STATE BOARD OF HIGHER EDUCATION
EXECUTIVE COMMITTEE
BROWSING LOUNGE, ROOM 238, SMITH MEMORIAL CENTER
PORTLAND STATE UNIVERSITY
MARCH 15, 2002
10:00 A.M.-12:00 P.M.

AGENDA

Call to Order

Roll Call

Approval of Minutes
› January 18, 2002, Executive Committee meeting 1

Action Item
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› Acceptance of Report of Audit of OSU Shortfall 13
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Adjournment
Summary

Portland State University (PSU) seeks Board approval to authorize the Vice Chancellor of Finance and Administration to complete the proposed purchase of two parcels of land with office facilities and associated parking, located at 621 SW Jackson Street and 1975 SW Sixth Avenue in Portland, Oregon, from Mr. Beau Bradley, for a maximum of $625,000 plus closing costs for both parcels. Board approval is being sought to purchase the facilities using Article XI-F(1) bonds.

Staff Report to the Executive Committee

Background:
Enrollment at PSU continues to grow to historic high levels, with classroom space, offices, and parking in short supply. The Bradley properties represent an opportunity to purchase pre-existing facilities, with associated parking within the University District of downtown Portland, at a very affordable price. (See Exhibit 1 for location)

Purchase of the properties would provide PSU with an additional 4,000 square feet of laboratory and office space with parking for 12 vehicles.

The first parcel (621 SW Jackson Street) is a 3,400 square foot lot that contains a 2,000 square foot, two-story house that has been converted into an office facility with parking for four vehicles at the back of the lot.

The second parcel (1975 SW Sixth Avenue) is a 5,000 square foot lot with a 2,000 square foot office facility that currently houses the Sonotrol Company offices and has parking for eight vehicles.

The buildings are currently leased to multiple tenants. PSU will continue to lease the facilities to the existing tenants for up to one year, at which time the facilities will be converted to PSU laboratory, office, and parking use.

Statement of Need:
Enrollment continues to grow to historic high levels, creating a shortage of classroom space, office space, and parking. The fall 2001-02 term enrolled more than 21,000 students, the highest in PSU’s 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 March 22, 2002.

Financial Considerations:
The negotiated price for the properties reflects a reduction of $40,000 to expedite the closing in order for the owner to obtain a 1031 exchange with associated tax advantages. 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.

The funding for the purchase will consist of 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 because the single year of private use will be averaged over the 30-year term of the bonds.

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- Mr. Beau Bradley:
• Acceptance of a negotiated purchase price; up to a maximum of $625,00 plus closing costs, or the average appraised market value if less.
Staff Recommendation to the Executive Committee:

Staff recommends that the Executive Committee approve on behalf of the Board PSU’s request to purchase two properties, located at 612 SW Jackson Street and 1975 SW Sixth Street in Portland, Oregon, from Mr. Beau Bradley, for a maximum of $625,000 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.

COMMITTEE ACTION:

BOARD ACTION:

REPORT OF AUDIT OF OSU SHORTFALL

Summary:

The following are highlights of the Talbot, Korvola, and Warwick (TKW) audit findings. A comprehensive analysis by TKW is provided to Board members in the mail-out.

- Confirmed that the budget shortfall was $6,780,000

- Components of the OUS reported shortfall of $19,180,000:
  - $5,940,000 represents calculation errors
  - $6,460,000 are desired—not committed—expenses
  - $6,780,000 projected shortfall
    (as discussed at the February Board meeting)

- Four factors contributed to the shortfall:
  1. mathematical errors;
  2. commitments not matched with resources;
  3. significant delay in budget preparation process; and,
  4. inadequate communication in budget development process.
TKW Recommendations to Improve Financial Oversight:

Budget Calculations
We recommend OSU institute a comprehensive review by the Vice President of Finance and Administration, or his designee, of assumptions and calculations made for preliminary budgets prepared by budget analysts in the Office of Budget and Institutional Research.

