersheds. These water councils create a place for local stakeholders and
agencies to come together to assess and holistically address salmon and watershed restoration.

The scientific community at OSU is constantly bombarded by requests for technical input and engineering assistance. Many of OSU’s best graduates are now leading the technical staffing of these councils. Having students facile with the combination of technical skills, as well as organizational and community skills, will serve communities and the state well.

3. **Are there similar programs in the state? If so, how does the proposed program supplement, complement, or collaborate with those programs?**

OSU will be unique in offering the only Water Conflict Management and Transformation graduate certificate program in the Pacific Northwest.

4. **What new resources will be needed initially and on a recurring basis to implement the program? How will the institution provide these resources? What efficiencies or revenue enhancements are achieved with this program, including consolidation or elimination of programs over time, if any?**

The College of Science is committed to establishing the graduate certificate program in Water Conflict Management and Transformation by providing recurring funds over the next two years for a .25 FTE program coordinator ($16,103) and .50 FTE flat rate contractor ($9,000), and supplies ($6,000). The “contractor” would be an adjunct faculty or visiting scholar invited to teach at OSU. OSU has a large faculty in water resources and is able to offer this certificate program with no additional faculty hires. Classes will be taught as part of the instructors’ normal load.

OSU’s Extended Campus (E-campus) will return tuition revenue for enrollments in the online courses in accordance with the established E-campus revenue-share model. Beyond money generated through the development of E-courses, both private and Federal agenda funds are being sought to help sustain the program. College funding will be renewable depending on the program’s progress and anticipated program funds generated through E-campus course offerings.

All appropriate University committees and the OUS Provosts’ Council have positively reviewed the proposed program.

**Recommendation to the Board:**

The OUS Provosts’ Council recommends that the Board authorize Oregon State University to establish an instructional program leading to a Graduate Certificate in Water Conflict Management and Transformation, effective Spring 2008.

*(Board action required.)*