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Adjournment
Portland State University (PSU) seeks Board approval to authorize the Vice Chancellor of Finance and Administration to complete a proposed ten-year lease extension, which includes future purchase and development options, with the property owner; Urban Housing, LLC. The University expects to save approximately $20,000 per year by extending the lease term.

Background
PSU is leasing from Urban Housing, LLC, a 16,600 square-foot parcel of land, located on SW Broadway Avenue between SW Jackson Street and SW College Avenue in Portland, Oregon. PSU currently is leasing this parcel for a term of five years and would like to extend this lease to a ten-year term, as this will trigger a rent reduction of approximately $20,000 per year. This site abuts the property purchased from Beau Bradley in May 2002 and will be an ideal site for future university development. The only improvement on this parcel is an old Key Bank facility. Most of the site is surface parking. The southerly portion of the parcel was the site of an old fraternity house that has been removed.

The parties have entered into this lease in contemplation of having Urban Housing LLC (the Lessor) build a student housing facility on this site, with first floor retail. In accordance with OUS Board rule 580-50-0015(e) this property was purchased by the Lessor and leased to PSU in an effort to avoid the prior owner’s plans for costly improvements that would materially increase the market value and cost to the Board if acquired later.

Statement of Need
PSU is currently at capacity with regard to student housing. PSU currently owns 919 apartment units and its housing contractor College Housing Northwest has another 600 units to serve a student population estimated to be in excess of 23,000 Fall term 2002. The university currently has 400-500 students on a waiting list for student housing and many more who inquire and find this out only to walk away dissatisfied. Thus, this site, combined with the Bradley site purchased earlier this year, represents an opportunity to develop a three-quarter block site with approximately 300 housing units in a very strategic location within the university district of downtown Portland.
Portland State University’s enrollment continues to grow to historic high levels and student housing is in short supply. It is imperative that PSU acquire facilities in order to accommodate continued growth in student numbers with concurrent demands for student housing. Furthermore, the University is embarking on a strategy to diversify its student body with added non-resident and international students who will demand student housing convenient to the campus. Thus, this site is attractive at this time. In addition, acquisition of this property is consistent with the University-District plan. The block where this parcel is located is a prime redevelopment site within the University district, thus University control will allow PSU to either be in a position to develop this block itself, or influence what is developed on this block.

Conditions of Lease
The original term of the lease is five years. PSU would like to extend the lease to a ten-year term. As mentioned above, extension of the lease will result in a rental savings of approximately $20,000 per year. Rent currently is $17,313 per month, $207,756 per year, plus all expenses incident to the property (taxes, operating costs, etc.). Funding will be provided from unrestricted auxiliary income (parking and rental income) available to the university. During the initial term of the lease, PSU has a two-year option to purchase the property for approximately $2.24 million. If the lease is extended to a ten-year term this purchase option period will extend to a five-year term (note: the option price inflates annually by the rate of the Consumer Price Index for all Urban Consumers during the option term). PSU has the right to use the parking and otherwise sublet the facility on this site during the term of this lease and any extensions thereof.

As mentioned earlier, the University and the Lessor contemplate construction by Lessor of additional student housing improvements on this site during the term of this lease. The parties would negotiate to terminate or amend this lease agreement when this construction project is contemplated. If the lease were terminated the parties would enter into an agreement to guarantee PSU access to the student housing to be constructed by the Lessor. The terms of the lease have been reviewed and will be approved by the Attorney Generals Office with the Department of Justice, prior to execution of the Lease.
Staff Recommendation to the Executive Committee:

Staff recommends that the Executive Committee approve Portland State University’s request to approve this lease transaction with Urban Housing, LLC, which provides a ten-year extension and includes future purchase and development options, subject to final approval by the Vice Chancellor for Finance and Administration and refer to the full Board for final approval.

COMMITTEE ACTION:

BOARD ACTION:

OREGON UNIVERSITY SYSTEM AUDIT CHARTERS

Summary
The System Strategic Planning Committee proposed the Executive Committee assume audit responsibilities and perform an evaluation of these responsibilities at the May 2002 meeting. In response to this action, the Chancellor’s Office has prepared a revised Internal Audit Division Charter and a newly established State Board of Higher Education Audit Charter.

Staff believes the proposal will further strengthen the independence of the audit operations and ensure the Board is provided with the information necessary to perform their oversight responsibility.