Resource Determinations
We recommend OSU include beginning fund balance, including reserves, as a resource during the preparation of the annual operating budget to assure an accurate understanding of the University’s financial position is known.

Resource Monitoring
We recommend OSU monitor resources that are earmarked to fund University commitments to ensure that adequate resources are available for any commitments made.

Timeliness
We recommend OSU ensure that projected revenue and expenditures are timely updated in the budget process as new information becomes available.

OSU administration concurs with the recommendations.

TKW further supports solutions by OSU, including:

- Enhance financial reporting / analysis.
- Establish a network of internal financial users to review financial data and make strategic financial decisions.
- Improve communications between University administration, units, and others.
- Strengthen review and follow-up by the Vice President for Finance and Administration if expenditures are not as planned.
- Enhance economic / budget modeling.
- Provide monthly financial planned vs. actual reports to Presidents’ Cabinet and Deans.
- Prepare quarterly financial reports for external parties.
Staff Recommendation to the Executive Committee:

Staff recommends that the Executive Committee approve on behalf of the Board the TKW Performance Audit of the OSU budget process and redesign plan. Board approval assumes implementation of all TKW recommendations and OSU solutions. OUS will review, within one year, the implementation of recommendations and report the status to the Board.

COMMITTEE ACTION:

BOARD ACTION:

UNIVERSITY OF OREGON TUITION PILOT: CAPACITY MANAGEMENT

Summary:

Proposal to Shift to Per Credit Hour Tuition with Enrollment Incentives and Time of Day Discounts

The University of Oregon is facing a dual challenge in ensuring student access, due to increasing enrollment and decreasing state support. The first challenge is "How can we accommodate, within the existing campus facilities, the increasing numbers of students who seek a University of Oregon Education?" The second is "How can we, at the same time, respond to the needs of our students to maintain affordable tuition in the face of reductions in state support?"

In an attempt to respond to these challenges, we are designing a new access-based tuition model. In designing this model, we are using the principles outlined below, which address both the problems of access caused by the physical limitations of our facilities and of the increasing cost of education.

1. Spread classes, and hence students, more evenly throughout the day, and in some cases into the evening and weekends, thus allowing UO to accommodate the increasing enrollment.

2. Spread tuition more equitably over all students.

3. Provide lower cost tuition alternatives, thus enhancing access.
4. Provide more choices for students, in terms of cost, time of day, and numbers of available courses.

These principles were developed in recognition of the factors described below, which affect access for UO students.

1. Significant new state funding will not be available to expand current classroom facilities to allow for increasing student enrollments in peak demand times. Without an increase in the number of classes, overcrowding and decreased quality of the student experience will occur and we will likely be forced to limit enrollment of otherwise qualified students. Therefore, UO must optimize the use of classroom space throughout the day, and in some classes into the evenings and weekends.

2. Tuition will be an increasingly important source of revenue to the university given the reality of limited state funding. As a percentage of the University's overall expenditures, state funds now compromise only 18% of the University of Oregon budget and this percentage will decrease with the implementation of state budget cuts.

3. University of Oregon still has classroom capacity in the late afternoon and early evening, as well as on weekends. More students can be accommodated without added building costs if sufficient demand can be shifted to these times when classrooms are available.

4. Availability of classes later in the day would make University of Oregon programs more available to students who work during the day.

5. Lower cost tuition alternatives would increase access to higher education for those students for whom the primary barrier is cost. In addition, the current tuition structure is such that part time students are effectively subsidizing full time students.

We expect the new access-based tuition model will have the characteristics described below.

1. The "plateau" - currently from 12 to 18 credit hours - will be narrowed to, perhaps, 14 to 16 credit hours. All other credits, as is the case now for credits outside the plateau, will be charged on a per credit hour basis or some fraction thereof. The reason for maintaining a plateau is to provide an incentive for students to
take 15 or 16 credits which is the average number needed to graduate in a timely fashion. The per credit hour cost can be lower than under the current plateau model and still generate the same overall tuition revenue, due to the narrower plateau.

2. Undergraduate courses offered at times when UO currently has unused, available classrooms (typically late afternoons) may be offered at a lower rate. Classes offered at these times do not lead to significantly increased costs of building maintenance and operation, or of administrative costs, and allow us to minimize the need for new classroom construction. As long as we are optimally utilizing our classrooms during all hours, we can consider offering late afternoon classes at a lower rate. We may also consider offering a lower rate for classes at other times during the day that have significant capacity for increased enrollment.

With this new model, students would have an expanded choice of courses, more courses would be offered in the later afternoon and early evening, and students would have new options to reduce the cost of tuition. We believe with this model, we will be able to serve the increasing numbers of students seeking a UO education, and at the same time address the issue of the cost of that education for those students who wish to take advantage of the lower cost for some courses. For any given average tuition level, students taking fewer than 13 credit hours would have a decrease in tuition compared to the current plateau model, while those taking more than 13 would have a higher tuition. However, all students would be able to further reduce their tuition by taking on or more of the courses offered at a reduced rate.

Staff Recommendation to the Executive Committee:

Provost Moseley recommends the Executive Committee approve, on behalf of the Board, the University of Oregon proposal to shift to per credit hour tuition with enrollment incentives and time of day discounts as follows: The current plateau will be narrowed to 14-16 credit hours. All other credits will be charged on a per credit hour basis or some fraction thereof. Some undergraduate courses offered at times the University has unused available classrooms may be offered at a lower rate at the University's discretion.
COMMITTEE ACTION:

BOARD ACTION:

**Summary:**

Oregon State University (OSU) requests an exception to OAR 580-50-0025 regarding the naming of buildings after a living person. The OAR provides that an exception may be made if "the donor contributes a substantial share of the cost of construction or if other unusually meritorious reasons exist."

**Staff Report to the Board:**

Officials at OSU have forwarded to the Chancellor's Office a request to name their new indoor practice facility at OSU for Merrit Truax. If approved, the new name would be the "Merritt Truax Indoor Practice Facility."

The Truax family has long been associated with the University and is one of the leading business families in the state of Oregon. Mr. Truax graduated from Oregon Agricultural College in 1934, and was an active member of Chi Phi fraternity, serving as its president.

Due to his generous pledge and contribution of $2 million, OSU has recommended the naming of the facility in his honor.

**Staff Recommendation to the Executive Committee:**

Staff recommends that the Executive Committee approve on behalf of the Board that a new indoor practice facility be named the "Merritt Truax Indoor Practice Facility" in honor of Merritt Truax, a strong supporter of the University.

COMMITTEE ACTION:

BOARD ACTION:
The Oregon University System Technology Plan, 2001-2003, has been prepared pursuant to the Budget Note attached to Senate Bill 5524 (authorization of the 2001-2003 Department of Higher Education operating budget) which states:

"The Subcommittee approves the operating budget of the Department of Higher Education with the understanding that the Department of Administrative Services will unschedule $3.9 million of the General Fund appropriation for Education and General services. The Department of Administrative Services will not reschedule these funds until the Department of Higher Education reports to the Joint Legislative Committee on Information Management and Technology on an updated Technology Plan for the Oregon University System (OUS). This Plan shall be consolidated for all OUS campuses, and shall include strategies for the efficient purchase of information technology assets and for the systemwide management of information technology assets."

Following the 2001 Legislative session, OUS Information Technology directors and Chancellor's Office staff met to discuss questions that arose during legislative hearings on information technology in OUS. In addition, OUS campus and Chancellor's Office staff recognized the need to provide ongoing information to the State Board of Higher Education, the Department of Administrative Services (DAS) and the Legislature related to technology goals and strategies in the context of campus missions, benchmark data on technology indicators, and evidence of effective organization, communication, and management of IT resources. The resulting OUS Technology Plan is aimed at addressing both the requirements of the Budget Note and these planning and management issues. Questions addressed include:

- How will technology support System and campus missions and strategic goals over the next two years?
- How is technology in OUS currently connected to other sectors? What kinds of partnerships might be developed in the future?
- How is OUS addressing such issues as IT security and e-commerce?
- How is IT organized and coordinated within OUS? Why are there both centralized and decentralized features?
How are IT decisions made? Who has decision-making authority and who is advisory?

What checks and balances are built into the System and campus IT decision-making environments?

Why and how do campus IT costs and commitments differ from each other?

How are IT funds spent? How do campuses compare on such measures as IT expenditures per student or IT staff per campus user? What explains the variation among campuses?

Is there a set of common metrics with which to benchmark IT activity?

How will OUS promote efficient IT purchasing for all campuses?

How do OUS campuses manage IT assets? How will OUS manage IT assets Systemwide?

What IT management issues will campuses address over the next year?

Highlights from the OUS Technology Plan:

The role of technology in higher education has expanded dramatically in just the last ten years. Technology is ubiquitous; it plays an important part in every aspect of campus life.

Technology in OUS supports the broad mission of instruction, research, and public service through:

- electronic classrooms;
- support of distributed learning;
- connection to Internet2 for research;
- online catalogs connecting regional, state, and national libraries;
- access to video networks; and
- creation of a broadband intrastate backbone, saving network costs and providing service to public schools, community colleges, and state government partners.

Technology is employed to support the Board's strategic goals of access, quality, employability, and cost effectiveness.
• Examples of IT activities during 2001-2003 include:
  ▶ Web technology (portals, e-commerce, online classrooms, distributed learning)
  ▶ Technologies in support of the statewide wide-area network (OWEN)
  ▶ Further development of Voice over Internet Protocol (VoIP) for distance delivery of courses and programs
  ▶ Development of the Oregon Public Higher Education Information System (ORPHEIS)
  ▶ Addressing IT security issues with comprehensive and coordinated policies and plans
  ▶ Developing e-commerce standards and projects

• OUS technology is viewed as a partnership with a larger community, including public schools, libraries, community colleges, state and local governments, and a national and international research community. In addition, organized efforts are being made to promote connections with private sector IT professionals to share expertise, enhance the base of knowledge available within OUS, and develop an expanded community of IT professionals reflecting both public and private sector concerns.

• OUS' combination of centralized and decentralized IT organization provides both flexibility to the larger campuses in managing resources and efficiency in supporting the administrative computing needs (student, finance, and human resource information systems) of the regional campuses through a centralized "fifth site" support organization.

• There are numerous points of communication and coordination throughout the OUS system, and many examples of collaborative IT projects among campuses.

• IT purchase and development decision structures reflect the complexity and level of decentralization of each campus. These processes are documented in the Technology Plan.

• IT assets are managed using a variety of software applications. More collaborative and coordinated approaches will be developed over the next year or two, particularly as the Department of Administrative Services (DAS) Portfolio Management Committee proceeds with its work. OUS staff will be directly involved with DAS in that effort.
• Mission, size, pedagogical choices, and environmental factors affect the level of IT costs and commitments for each campus.

• Expenditures and staffing per student/faculty/staff reflect the level of each university's commitment to research and broader public service activities, the nature of the curriculum and forms of instruction, as well as efficiencies in resource management.

• OUS faces challenges in accounting for IT expenditures in an environment that is both centralized and decentralized. A framework for presenting IT expenditure data has been developed in consultation with staff of the Legislative Fiscal Office. In addition, a set of IT metrics common to every campus has been developed to provide ongoing benchmarking of IT activity within OUS. Future steps will be taken within the guidelines of the OUS Fiscal Accountability Framework (presented to the Board in February 2002) to develop a more streamlined and consistent financial reporting process.

The full text of the technology plan, with additional documentation, will be mailed separately prior to the Executive Committee meeting. That document should be viewed as a "final draft" of the report that will be presented to the Joint Legislative Committee on Information Management and Technology in April 2002.

(No Board action required)