Board Audit Charter

Audit Responsibilities
The Oregon State Board of Higher Education has oversight responsibility to ensure OUS management is performing their duties of financial reporting, effective and efficient internal controls, and compliance with laws, regulations, and ethics. As part of this oversight responsibility, the Oregon State Board of Higher Education shall have the following responsibilities and powers and shall perform the following functions as it relates to audits.

External Audit Duties
The Secretary of State Audits Division shall provide the Oregon State Board of Higher Education notice of the external auditors selected to
complete the annual financial statement and A-133 audit of the Oregon University System.

The Oregon State Board of Higher Education shall meet with the external auditors annually to review the scope and nature of the annual audit, and to review the results of the auditing engagement. The Oregon State Board of Higher Education shall consider the amount and relationship of audit and non-audit fees paid to external auditors.

**Internal Audit Duties**

The Oregon State Board of Higher Education shall approve annually the Internal Audit Division’s annual audit plans and budget.

The Oregon State Board of Higher Education shall review at least semi-annually the results of Internal Audit recommendations and follow-up procedures. More frequent meeting will be held as deemed necessary.

The Oregon State Board of Higher Education shall approve as recommended by the Chancellor the appointment or removal of the Director of Internal Audit Division.

**General Duties and Powers**

The Oregon State Board of Higher Education shall review any recommendations the external auditors or the internal financial or auditing staff may have for improving internal accounting controls, management systems or choices of accounting principles.

Any financial irregularity resulting in losses in excess of $10,000 or involving a member of senior management shall be brought to the attention of the Chancellor and the Oregon State Board of Higher Education.

The Oregon State Board of Higher Education shall devote, as necessary, a portion of the audit meetings to an executive session at which only the Director of Internal Audit Division and the external auditors are present with the Committee to discuss matters exempt from public disclosure under Oregon Revised Statute Public Records Policy 192.
The Oregon State Board of Higher Education shall have and exercise all other powers, as it shall deem necessary for the performance of its duties.

The Oregon State Board of Higher Education has delegated these audit duties to the Executive Committee. The Executive Committee shall report the results of internal and external audit findings to the full Board at least once a year.

Internal Audit Division Charter

Introduction
Internal auditing is an independent objective assurance and consulting activity designed to add value and improve the organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The objectives of internal auditing are to assist members of the organization in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed and by promoting effective control at reasonable cost.

Role of the Internal Audit Department
The Oregon State Board of Higher Education and the Chancellor established the Internal Audit Division and its responsibilities. The responsibilities are defined in this charter, which is approved by the Oregon State Board of Higher Education. The Director of Internal Audit reports administratively to the Vice Chancellor for Finance and Administration and functionally to the Chancellor and Executive Committee of the State Board of Higher Education.

Authorization and Responsibilities
Authorization is granted for full and complete access to any of the organization's records (either manual or electronic), physical properties, and personnel relevant to an audit engagement. Documents and information given to internal auditors during a periodic review will be handled in a confidential and prudent manner as required by the International Institute of Internal Auditors code of ethics.

Internal auditors have no direct responsibility or any authority over any of the activities or operations that they review. They should not
develop and install procedures, prepare records, or engage in activities, which would normally be reviewed by internal auditors.

Recommendations on standards of control to apply to a specific activity may be included in the written report of audit findings and opinions, which is given to the operating management for review and implementation. Copies of final reports will be distributed to university management and the respective Vice Chancellor.

Definition of Audit Scope
The scope of internal auditing encompasses the following activities:

- Review the adequacy and effectiveness of internal control systems
- Review established systems, policies and procedures to ensure the organization is in compliance with laws and regulations
- Review means of safeguarding assets
- Appraise efficiency and effectiveness with which resources are deployed
- Coordinate audit efforts with those of the organization’s external auditors
- Participate in the design/development of new business and computer systems
- Review the organization’s compliance guidelines for ethical business conduct
- Evaluate plans and actions taken to correct reported conditions
- Provide adequate follow-up to ensure corrective action is taken and evaluate its effectiveness
- Submit annual audit plan, budget, and status to the Chancellor and Executive Committee of the State Board of Higher Education
- Periodically report audit findings and status of corrective action to the Chancellor and Executive Committee of the State Board of Higher Education

Reporting Accountabilities
A written report will be prepared and issued by the Director of Internal Audit following the conclusion of each audit and will be distributed as appropriate.
The manager of the activity or department receiving the internal audit report will respond within 30 days. This response will indicate what actions were taken or are planned in regard to the specific findings and recommendations in the internal audit report. If appropriate, a timetable for the anticipated completion of these actions will be included.

The Director of Internal Audit will meet with the Vice Chancellor for Finance and Administration and Chancellor quarterly and more frequently as deemed necessary.

A summary of audit results will be provided to the Chancellor and Executive Committee of the Board of Higher Education semi-annually and more frequently as deemed necessary.

Staff Recommendation to the Executive Committee:

Staff recommends that the Board review and approve the Board Audit Charter and Internal Audit Division Charter and refer them to the full Board for final approval.

COMMITTEE ACTION:

BOARD ACTION:

RESOLUTION-REFUNDING BOND SALE

Staff Report to the Board
The State Board of Higher Education has an opportunity to achieve significant debt savings by refunding certain outstanding series of bonds. This will require the issuance of refunding bonds. Authorization for the sale is granted by Oregon Revised Statutes 286.051 and 288.605 through 288.695, inclusive.

OUS’s present value savings net of selling expenses are projected to be approximately $4.9 million. Maturity lengths will remain unchanged or be shortened. Under no circumstances will maturities be extended.

The sale date has been tentatively set for November 1, 2002. However, Board action to approve the following bond resolution is
RESOLUTION FOR THE SALE OF REFUNDING BONDS

WHEREAS, ORS 286.031 states, in part, that the State Treasurer shall issue all general obligation bonds of this state after consultation with the state agency responsible for administering the bond proceeds; and

WHEREAS, ORS 286.033 states, in part, that the state agency shall authorize issuance of bonds subject to ORS 286.031 by resolution; and

WHEREAS, ORS Chapters 351, 288 and 286 provide further direction as to how bonds are sold and proceeds administered; and

WHEREAS, ORS 286.051 authorizes the issuance of refunding bonds and ORS 288.605 et. seq. authorizes the issuance of advance refunding bonds by the State Treasurer upon finding that certain requirements and conditions have been met; and

WHEREAS, it appears advantageous to the Board to sell refunding bonds to refund certain outstanding bonds thereby benefitting the state;

NOW, THEREFORE, be the following hereby resolved by the Oregon State Board of Higher Education:

Section 1. Issue. The State of Oregon is authorized to issue general obligation bonds (the "Bonds") in such series and principal amounts as the State Treasurer, after consultation with the Vice Chancellor for Finance and Administration of the Oregon University System, shall determine are required to refund all or any portion of its General Obligation Building Bonds, 1974 Series B; 1977 Series A and B; 1992 Series B; and any other series of bonds that meet the requirements established by law and approved by the State Treasurer.

Section 2. Maintenance of Tax-Exempt Status. The Board covenants for the benefit of the owners of the Bonds to comply with all provisions of the Internal Revenue Code of 1986, as amended (the "Code"), that are required for Bond interest to be excluded from gross income for federal income taxation purposes (except for taxes on corporations),
unless the Board obtains an opinion of nationally recognized bond counsel that such compliance is not required in order for the interest to be paid on the Bonds to be so excluded. The Board makes the following specific covenants with respect to the Code:

(a) The Board shall not take or omit any action if the taking or omission would cause the Bonds to become "arbitrage bonds" under Section 148 of the Code and shall assist in calculations necessary to determine amounts, if any, to allow the State to pay to the United States all "rebates" on "gross proceeds" of the Bonds that are required under Section 148 of the Code.

(b) Covenants of the Board or its designee in its tax certification for the Bonds shall be enforceable to the same extent as if contained herein.

Section 3. Sale of Bonds. The State Treasurer, with the concurrence of the Vice Chancellor for Finance and Administration, shall sell the Bonds as the State Treasurer deems advantageous.

Section 4. Other Action. The State Treasurer, the Vice Chancellor for Finance and Administration, or the Controller of the Oregon University System is hereby authorized, on behalf of the Board, to take any action that may be required to issue, sell, and deliver the Bonds in accordance with this resolution.

Staff Recommendation to the Executive Committee:

Staff recommends the Executive Committee of the Board adopt the bond resolution authorizing the issuance of refunding bonds and refer the resolution to the full Board for final approval.

COMMITTEE ACTION:

BOARD ACTION: