OREGON STATE BOARD OF HIGHER EDUCATION
INVESTMENT COMMITTEE MEETING
R.V. KUHNS & ASSOCIATES
805 SW BROADWAY, SUITE 2200
MAIN CONFERENCE ROOM
SEPTEMBER 18, 2003
12:30—2:30 p.m.

AGENDA

1. Call to Order/Roll Call

2. Approval of Minutes
   • July 17, 2003, Investment Committee Meeting Minutes

3. Report Items
   a. Fourth Quarter Investment Report for FY 2003
   b. Absolute Return Strategies
   c. Real Estate
   d. International Value Search
   e. Asset Allocation

4. 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) 346-5795 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.
1. Call to Order/Roll Call

2. Discussion Items
   a. OUS 2003-2005 Budget: Funding Implications and Expectations
   b. Comparison of Objectives for Flexibility Initiatives and Senate Bill (SB) 437 Outcomes

3. 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) 346-5795 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 University System 2003-2005 Operating Budget

Legislatively Adopted Budget (LAB) - August 29, 2003

The Legislature has taken final action on the Oregon University System 2003-2005 biennial budget. The Legislatively Adopted Budget (LAB) is summarized below:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$730.2</td>
<td>$667.5</td>
<td>$(62.7)</td>
</tr>
<tr>
<td>Lottery Funds</td>
<td>6.0</td>
<td>8.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Other Funds–Limited</td>
<td>790.6</td>
<td>1,042.1</td>
<td>251.5</td>
</tr>
<tr>
<td>Other Funds–Nonlimited</td>
<td>1,803.8</td>
<td>1,986.3</td>
<td>182.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,330.6</strong></td>
<td><strong>$3,704.0</strong></td>
<td><strong>$373.4</strong></td>
</tr>
</tbody>
</table>

The funding outcomes can be viewed through four overlapping themes:
1. Quality of services was preserved.
2. Access may be enhanced.
3. Affordability to students is reduced.
4. Faculty and staff (as all state employees) sacrificed salary adjustments to offset severe state General Fund reductions.

Summary of Legislative Actions
The table above compares the final 2001-2003 OUS operating budget after the five Special Legislative Sessions with the 2003-2005 LAB, showing a net reduction in state support of $60.6 million in Lottery and General Funds. Other Funds Limited, comprised mainly of student tuition and fees, increased by $251.5 million. The 2003-2005 budget adopted by the Legislature accelerates the decline in state support and the increasing reliance on tuition, fees, and other sources of revenue to fund the Oregon University System.

The General Fund reductions include $74 million identified in the Co-Chairs’ Budget issued in April 2003 (less an end of session add-back of $6 million), with reductions of $55.6 million in Undergraduate and Graduate Education, $8 million in administration, and $4.4 million in Targeted Programs. In addition, the budget reduces $12.3 million for estimated staff vacancy savings, $5.5 million for inflation in services and supplies, and $18.8 million for expected reductions in the PERS rate. Reductions for vacancy savings also include $1 million to offset an increase to fund the operating budget for the Signature Research Centers. An $11.1 million add-back at the end of the Legislative session included $6 million in General Funds that decreased the reduction to Undergraduate Education, $100,000 for the Oregon Council for Knowledge and Economic Development (OCKED) administration, and $5 million in borrowing authority to issue Certificates of Participation (COPs) in March 2005 to fund technology. The Legislature continued its support of the Veterinary Medicine Program at OSU, approving
a phase-in of $6.4 million in additional funding that was included in the base budget request.

The Legislature granted the OUS request for an increase in Other Funds Expenditure Limitation of $145.4 million above the Governor’s Balanced Budget (GBB), then increased the limitation by $5 million to cover spending of COPs proceeds, and decreased this amount by $14 million to reflect the expected decline in PERS costs. A budget note set an expectation that tuition and fee rate increases for the biennium would be limited to the levels approved by the Board for 2003-04 and 2004-05. It places a limit on Resource Fee revenue at the current level of 8.6 percent of gross tuition revenue for the biennium.

Programmatic Fee Remissions are reduced by $7.6 million from the current OUS request of $72.6 million and capped at $65 million and 8 percent of gross tuition. Graduate Assistant Fee Remissions are capped at the current estimate of $47 million.

Other Funds Nonlimited are projected to increase by $182.5 million above the 2001-2003 budget. These funds are restricted in nature and are not available for general operations. They include self-supporting operations, e.g. housing, student health, and food service programs; student financial aid; and gifts, grants, and contracts. Nonlimited funding is expected to continue to increase as the institutions place greater emphasis on fund-raising to compensate for the losses of state funding.

Attachment 1, Budget Summary Tables, summarizes the OUS biennial operating budget, including comparisons with the 2001-2003 Final Budget after the five Special Legislative Sessions, 2003-2005 Current Service Level, and the Governor’s Balanced Budget issued January 2003.


Funding Comparisons
The following chart compares Education and General (E&G) Program Funding per FTE from 1999-2001 through 2003-2005. It includes State General Fund revenues and Other Funds Limited (OFL), which are other revenues that are subject to state spending limitation, comprised mainly of tuition and fees. For 2001-2003 the comparison includes the final funding available after the 5th Special Legislative Session in 2002.
The previous chart shows that funding per student FTE in total has remained relatively constant, increasing by 3.3 percent from 1999-2001 to 2003-2005. However, the Fund Split has changed dramatically between state General Fund and Other Funds support, reflecting the increased reliance on student tuition and fees for operations. The following table shows that the state General Fund contribution has declined from 51 percent of the total in 1999-2001 to 36 percent in 2003-2005 with Other Funds Limited increasing from 49 to 64 percent. The Other Funds totals used in this comparison are based on net tuition (reduced for programmatic fee remissions) and exclude anticipated spending down of fund balances in 2003-2005.

### Comparison of Total Limited Funding

<table>
<thead>
<tr>
<th></th>
<th>Education and General Program</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999 – 2005</td>
</tr>
<tr>
<td><strong>Fund Splits</strong></td>
<td></td>
</tr>
<tr>
<td>Gen Fd</td>
<td>51%</td>
</tr>
<tr>
<td>OFL</td>
<td>49%</td>
</tr>
<tr>
<td><strong>General Fund</strong></td>
<td>$626.2</td>
</tr>
<tr>
<td><strong>Other Funds Limited</strong></td>
<td>$600.8</td>
</tr>
<tr>
<td><strong>Total Funds</strong></td>
<td>$1,227.0</td>
</tr>
</tbody>
</table>

### Student Enrollment Comparisons

Continued enrollment growth is projected through the next biennium in the Oregon University System. The chart below compares annual enrollment by institution from 1999-00 with 2004-05 projections. All of the institutions show substantial growth with the
exception of SOU, which has maintained steady enrollment. Systemwide enrollment growth is increasing an average of 3.9 percent per year.

While the institutions collectively are predicting record enrollments, state General Fund support continues to decline. The following chart shows the growth in student enrollment and the dramatic increase in the number of students that are funded with tuition and fee revenue. The projections of state funded FTE for 2003-2005 are based on funding the RAM at the Quality Funding Index of 72 percent and applying the available state funding to fewer projected student enrollments.

The implications of maintaining the Quality Funding Index at 72 percent for the General Fund and more than doubling the number of students funded by tuition and fees will be reviewed. While state resources have diminished, total revenues per student have increased marginally, suggesting that the level of quality should remain relatively constant.

A cautionary note is offered to emphasize that, given the significant increase in tuition and fees over the past two years, the enrollment projections may be optimistic and will be monitored closely. Lower enrollments do translate into lower revenues.
Other Legislative Initiatives
The OUS had a number of specific initiatives before the Legislature including a $500 million deferred maintenance proposal, ETIC capital projects for $20 million, Signature Research Centers, and a number of flexibility initiative through SB 437, that met with mixed success. Each of these will be discussed at the September Board meeting.
2003-2005 OUS Capital Construction Budget

<table>
<thead>
<tr>
<th></th>
<th>State General Fund</th>
<th>Other Funds Limited</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2003-2005 Current Service Level</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy Package Requests</td>
<td>12,519,853</td>
<td>12,519,853</td>
<td>25,039,706</td>
</tr>
<tr>
<td></td>
<td>197,195,000</td>
<td>914,345,000</td>
<td>1,111,540,000</td>
</tr>
<tr>
<td><strong>2003-2005 Biennial Budget Request</strong></td>
<td>$209,714,853</td>
<td>$926,864,853</td>
<td>$1,136,579,706</td>
</tr>
<tr>
<td>Governor's Recommendations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revisions to Policy Packages</td>
<td>(197,195,000)</td>
<td>(584,188,066)</td>
<td>(781,383,066)</td>
</tr>
<tr>
<td><strong>Governor's Balanced Budget (GBB)</strong></td>
<td>$12,519,853</td>
<td>$342,676,787</td>
<td>$355,196,640</td>
</tr>
<tr>
<td>Legislative Revisions to GBB</td>
<td>(1,000,000)</td>
<td>91,901,333</td>
<td></td>
</tr>
<tr>
<td>Other Funds Limitation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Legislative Revisions</td>
<td>(1,000,000)</td>
<td>91,901,333</td>
<td>90,901,333</td>
</tr>
<tr>
<td><strong>2003-2005 Legislatively Adopted Budget (LAB)</strong></td>
<td>$11,519,853</td>
<td>$434,578,120</td>
<td>$446,097,973</td>
</tr>
</tbody>
</table>

Dollar Change from 2001-2003 Final
- (4,396,624)
- (10,728,740)
- (15,125,364)

Percent Change from 2001-2003 Final
-27.6%
-2.4%
-3.3%

Summary of Legislative Actions
The Legislature approved the $446.1 million OUS Capital Budget (House Bill 5028), which included several amendments from the original Governor’s recommendations. The key changes included:

1. Approval of the Signature Research Center Initiative, which authorizes $40 million of capital projects on the campuses of OSU, PSU, and UO. The research space to be constructed will focus on integrating nano-technology and micro-technology into product engineering and design. The Subcommittee responded to the economic development potential this initiative will provide.

2. Addition of the UO Theatre Complex. This project was originally approved by the Board but was not recommended by the Governor. The current project eliminates all state support and establishes a $6.36 million gift fund limitation.

3. Technical Adjustments. After careful negotiations with the Governor, the following technical adjustments were also made to the budget:
   a. The addition of $20 million of Article XI(F(1) Bonds and $10 million of Other Funds authorization for Academic Modernization, Capital Repair, as originally...
approved by the Board. These funds are vital to the repair of aging auxiliary facilities.

b. $6 million of Article XIF(1) Bonds and $6 million of Other Funds for Small Capital Projects were also restored, providing the authorization to perform projects under $1 million without additional Legislative action.

c. Add $2.2 million of Other Funds for OSU’s Veterinary Medicine building project, to allow significant design changes to a previously approved project.

d. Increase PSU’s expenditure limitation by $1 million to allow historic restorations to be performed on the Helen Gordon Child Care Center, as required by the City.

The following summary highlights approved capital projects by campus for 2003-2005:

**Oregon State University:**

*Reser Stadium Expansion, $110 million.* This project alone represents 25 percent of the entire OUS Capital Budget. The project involves remodeling and expanding the existing Reser Stadium to upgrade structural, electrical, and plumbing systems and add 10,000 new seats. The project also entails the addition of new luxury seats and amenities, as well as new concessions, restrooms, improved ADA access, and scoreboard relocation.

*OSU Housing and Dining Projects, $43 million.* These five projects are a continuation of the long-term renovation program at OSU and address some of the student population growth. The goal is to create vibrant living-learning facilities, which include study and meeting space, as well as seminar/classroom space, and upgraded kitchen facilities. These changes should be more attractive to prospective students, as well as assisting in retaining them on campus.

*Graf Hall Renovation, $19 million.* This project is part of the Signature Research Initiative, and involves renovating 30,000 square feet of space in Graf Hall. The project will provide various state-of-the-art laboratories focused on the development of micro-technology-based energy, chemical, and biological systems.

**Portland State University:**

*Athletic Arena, $25 million.* PSU’s 1,200-seat gymnasium is by far the smallest venue in the Big Sky Conference. The gym also serves as a gathering space for campus and community activities, and has proved to be too small for many of these uses, as well. This project envisions the construction on or near campus of a 5,000 to 6,000-seat arena with associated locker and training facilities. Some retail activity also is expected. Funding for the project includes $5 million of Article XIF(1) bonds to be repaid from commercial leases, ticket sales, and $20 million of gifts and grants.

*PSU Housing and Dining Projects, $41 million.* These three projects are a continuation of PSU’s plans to meet the increasing demands for student housing. A recent study...
concluded that the University needs 700-900 housing units immediately, and 1,500-2,000 units over the next ten years.

**PSU Student Building Fee Projects, $14.6 million.** PSU’s student government approved three projects to be paid by student building fees. The projects include additional work at the Smith Memorial Student Union, Rehabilitation of the Helen Gordon Child Care Facility, and an addition to the Peter Stott Recreation Center.

**Oregon University System:**

**Systemwide Limitations, $73.3 million.** The state continues its trend of severely under-funding the critical deferred maintenance, capital repair, and academic modernization needs of the educational facilities within the System. A majority of the limitation approved is directed to the self-supporting auxiliaries. Another significant setback was the stalled $500 million *Deferred Maintenance Bond Initiative* that was to address the growing backlog of capital repair projects.

**University of Oregon:**

**Integrative Science Complex, $19 million.** This project is the UO’s portion of the Signature Research Center Initiative and is planned in two phases. The first phase involves renovating available space in the Riverfront Research Park, while construction of the longer-term facility is being pursued. The laboratories that will be created will allow for the creation, manipulation, and assembly of novel materials at the nanometer scale and applied to energy, chemistry, environment, and medicine.

**UO Housing and Dining Projects, $37.5 million.** The UO will construct two new buildings and renovate one existing residence hall. As the University continues to grow, there is an increasing demand for conveniently located, affordable housing. Also, the average age of all remaining residence halls (47 years) will require closure of large blocks or sections in the near future for rehabilitation. Therefore, surge space for displacement is needed.

**Alumni Center, $21.2 million.** The UO's living alumni base has grown to 140,000. The success and visibility of the University have generated high expectations on the part of alumni and friends for expanded programming. The new building will include a 250- to 300-person ballroom and assembly hall, capable of accommodating major formal dining or conference seating events and administrative space for the Alumni Association, the Development Office, and the UO Foundation.

**University Health and Counseling Center, $10.1 million.** The University Health and Counseling Center project will renovate and add an addition to the existing facility. Since the University Health and Counseling Center, built in 1965, reflects a 1960s-era concept of in-patient medical care, the interior spaces need to be completely converted to house modern outpatient health, counseling, and testing programs.
# Budget Summary Tables

The Oregon University System (OUS) biennial operating budget is summarized in the following tables, including comparisons with the 2001-2003 Final Budget after the five Special Legislative Sessions, 2003-2005 Current Service Level, and the Governor’s Balanced Budget issued January 2003.

## 2003-2005 OUS Operating Budget

### (in millions)

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Lottery</th>
<th>Other Funds Limited</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2003 Final after Special Sessions</td>
<td>$ 730.2</td>
<td>$ 6.0</td>
<td>$ 790.6</td>
<td>$ 1,526.8</td>
</tr>
<tr>
<td>2003-2005 Current Service Level</td>
<td>853.1</td>
<td>8.1</td>
<td>814.4</td>
<td>1,675.6</td>
</tr>
<tr>
<td>Policy Package Requests</td>
<td>203.5</td>
<td>(0.8)</td>
<td>66.2</td>
<td>268.8</td>
</tr>
<tr>
<td><strong>2003-2005 Biennial Budget Request</strong></td>
<td>$ 1,056.6</td>
<td>$ 7.3</td>
<td>$ 880.6</td>
<td>$ 1,944.5</td>
</tr>
</tbody>
</table>

### Governor’s Recommendations

- **Revisions to CSL Budget**
  - $ (1.5)
  - 1.4
  - (0.4)
  - (0.5)

- **Revisions to Policy Packages**
  - (287.7)
  - 0.1
  - 26.5
  - (261.0)

- **Total Governor’s Revisions**
  - (289.2)
  - 1.6
  - 26.1
  - (261.5)

### Governor’s Balanced Budget (GBB)

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Lottery</th>
<th>Other Funds Limited</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governor’s Balanced Budget (GBB)</strong></td>
<td>$ 767.4</td>
<td>$ 8.8</td>
<td>$ 906.7</td>
<td>$ 1,682.9</td>
</tr>
</tbody>
</table>

### Legislative Revisions to GBB

- **6% Reduction Options**
  - (36.0)
  - (36.0)

- **Undergraduate & Graduate Education**
  - (24.0)
  - (24.0)

- **Chancellor’s Office/Campus Admin.**
  - (8.0)
  - (8.0)

- **Signature Research Centers/OCKED**
  - 1.1
  - 1.1

- **Vacancy Savings**
  - (12.3)
  - (12.3)

- **Inflation Adjustment**
  - (5.5)
  - (5.9)
  - (11.4)

- **PERS Reduction**
  - (18.8)
  - (18.8)

- **Other Funds Limitation**
  - 143.8
  - 143.8

- **Other Technical Adjustments**
  - 3.5
  - (0.7)
  - (2.5)
  - 0.3

### Total Legislative Revisions

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Lottery</th>
<th>Other Funds Limited</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Legislative Revisions</strong></td>
<td>$ (99.9)</td>
<td>(0.7)</td>
<td>$ 35.4</td>
<td>34.7</td>
</tr>
</tbody>
</table>

### Legislatively Adopted Budget (LAB)

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Lottery</th>
<th>Other Funds Limited</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legislatively Adopted Budget (LAB)</strong></td>
<td>$ 667.5</td>
<td>$ 8.1</td>
<td>$ 1,042.1</td>
<td>$ 1,717.6</td>
</tr>
</tbody>
</table>

### Fund Split

- **2001-2003 Final**
  - 49%
  - 51%
  - 100%

- **2003-2005 GBB**
  - 47%
  - 53%
  - 100%

- **2003-2005 LAB**
  - 39%
  - 61%
  - 100%
## Education and General Program

<table>
<thead>
<tr>
<th></th>
<th>State General Fund</th>
<th>Other Funds Limited</th>
<th>Total Limited Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2003 Final after Special Sessions</td>
<td>$617,113,966</td>
<td>$737,955,739</td>
<td>$1,355,069,705</td>
</tr>
<tr>
<td>2003-2005 Current Service Level</td>
<td>722,782,013</td>
<td>762,813,922</td>
<td>1,485,595,935</td>
</tr>
<tr>
<td>Governor’s Balanced Budget (GBB)</td>
<td>649,720,822</td>
<td>850,551,113</td>
<td>1,500,271,935</td>
</tr>
</tbody>
</table>

Legislative Revisions to GBB

<table>
<thead>
<tr>
<th>Reduction Options</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undergraduate Education</td>
<td>(21,900,000)</td>
</tr>
<tr>
<td>Graduate Education</td>
<td>(9,700,000)</td>
</tr>
<tr>
<td>Engineering (ETIC)</td>
<td>(900,000)</td>
</tr>
<tr>
<td>Systemwide Expenses</td>
<td>(720,000)</td>
</tr>
<tr>
<td>Research Support</td>
<td>(510,000)</td>
</tr>
<tr>
<td>OCECS</td>
<td>(460,000)</td>
</tr>
<tr>
<td>Fee Remission Equity</td>
<td>(410,000)</td>
</tr>
<tr>
<td>SWPs Building Maintenance</td>
<td>(300,000)</td>
</tr>
<tr>
<td>Campus Public Service Programs</td>
<td>(290,000)</td>
</tr>
<tr>
<td>Partnership Funding</td>
<td>(280,000)</td>
</tr>
<tr>
<td>WUE Support</td>
<td>(270,000)</td>
</tr>
<tr>
<td>Collaborative Programs</td>
<td>(230,000)</td>
</tr>
<tr>
<td>Undergraduate &amp; Graduate Education</td>
<td>(24,000,000)</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>(8,000,000)</td>
</tr>
<tr>
<td>Vacancy Savings</td>
<td>(10,351,700)</td>
</tr>
<tr>
<td>Inflation Adjustment</td>
<td>(4,877,172)</td>
</tr>
<tr>
<td>PERS Reduction</td>
<td>(15,848,707)</td>
</tr>
<tr>
<td>State Government Service Charges</td>
<td>(1,052,685)</td>
</tr>
<tr>
<td>Signature Research Centers/OCKED</td>
<td>1,100,000</td>
</tr>
</tbody>
</table>

Other Funds Limitation: 138,186,768

Total Legislative Revisions: (99,000,264) 138,186,768 39,186,504

### 2003-2005 Legis. Adopted Budget (LAB)

<table>
<thead>
<tr>
<th></th>
<th>$550,720,558</th>
<th>$988,737,881</th>
<th>$1,539,458,439</th>
</tr>
</thead>
</table>

Dollar Change from 2001-2003 Final: (66,393,408) 250,782,142 184,388,734

Percent Change from 2001-2003 Final: –10.8% 34.0% 13.6%

| Fund Split - 2001-2003 Final | 46% | 54% | 100% |
| Fund Split - 2003-2005 LAB    | 36% | 64% | 100% |

---

Oregon State Board of Higher Education

Board Work Session

DISCUSSION ITEM
## OSU Statewide Public Services Summary - AES, ES, FRL

<table>
<thead>
<tr>
<th></th>
<th>State General Fund</th>
<th>Other Funds Limited</th>
<th>Total Limited Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2003 Final after Special Sessions</td>
<td>$91,515,041</td>
<td>$52,644,813</td>
<td>$144,159,854</td>
</tr>
<tr>
<td>2003-2005 Current Service Level</td>
<td>104,727,132</td>
<td>51,253,962</td>
<td>155,981,094</td>
</tr>
<tr>
<td><strong>Governor's Balanced Budget (GBB)</strong></td>
<td><strong>95,773,829</strong></td>
<td><strong>56,122,981</strong></td>
<td><strong>151,896,810</strong></td>
</tr>
</tbody>
</table>

**Legislative Revisions to GBB**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacancy Savings</td>
<td>(1,924,569)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation Adjustment</td>
<td>(574,077)</td>
<td>(297,539)</td>
<td></td>
</tr>
<tr>
<td>PERS Reduction</td>
<td>(2,974,739)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Funds Limitation</td>
<td></td>
<td>(2,500,000)</td>
<td></td>
</tr>
<tr>
<td><strong>Total Legislative Revisions</strong></td>
<td>(5,473,385)</td>
<td>(2,797,539)</td>
<td>(8,270,924)</td>
</tr>
</tbody>
</table>

**2003-2005 Legisl. Adopted Budget (LAB)** $90,300,444 $53,325,442 $143,625,886

**Dollar Change from 2001-2003 Final** (1,214,597) 680,629 (533,968)

**Percent Change from 2001-2003 Final** – 1.3% 1.3% – 0.4%

**Fund Split - 2001-2003 Final** 63% 37% 100%

**Fund Split - 2003-2005 LAB** 63% 37% 100%

## Agricultural Experiment Station

<table>
<thead>
<tr>
<th></th>
<th>State General Fund</th>
<th>Other Funds Limited</th>
<th>Total Limited Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2003 Final after Special Sessions</td>
<td>$51,146,706</td>
<td>$15,550,572</td>
<td>$66,697,278</td>
</tr>
<tr>
<td>2003-2005 Current Service Level</td>
<td>58,166,075</td>
<td>16,602,333</td>
<td>74,768,408</td>
</tr>
<tr>
<td><strong>Governor's Balanced Budget (GBB)</strong></td>
<td><strong>53,215,953</strong></td>
<td><strong>16,561,819</strong></td>
<td><strong>69,777,772</strong></td>
</tr>
</tbody>
</table>

**Legislative Revisions to GBB**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacancy Savings</td>
<td>(1,036,270)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation Adjustment</td>
<td>(410,328)</td>
<td>(171,648)</td>
<td></td>
</tr>
<tr>
<td>PERS Reduction</td>
<td>(1,530,855)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Funds Limitation</td>
<td></td>
<td>(171,648)</td>
<td>(3,149,101)</td>
</tr>
<tr>
<td><strong>Total Legislative Revisions</strong></td>
<td>(2,977,453)</td>
<td>(171,648)</td>
<td>(3,149,101)</td>
</tr>
</tbody>
</table>

**2003-2005 Legislatively Adopted Budget (LAB)** $50,238,500 $16,390,171 $66,628,671

**Dollar Change from 2001-2003 Final** (908,206) 839,599 (68,607)

**Percent Change from 2001-2003 Final** – 1.8% 5.4% – 0.1%
### Extension Service

<table>
<thead>
<tr>
<th></th>
<th>State General Fund</th>
<th>Other Funds Limited</th>
<th>Total Limited Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2003 Final after Special Sessions</td>
<td>$35,343,279</td>
<td>$27,988,320</td>
<td>$63,331,599</td>
</tr>
<tr>
<td>2003-2005 Current Service Level</td>
<td>40,785,075</td>
<td>24,855,812</td>
<td>65,640,887</td>
</tr>
<tr>
<td><strong>Governor’s Balanced Budget (GBB)</strong></td>
<td><strong>37,317,496</strong></td>
<td><strong>29,778,965</strong></td>
<td><strong>67,096,461</strong></td>
</tr>
</tbody>
</table>

Legislative Revisions to GBB

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacancy Savings</td>
<td>(778,703)</td>
<td></td>
</tr>
<tr>
<td>Inflation Adjustment</td>
<td>(139,661)</td>
<td>(101,570)</td>
</tr>
<tr>
<td>PERS Reduction</td>
<td>(1,275,827)</td>
<td></td>
</tr>
<tr>
<td>Other Funds Limitation</td>
<td></td>
<td>(2,500,000)</td>
</tr>
</tbody>
</table>

Total Legislative Revisions (2,194,191) (2,601,570) (4,795,761)

2003-2005 Legislatively Adopted Budget (LAB) $35,123,305 $27,177,395 $62,300,700

Dollar Change from 2001-2003 Final (219,974) (810,925) (1,030,899)

Percent Change from 2001-2003 Final -0.6% -2.9% -1.6%

### Forestry Research Laboratory

<table>
<thead>
<tr>
<th></th>
<th>State General Fund</th>
<th>Other Funds Limited</th>
<th>Total Limited Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2003 Final after Special Sessions</td>
<td>$5,025,056</td>
<td>9,105,921</td>
<td>14,130,977</td>
</tr>
<tr>
<td>2003-2005 Current Service Level</td>
<td>5,775,982</td>
<td>9,795,817</td>
<td>15,571,799</td>
</tr>
<tr>
<td><strong>Governor’s Balanced Budget (GBB)</strong></td>
<td><strong>5,240,380</strong></td>
<td><strong>9,782,197</strong></td>
<td><strong>15,022,577</strong></td>
</tr>
</tbody>
</table>

Legislative Revisions to GBB

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacancy Savings</td>
<td>(109,596)</td>
<td></td>
</tr>
<tr>
<td>Inflation Adjustment</td>
<td>(24,088)</td>
<td>(24,321)</td>
</tr>
<tr>
<td>PERS Reduction</td>
<td>(168,057)</td>
<td></td>
</tr>
<tr>
<td>Other Funds Limitation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total Legislative Revisions (301,741) (24,321) (326,062)

2003-2005 Legislatively Adopted Budget (LAB) $4,938,639 $9,757,876 $14,696,515

Dollar Change from 2001-2003 Final (86,417) 651,955 565,538

Percent Change from 2001-2003 Final -1.7% 7.2% 4.0%
### Debt Service

<table>
<thead>
<tr>
<th></th>
<th>State General Fund</th>
<th>Lottery Funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2003 Final after Special Sessions</td>
<td>$21,547,547</td>
<td>$ 557,384</td>
<td>$22,104,931</td>
</tr>
<tr>
<td>2003-2005 Current Service Level</td>
<td>21,869,520</td>
<td>4,132,024</td>
<td>26,001,544</td>
</tr>
<tr>
<td><strong>Governor's Balanced Budget (GBB)</strong></td>
<td>21,869,520</td>
<td>4,132,024</td>
<td>26,001,544</td>
</tr>
<tr>
<td>Legislative Revisions to GBB</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical corrections</td>
<td>4,536,750</td>
<td>(910,886)</td>
<td>3,625,864</td>
</tr>
<tr>
<td><strong>Total Legislative Revisions</strong></td>
<td>4,536,750</td>
<td>(910,886)</td>
<td>3,625,864</td>
</tr>
<tr>
<td><strong>2003-2005 Legislatively Adopted Budget (LAB)</strong></td>
<td>$26,406,270</td>
<td>$ 3,221,138</td>
<td>$29,627,408</td>
</tr>
<tr>
<td>Dollar Change from 2001-2003 Final</td>
<td>4,858,723</td>
<td>2,663,754</td>
<td>7,522,477</td>
</tr>
<tr>
<td>Percent Change from 2001-2003 Final</td>
<td>22.5%</td>
<td>477.9%</td>
<td>34.0%</td>
</tr>
</tbody>
</table>

### Sports Action Lottery

<table>
<thead>
<tr>
<th></th>
<th>State General Fund</th>
<th>Lottery Funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2003 Final after Special Sessions</td>
<td></td>
<td>$5,408,887</td>
<td>$5,408,887</td>
</tr>
<tr>
<td>2003-2005 Current Service Level</td>
<td></td>
<td>5,408,887</td>
<td>5,408,887</td>
</tr>
<tr>
<td><strong>Governor's Balanced Budget (GBB)</strong></td>
<td></td>
<td>4,712,936</td>
<td>4,712,936</td>
</tr>
<tr>
<td>Legislative Revisions to GBB</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Funds Limitation</td>
<td></td>
<td>189,388</td>
<td>189,388</td>
</tr>
<tr>
<td><strong>Total Legislative Revisions</strong></td>
<td></td>
<td>--</td>
<td>189,388</td>
</tr>
<tr>
<td><strong>2003-2005 Legislatively Adopted Budget (LAB)</strong></td>
<td>$</td>
<td>$4,902,324</td>
<td>$4,902,324</td>
</tr>
<tr>
<td>Dollar Change from 2001-2003 Final</td>
<td></td>
<td>(506,563)</td>
<td>(506,563)</td>
</tr>
<tr>
<td>Percent Change from 2001-2003 Final</td>
<td></td>
<td>−9.4%</td>
<td>−9.4%</td>
</tr>
</tbody>
</table>
August 27, 2003

Vacancy Savings Adjustment
The budget is reduced by a total of $12,276,269 state General Fund, in application of a vacancy experience factor on personal service costs, excluding costs for positions funded by non-limited gifts, grants, or contracts. This vacancy experience factor reflects the average rate of savings the Committee approved in other state agency budgets as a result of review of vacant positions, with an additional reduction to help fund new programs in the Education and General (E&G) program area. The Department is directed, in the execution of this budget, to avoid filling vacant positions wherever plausible.

Compensation Increases
The adopted budget does not support any increases in salaries, wages, or benefits for the employees of the Department during the 2003-2005 biennium, and the Ways & Means Subcommittee expects no such increases to be awarded.

Integration of Accounting and Budget Structures
The Department is directed to match its accounting program structure (in RSTARS) and budgetary structure (in ORBITS) for the execution of the 2005-2007 biennium budget. This action will more easily link accounting with budgetary information as directed in the Statewide Financial Master Plan approved by the 1989 Legislature. The Budget and Management Division and the Legislative Fiscal Office will approve these structures and work with the agency to ensure timely implementation. A report and plan will be presented to the Ways & Means Subcommittee during the 2005 Session on agency progress in meeting these timeframes.

Administration
The Department of Higher Education and the Department of Administrative Services shall assist the Legislative Fiscal Office in preparing a study of the administrative functions of the Chancellor’s Office and of the campuses. The scope of this review shall be to evaluate the coordination of services between the Chancellor’s Office and the campuses and to make recommendations to improve efficiency of operations and avoid unnecessary duplication of services. The Legislative Fiscal Office shall present this report to the 2005 Session of the Legislative Assembly.

Tuition and Fees
The approved budget, except for a reduction in Other Funds expenditures to reflect the reduction in employer contribution rates for the Public Employees Retirement System (PERS), accommodates tuition and fee revenue projected under the rate structure approved by the State Board of Higher Education for the 2003-04 academic year, and the rates proposed for the 2004-05 academic year. The Subcommittee expects that the Board will not increase rates on tuition and other fees that generate funds for the Education and General limited budget beyond these levels, if the General Fund
appropriation to the Department is not reduced after adjournment of the 2003 regular legislative session. The Subcommittee notes that the Emergency Board may increase the Other Funds expenditure limitation for the Education and General program if enrollment levels exceed those currently projected. The Subcommittee further notes that resource fee (including energy surcharge fee) revenue in the approved budget totals 8.6 percent of gross tuition revenue. The Subcommittee expects the Department to limit resource fee revenue to no more than 8.6 percent of gross tuition revenue.

**Fee Remissions**
The legislatively adopted budget includes $112 million of fee remissions. This total includes $65 million of programmatic fee remissions and $47 million of graduate fee remissions. The Department will limit fee remission awards to these levels, and campuses will not enter into commitments for fee remissions in excess of these totals, unless total enrollment exceeds the enrollment projections the Department most recently reported to the Subcommittee, and the intent to award fee remissions in excess of these amounts is reported to the Emergency Board or Legislative Assembly before the excess fee remission awards are committed. The adopted budget supports programmatic fee remissions equal to 8 percent of gross tuition revenue. The Subcommittee expects the Department to limit programmatic fee remissions to no more than 8 percent of gross tuition revenue.

**Resource Allocation Model Distribution**
The Subcommittee acknowledges receipt of a statement of Principles of RAM Funding for the 2003-2005 biennium. The Subcommittee expects that the General Fund will be distributed in accord with these principles. If the Department of Higher Education makes substantial changes to these principles, it shall report on all substantial adjustments made to the Resource Allocation Model, and identify the fiscal impact to each campus and to centralized Oregon University System operations of each change. The Department shall present a report on 2003-04 academic year adjustments to the Emergency Board no later than December 2003, and present a report on 2004-05 academic year adjustments (and any prior academic year adjustments approved after the December 2003 report) to the Emergency Board no later than September 2004. These reports may exclude adjustments made to correct errors in data or projections.
Oregon University System
Principles of RAM Funding
2003-2005

In order to maintain 1) a level of **Quality** as directed by the Board, and 2) a degree of **Stability** as required by the current circumstances:

- 2003-2005 cell funding for undergraduate and graduate instruction will be calculated at 72 percent of cell values (the 36th percentile of OUS peer funding)

- The total number of Oregon resident students funded by state appropriations will be indexed to the cell values

- The number of Oregon resident students funded at each campus will be indexed proportionately to 2002-03 actual enrollments

- Additional students may be accepted and funded at individual campuses by tuition only, so long as the campuses provide assurances that quality will be maintained

- At the end of each fiscal year of the biennium, there will be a settle-down in which state appropriation funding will be proportionately reduced for those campuses that fail to meet enrollment targets

- Targeted program allocations will be based on 2002-03 post special-session levels, but will be subject to adjustment depending on Legislative and/or Board actions for 2003-2005
## Comparison of Objectives for Flexibility Initiatives & SB 437 Outcomes

<table>
<thead>
<tr>
<th>Flexibility Objective</th>
<th>SB 437 &amp; Outcomes</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Exempt OUS from oversight of the Office of Degree Authorization.</td>
<td>SB 437: Contained this exemption.</td>
<td>Shifts burden of proof to the private institution to prove detrimental impact, and demonstrate that no workforce need exists for the new program. Particularly important in providing OUS an opportunity to intervene in new rule-making procedure by OSAC, to ensure creation of rules that faithfully reflect legislative intent.</td>
</tr>
<tr>
<td></td>
<td>SB 437 B-Engrossed: Sets 90-day mediation period for universities to resolve conflict.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sets 180 day total for Oregon Student Assistance Commission (OSAC) to approve or disapprove proposed program.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Deletes “seemingly” as element of detrimental impact.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provides affirmative defense to private institution challenge based upon finding that <strong>the program or location meets an unmet workforce need in the state.</strong></td>
<td></td>
</tr>
<tr>
<td>(2) Exempt OUS from provisions of ORS Chapter 180, permitting Board, Chancellor, and presidents to employ attorneys to perform legal services, represent institutions at contested case hearings without DOJ approval.</td>
<td>SB 437: Contained this exemption.</td>
<td>The Interagency Agreement provides OUS with means to exemptions for business transactions, expedited legal services from DOJ. To optimize value in the Interagency Agreement, OUS must demonstrate due diligence in utilization of the Agreement.</td>
</tr>
<tr>
<td></td>
<td>SB 437 B-Engrossed In a compromise with the Department of Justice, the OUS agreed to delete this exemption, in favor of an Interagency Agreement covering legal services and exemptions.</td>
<td></td>
</tr>
<tr>
<td>Flexibility Objective</td>
<td>SB 437 &amp; Outcomes</td>
<td>Impact</td>
</tr>
<tr>
<td>-----------------------</td>
<td>-------------------</td>
<td>--------</td>
</tr>
</tbody>
</table>
| (3) Exempt OUS from DAS authority over disposal of property. | SB 437: Contained this exemption.  
SB 437 B-Engrossed: Contains this exemption, with an exception for disposal of “any structure, equipment or asset encumbered by a certificate of participation.” | Allows OUS to better manage surplus property and equipment. Prohibition against selling assets with underlying COP financing recognizes responsibility to keep property and debt instrument tied. |
| (4) Exempt OUS from the provisions of ORS 291.038 (state agency planning, acquisition, installation, use, of information and telecommunications technology). Provide authority to OUS to buy and sell information technology without DAS approval. Permit Board to delegate these powers to institutions. | SB 437: Contained this provision.  
SB 437 B-Engrossed: Contains this provision. Excluded from sale or disposal are equipment or assets encumbered by a certificate of participation. | Significant value of this provision is to exempt OUS from DAS authority over information technology, a provision that was deleted from SB 271, the 1995 Higher Education Administrative Efficiency Act. |
| (5) Provide OUS with authority to create exemptions from competitive bidding procedures. | SB 437: Contained this provision.  
SB 437 B-Engrossed: Contains this provision. “The Board may also establish exemptions from the competitive procedures when appropriate.” | Provides direct statutory authority to OUS implicit in SB 271 (1995 Session). |
<table>
<thead>
<tr>
<th><strong>Flexibility Objective</strong></th>
<th><strong>SB 437 &amp; Outcomes</strong></th>
<th><strong>Impact</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>(6) Permit OUS to withdraw from PEBB without meeting the test of “the same level of benefits...at a lower cost” set in SB 271 (1995 Session).</td>
<td>SB 437: Contained this provision. SB 437 B-Engrossed: Provision deleted in the face of very negative fiscal impact from PEBB and strong resistance from Governor.</td>
<td>Leaves OUS with status quo in relationship to PEBB as provider of contracted health benefit plans.</td>
</tr>
<tr>
<td>(7) Direct that interest earned on funds donated for construction of capital projects be credited to the account. Include all currently open OUS capital project donation accounts.</td>
<td>SB 437: Contained this provision. SB 437 B-Engrossed: Contains this provision.</td>
<td>Provides incentive to donors to transfer funds, knowing their contributions will earn interest for the project.</td>
</tr>
<tr>
<td>(8) Direct that interest on OUS funds, including student tuition and fees, be directed to OUS accounts, and be continuously appropriated to the System.</td>
<td>SB 437: Contained this provision. SB 437 B-Engrossed: Provision deleted by legislative leadership due to significant negative fiscal impact, with the support of the Governor, who seeks to direct this interest income to his Access Scholarships for Education Trust (ASET).</td>
<td>Future success of Governor’s ASET plan could direct OUS tuition and fee interest income to need-based financial aid.</td>
</tr>
<tr>
<td>Flexibility Objective</td>
<td>SB 437 &amp; Outcomes</td>
<td>Impact</td>
</tr>
<tr>
<td>-----------------------</td>
<td>-------------------</td>
<td>--------</td>
</tr>
<tr>
<td>(9) Exempt from the Public Records Law documents prepared by or under the control of OUS relating to potential donors of money or property.</td>
<td>SB 437: Contained this provision. SB 437 B-Engrossed: Contains this provision.</td>
<td>Gives OUS clear statutory authority to keep confidential any documents related to potential donors. Provides greater assurance to potential donors that their personal financial records will not be released to the public.</td>
</tr>
<tr>
<td>(10) DAS and OUS will jointly support an independent review of the impact of SB 437, and report to the 2007 Legislative Assembly the findings of the review.</td>
<td>SB 437: Did not contain this provision. SB 437 B-Engrossed: Contains this provision.</td>
<td>This review and report parallels the independent audit of SB 271 conducted in 1997-98 and submitted to the 1999 Legislative Assembly. Provides an opportunity to OUS to showcase best practices and administrative efficiencies gained through passage of SB 437.</td>
</tr>
<tr>
<td>(11) Require the OSAC to study and report to the 2005 Legislative Assembly on the impact of limiting independent college student Opportunity Grant awards to no more than that awarded to students attending OUS institutions, and make a recommendation on whether to implement the change.</td>
<td>SB 437: Did not contain this provision. SB 437 B-Engrossed: Contains this provision.</td>
<td>Although this issue was not contemplated in the drafting of SB 437, the addition of the flat grant report and recommendation as a rider to the bill is in the interest of the OUS and was accepted as a friendly amendment.</td>
</tr>
</tbody>
</table>
OREGON STATE BOARD OF HIGHER EDUCATION
BUDGET & FINANCE COMMITTEE
ROOMS 327-9, SMITH MEMORIAL STUDENT UNION
PORTLAND STATE UNIVERSITY
SEPTEMBER 19, 2003
8—9 a.m.

AGENDA

1. Call to Order/Roll Call

2. Action Items
   a. SOU—Jefferson Public Radio Foundation Ground Lease
      SOU seeks Board approval to authorize the Senior Vice Chancellor for Finance
      and Administration or designee to complete a proposed seven-year lease of land
      on the north campus to the JPR Foundation for the purpose of construction a
      facility to house broadcasting facilities for JPR, JPR Foundation offices, and the
      Western States Museum of Broadcasting. The Foundation will donate the facility
      to the University upon completion of construction.

3. Consent Item
   a. Optional Retirement Plan—Proposed Amendment Correction
      On July 18, 2003, the Board approved an amendment to the Optional Retirement
      Plan. This proposal corrects a formatting error in Section 6.2.

4. Discussion Item
   a. Budget and Finance Committee Calendar
      The Committee will review a preliminary calendar of events for the upcoming
      year. The calendar represents the best estimate of events and their timing, but is
      inevitably subject to change.

5. Report Item
   a. Managerial Reporting—Quarterly Management Reports
      To request Board acceptance of quarterly management reports dated June 20,
      2003, that monitor the financial activity of the OUS current unrestricted and
      auxiliary enterprise funds. (See Supplemental Materials—Appendix “C”)

6. 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) 346-5795 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.
SOU, Jefferson Public Radio Foundation Ground Lease

Summary
Southern Oregon University (SOU) seeks Board approval to authorize the Senior Vice Chancellor for Finance and Administration or designee to complete a proposed seven-year lease of campus land to the Jefferson Public Radio (JPR) Foundation. The JPR Foundation is a private nonprofit public benefit corporation assisting SOU through its support of the activities of the JPR.

SOU proposes to lease a parcel of land on the north campus to the JPR Foundation for the purpose of constructing a facility to house broadcasting facilities for JPR, JPR Foundation Offices, and the Western States Museum of Broadcasting. The Foundation will donate the facility to the University upon completion of construction.

Background
SOU operates the JPR, a network of 19 radio stations stretched between Eugene, Oregon and Mendocino, California and 33 translators augmenting JPR service to this vast area. The program’s extraordinary growth has led to JPR’s ranking as one of America’s largest public radio services. The JPR network stations provide the only public radio service for most portions of its listening area, thus serving a significant role in the cultural life of the region.

JPR has 18 full-time staff members and numerous students and volunteers. JPR invites participation by students from various academic areas—for example, political science students produce public affairs programs and music majors serve as commentators on music programming. Many students who have acquired skills at JPR have gone into radio or television broadcasting careers.

The new facility will cost approximately $10 million. About a third of it will house JPR’s studios and offices, which will be relocated from their current crowded Central Hall location originally developed for JPR’s founding 10-watt radio station, KSOR, in 1960. Where JPR initially provided a single program service over a single radio station, the network now offers three full-time separate program services that are transmitted over its network of multiple stations, in addition to its webstream iJPR program service. This multiple service concept, initiated by JPR and now being emulated elsewhere in the nation, requires use of multiple simultaneous studio facilities that the Central Hall studios cannot fully support. This led to SOU’s purchase of the Cascade Theatre in Redding in 1999, from which JPR now programs a portion of each broadcast day.

The Western States Museum of Broadcasting, and associated JPR Foundation offices, will utilize approximately two-thirds of the new facility. The Museum, which is being developed with a mixture of broadcasting industry resources and other private support, will exhibit and interpret the educational, social, political, and technical history of radio and television in America through a variety of offerings, including a full research library, public presentations, and the Museum’s ongoing permanent and special exhibits. One example of support already received is the donation in 2002 by ChevronTexaco of the...
company’s memorabilia associated with the historic Metropolitan Opera radio broadcasts, dating back to 1940, which ChevronTexaco has continuously sponsored since that date. That collection is currently in storage pending the completion of the new facility.

**Terms of the Proposed Transactions**
The facility will be designed and constructed in a manner that is satisfactory to SOU and complies with Oregon University System purchasing and contracting rules. The Foundation intends to raise funds for the design and construction of the facility with the intention to donate the facility to the University upon completion.

The University will maintain the facility for the operations of Jefferson Public Radio, and under a separate agreement, lease space to the JPR Foundation for the purpose of operating the Western States Museum of Broadcasting.

**Conditions of Lease**
The term of the lease is seven years. During the term of the lease, SOU has the option to extend the lease to permit the completion of the construction project.

**Staff Recommendation to the Budget and Finance Committee**
Staff recommends that the Board approve Southern Oregon University’s request to execute a ground lease with the JPR Foundation, for the purpose of constructing a facility to house broadcasting facilities for JPR, JPR Foundation Offices, and the Western States Museum of Broadcasting, subject to final approval by the Senior Vice Chancellor for Finance and Administration or designee.

(Board action required.)
Optional Retirement Plan—Proposed Amendment Correction

**Summary**
Amendment No. 2 to the Optional Retirement Plan was approved by the Board on July 18, 2003, with the stipulation that additional information would be provided related to the amendment. Due to a formatting problem with the document, it did not communicate the intent to change the timing of forfeitures. As amended, the forfeiture account value is established at the time of a participant’s employment termination instead of at a Plan Valuation Date.

**Staff Report to the Board**
On July 18, 2003, the Board approved the amendment to the Optional Retirement Plan as follows with strikethroughs indicating deletions and **bold** indicating additions:

6.2 Forfeitures

(a) **General**

In the event a Participant terminates employment prior to becoming one hundred percent (100%) vested in his or her Employer Contribution Accounts, the nonvested portion shall be forfeited upon the date the Participant receives a distribution from the Plan of the Participant’s total vested benefit.

The amount forfeited shall equal the nonvested balance as of the **calendar month** Valuation Date coinciding with or next following termination of employment.

The second paragraph above should read:

The amount forfeited shall equal the nonvested balance as of the **calendar month** Valuation Date coinciding with or next following termination of employment.

**Staff Recommendation to the Board**
Staff recommends that the Board approve the correction to the amendment to the Optional Retirement Plan as submitted.

*(Board action required.)*
## Calendar of Events

<table>
<thead>
<tr>
<th>Month</th>
<th>Committee Meeting Date</th>
<th>Other Relevant Dates</th>
<th>Event/Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>September 2003</strong></td>
<td>September 18-19 (PSU)</td>
<td></td>
<td>Report Items:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Quarterly Management Report</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Discussion Items:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Budget and Finance Committee Calendar FY 2003-04</td>
</tr>
<tr>
<td><strong>October 2003</strong></td>
<td>October 16-17 (OIT Metro Center)</td>
<td></td>
<td>Action Items:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Athletic Financial Review - OSU, PSU, UO (Annual)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Report Items:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• FY 2004 (Annual) Budget: Funding, Enrollments, and other Expectations</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Discussion Items:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Funding Allocation Review - Work Plan (New Initiative)</td>
</tr>
<tr>
<td><strong>November 2003</strong></td>
<td>November 20-21 (PSU)</td>
<td></td>
<td>Action Items:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Capital Items <em>(Tentative)</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Report Items:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Administrative Policy Revisions (Ongoing)</td>
</tr>
</tbody>
</table>
## Calendar of Events

<table>
<thead>
<tr>
<th>Month</th>
<th>Committee Meeting Date</th>
<th>Other Relevant Dates</th>
<th>Event/Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2003</td>
<td>December 20</td>
<td></td>
<td>Action Items:</td>
</tr>
<tr>
<td></td>
<td>Teleconference</td>
<td></td>
<td>• Summer Session Fee Book (Annual)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Capital Items <em>(Tentative)</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Report Items:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Enrollment Status Report</td>
</tr>
<tr>
<td>January 2004</td>
<td>January 15-16</td>
<td>(PSU)</td>
<td>Report Items:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Fee Remissions - 6(^{th}) Month Status</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Status - Budget Note Follow up</td>
</tr>
<tr>
<td>February 2004</td>
<td>February 19-20</td>
<td>(UO)</td>
<td>Action Items:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Capital Items <em>(Tentative)</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Report Items:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• External Financial and Compliance Report (Moss/Adams) Annual</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• OUS Investment Report (Annual)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Discussion Items:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Development of 2005-2007 Legislative Concepts</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Tuition and Fees: Status for 2004-05</td>
</tr>
<tr>
<td></td>
<td></td>
<td>February 15</td>
<td>Possible referendum on taxes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>OUS receives 2005-2007 Budget Instructions from DAS</td>
</tr>
<tr>
<td>March 2004</td>
<td>No Meeting</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Calendar of Events

<table>
<thead>
<tr>
<th>Month</th>
<th>Committee Meeting Date</th>
<th>Other Relevant Dates</th>
<th>Event/Topic</th>
</tr>
</thead>
</table>
| **April 2004** | April 15-16 (PSU)     |                      | **Action Items:**  
• 2005-2007 Legislative Concepts  
• E-Board Items *(Tentative - as needed)*  

**Report Items:**  
• Quarterly Management Report  
• Enrollment Status Report  

**Discussion Items:**  
• Development of 2005-2007 Biennial Operating Budget Request  
• Development of 2005-2007 Biennial Capital Budget Request  

|                   | April 15                |                      | **End of Winter Term Preliminary Enrollment**  
2005-2007 Legislative Concepts due to DAS |
| **May 2004**      | May 20-21 (SOU)         |                      | **Action Items:**  
• Capital Items *(Tentative)*  
• 2004-05 Academic Year Fee Book  

**Discussion Items:**  
• Development of 2005-2007 Biennial Operating Budget Request  
• Development of 2005-2007 Biennial Capital Budget Request  
• Funding Allocation Review - Findings |
## Board Committee on Budget and Finance

### Calendar of Events

<table>
<thead>
<tr>
<th>Month</th>
<th>Committee Meeting Date</th>
<th>Other Relevant Dates</th>
<th>Event/Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2004</td>
<td>June 18 Teleconference</td>
<td></td>
<td><strong>Action Items:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Capital Items <em>(Tentative)</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Report Items:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Fee Remission Use 2004</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Quarterly Management Report</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Discussion Items:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Development of 2005-2007 Biennial Operating Budget Request</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Development of 2005-2007 Biennial Capital Budget Request</td>
</tr>
<tr>
<td>July 2004</td>
<td>July 15-16 (PSU)</td>
<td></td>
<td><strong>Action Items:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Approval of 2005-2007 Biennial Operating Budget Request</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Approval of 2005-2007 Biennial Capital Budget Request</td>
</tr>
<tr>
<td>August 2004</td>
<td>No meeting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>September 2004</td>
<td>Sept 16-17 (PSU)</td>
<td>Sept 1</td>
<td>Quarterly Management Report</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Submit Biennial Budget Request to Governor</td>
</tr>
</tbody>
</table>
Managerial Reporting – Quarterly Management Reports

**Background**
One of the recommendations coming out of the fiscal accountability framework project was that mechanisms be established to provide assurance to the Board that the financial activity of OUS universities is being monitored on an ongoing basis. It is understood that each university is responsible for monitoring its financial activity. An objective of the fiscal accountability framework was to ensure that sufficient controls and documentation are in place to provide the Board with assurance that ongoing monitoring is indeed taking place.

Monitoring OUS financial activity is a significant challenge given that its annual revenues exceed $1.5 billion and its accounting records comprise over 31,000 funds in 28 major fund groups. The management reporting workgroup of the fiscal accountability framework reviewed various external resources to identify managerial reporting needs. One key resource included a publication entitled Financial Responsibilities of Governing Boards of Colleges and Universities (Second Edition), which was produced jointly by the Association of Governing Boards of Universities and Colleges (AGB) and the National Association of College and University Business Officers (NACUBO). Other resources included sample reports from a number of major institutions and systems of higher education, as well as certain reports already produced within OUS, both by the Chancellor’s Office and University personnel. The workgroup identified 15 management reporting needs, in varying degrees of detail, that would be prepared by each university, reviewed by the Chancellor’s Office, and summarized for the Board. The 15 management reporting needs are listed in Table A on page 33.

A subsequent work team developed reporting formats to satisfy five of the 15 management reporting needs. The report formats resulted in three reports:

- Comparison of projected end-of-year amounts to initial and operational budgets,
- Comparison of year-to-date financial activity to prior year, and
- Tracking of monthly cash balances.

The intent was to report the operating activity of the seven OUS universities and the Chancellor’s Office into a series of summarized and useful reports.

The reports noted above and presented herein focus on unrestricted funds (including designated operations and service departments) and auxiliary enterprise funds. Reports addressing the other funds of OUS will be incorporated in future phases of the managerial reporting project.

The above reports are intended to be prepared quarterly. It was determined that first quarter reports would not be presented because of the timing of the Board approval of
the annual operating budget, and because the first quarter occurs before the beginning of fall term and therefore may not be useable for making reasonable year-end projections. Therefore, it was determined that reports would be prepared and presented to the Board for three quarters each year:

<table>
<thead>
<tr>
<th>Quarter Ending</th>
<th>Presented to Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>December</td>
<td>March</td>
</tr>
<tr>
<td>March</td>
<td>June</td>
</tr>
<tr>
<td>June</td>
<td>September</td>
</tr>
</tbody>
</table>

Analysis

The attached management reports of unrestricted funds (including designated operations and service departments) and auxiliary enterprises are designed to provide information of the financial activity of the current fiscal year, to identify potential problems, and to provide consistent documentation that ongoing monitoring is taking place. The three reports contain data from the unaudited accounting records as of June 30, 2003.

The actual June 30, 2003, amounts represent unaudited amounts without year-end adjustments. After reviewing the series of unrestricted funds and auxiliary enterprise reports received from each university, we have noted the following:

Comparison of unaudited end-of-year amounts to initial and operational budgets:

1) Operational versus Initial Budget

The Board approves an initial budget in October of each year. The initial budget contains projected revenues, with a general understanding of a balanced budget in which projected expenditures equal projected revenues.

As additional information becomes available throughout the year, the universities make adjustments to update the initial budget. Examples include expected changes in government appropriations and tuition and fee revenue. Another example would include carrying forward a department’s unexpended budget balance from the prior year into the expenditure budget of the current year. The initial budget and the adjustments become the operational budget.

2) Government Appropriations

Government appropriations in the initial budget were $386 million. Unaudited end of year amounts for government appropriations are $356 million, which is $30 million or 8 percent less than the initial budget approved by the Board. These reductions are due to the budget reductions made by the legislature.

3) Student Tuition and Fees

The increase in unaudited end-of-year amounts for student tuition and fees is primarily attributable to the tuition surcharge implemented in winter term. The initial budget projected student tuition and fees of $340 million.
4) **Education and General Expenditures**
Due to the decline in government appropriations partially offset by increases to tuition and fees, the unaudited end-of-year Educational and General (E&G) expenditures are $39 million (net of transfers out of $26 million) or 5 percent less than the initial budget approved by the Board.

5) **Fund Additions/(Deductions)**
Fund additions of $81 million primarily pertain to the capitalization of capital construction expenditures that occurred during the year. At the end of the year, the capital construction expenditures are capitalized as “completed buildings” or “construction in progress.” The net result is to increase the capital assets and fund balance of auxiliary enterprises.

6) **Beginning Fund Balance Adjustments**
During fiscal year 2003, debt balances associated with auxiliary enterprise capital assets were moved from the investment in plant funds held by the Chancellor’s Office to the related activity at the university. This caused auxiliary enterprise fund balances to decline.

7) **Ending Fund Balance of Unrestricted and Auxiliary Enterprise Funds**
The unaudited end-of-year fund balance of $124 million is lower that the $277 million budget approved balance by $153 million or 55 percent. This is mainly due to the debt reallocation of $250 million partially offset by capitalized assets of $81 million and favorable E&G activities of $25 million.

**Comparison of year to date financial activity (unaudited) to prior year:**

1) **Student Tuition and Fees**
Student Tuition and Fees recorded through June 30, 2003, of $351 million are $52 million higher than recorded for the same period last year. The increase is attributed to the following:
- Increased enrollment of approximately $19 million.
- Tuition and fee increases of approximately $14 million.
- Tuition surcharge of approximately $17 million.

2) **Auxiliary Operations**
Auxiliary Operations increased $21 million to $233 million for the year ended June 30, 2003, compared to the same period in 2002. The increase is primarily attributed to the following:
- Increased athletics ticket sales and concessions of $5 million.
- Increased rates for housing, student incidental, and health service fees of approximately $4 million.
- Increased occupancy of approximately $2 million.
- Increased Foundation support to Athletics of approximately $5 million.
- Increased Lottery proceeds of approximately $2 million.
• Increased sales of approximately $2 million.

3) Education and General Expenditures
E&G expenditures for the year ended June 30, 2003, are lower than the E&G revenues. This is because the universities began cost cutting measures to offset decreased appropriations revenues.

E&G expenses of $748 million for the year ending June 30, 2003, are $31 million or 4 percent higher than for the same period one year ago. Total salaries and wages increased by 4 percent, other payroll expenses (e.g., payroll taxes, retirement and health insurance benefits) increased by 8 percent, and services and supplies increased by 3 percent.

4) Auxiliary Expenditures
Auxiliary expenditures increased $22 million, or 12 percent, for the year ended June 30, 2003 compared to 2002. Total salaries and wages increased by $4 million or 6 percent, other payroll expenses (e.g., payroll taxes, retirement and health insurance benefits) increased by $2 million, or 11 percent, and services and supplies increased by $9 million, or 12 percent. Depreciation and capital outlay increased $6 million.

5) Net Operating Surplus (Deficit)
Net Operating Surplus declined 17 percent for the periods ended June 30, 2003, compared to 2002. This can be mainly attributed to the decline in state appropriations.

6) Fund Additions/(Deductions)
At June 30, 2003, and 2002, the balances relate to the capitalization of assets discussed in number 5 in the comparison to the operational budget. Also, in 2002, adjustments resulted from the implementation of GASB 35.

7) Beginning Fund Balance Adjustments
This variance relates to the debt transfer discussed in number 6 in the comparison to the operational budget, above.

Tracking of monthly cash balances:

1) Cash Balances at June 30, 2003
The cash balances are comparable to prior months and generally higher compared to the same periods in prior years. E&G increased due to enrollment, tuition and fees and the tuition surcharge, partially offset by increased expenditures. Auxiliary cash balances increased in housing, student centers, health centers, and other auxiliaries.

Additional reports to support the above analysis are on file and are available upon request.
Conclusions
OUS universities are responsible for monitoring their financial activity. Much of the financial activity is monitored in relation to the projected year-end totals of revenues and expenditures.

The Controller's Division requested the management of each university to verify the amounts in the managerial reports, to update annual projections, and to identify and provide explanations to significant variances. The Controller's Division reviewed the managerial reports and variance explanations provided by each university for reasonableness, and compiled the managerial reports of each university into a series of consolidated Systemwide reports.

The fiscal status of OUS unrestricted funds (including designated operations and service departments) and auxiliary enterprise funds at June 30, 2003, is stable. University management have adjusted their budgets and managed revenues and expenditures in response to the state appropriation reductions. University year-end results are within reasonable operational parameters.

Staff Recommendation to the Board
Staff recommends that the Board accept the above management reports for June 30, 2003. Additional reports will be prepared for the quarter ending December 31, 2003, and will be presented to the Board in March 2004.

(Board action required.)
The managerial reporting workgroup identified 15 reports, falling into the following categories:

<table>
<thead>
<tr>
<th>Managerial Reporting Need</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preliminary Estimates of Revenue and Expense (annual report)</td>
<td>Implemented</td>
</tr>
<tr>
<td>Estimates versus Actual Comparisons</td>
<td>Implemented</td>
</tr>
<tr>
<td>Revised Estimates of Annual Revenue and Expense</td>
<td>Implemented</td>
</tr>
<tr>
<td>Comparison of Actual Revenue and Expense to Prior Year</td>
<td>Implemented</td>
</tr>
<tr>
<td>Capital Projects Summary</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Development (fund-raising)</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Cash</td>
<td>Implemented</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Investments – Endowments</td>
<td>Investment Committee</td>
</tr>
<tr>
<td>Debt Capacity</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Legal</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Grants/research</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Technology (Information Technology)</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Regulations</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Risk Management</td>
<td>To be implemented</td>
</tr>
</tbody>
</table>
OGON STATE BOARD OF HIGHER EDUCATION
SYSTEM STRATEGIC PLANNING COMMITTEE
ROOMS 327-9, SMITH MEMORIAL STUDENT UNION
PORTLAND STATE UNIVERSITY
SEPTEMBER 19, 2003
9—11 a.m.

AGENDA

1. Call to Order/Roll Call

2. Consent Items
   a. **OSU, Earth Science, B.S.**  34
      The proposed program will replace the earth science option in OSU’s General Science program. The program is designed primarily for teachers and park service personnel.
   b. **OSU, Education, B.A., B.S.**  36
      The proposed degree may be earned only by current OSU students, in conjunction with another bachelor’s degree in the student’s chosen field. The program is designed primarily for students majoring in scientific fields, thus responding to some of the state’s specific teacher shortage areas.
   c. **OSU, Molecular and Cellular Biology, M.S.**  38
      The proposed program will complement OSU’s existing Ph.D. in Molecular and Cellular Biology and provide students both research and applied biotechnology options.
   d. **OUS Collaborative Reading Endorsement**  41
      Five OUS universities propose to collaboratively offer a distance-delivered program that would prepare teachers to receive the Reading endorsement.

3. **Discussion Item**
   a. **System Strategic Planning Committee Calendar**  43

4. **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) 346-5795 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.
OSU, B.S., Earth Science

Oregon State University proposes to offer an instructional program leading to the baccalaureate degree in Earth Science, effective fall 2004. OSU currently offers an earth science option in its undergraduate General Science program. Western Oregon University is the only other Oregon institution with a bachelor’s program in earth science. While WOU’s program is in general earth science, OSU’s program provides professional options and the distinct components of soil science, atmospheric science, and oceanography. Other, closely related programs in OUS institutions include geology, geography, and environmental sciences and studies.

The proposed program is designed to be flexible enough to allow specialization in one of several areas, but focused enough to provide critical knowledge in the multidisciplinary field of earth science. Students will receive basic training in most of the earth science spheres and upper-division training in at least one sphere: (1) geosphere, (2) hydrosphere, or (3) atmosphere. All students will take upper-division coursework in earth science techniques and complete a capstone course in global earth science issues.

Students will also receive advanced training in one of four areas of application: (1) earth system science, (2) earth science education, (3) public interpretation, or (4) applied earth science. Each of these options is tailored to meet a specific state or national need.

- **Earth System Science** will educate students broadly in earth science, developing student understanding of the relationships among the earth’s spheres (including biosphere). Additional training will be provided in paleoclimatology, global climate, and remote sensing. Students completing this option will be prepared for either advanced education/training in a specific field (e.g., oceanography, soil science) or employment in resource management.

- **Earth Science Education** will educate students in both earth science and one additional science (i.e., math, chemistry, or physics), thus preparing earth science teachers for K-12, and math or science teachers in grades 5-9. Students will have sufficient content and required practica to apply for Initial Licensure in Oregon after enrolling in an education M.S. or M.A.T. Current teachers completing this program will be eligible to receive a teaching endorsement in Integrated Science.

- **Public Interpretation** will provide skills necessary to engage the public in earth science observation and issues. Students will have internship opportunities for interpreting national features to the public with such organizations as the National Park Service, the Student Conservation Association, and the Geological Society of America. Students will be well-positioned to perform interpretive work in parks, nature preserves, and museums. Graduates with this option will be eligible to apply for professional certification through the National Association for Interpretation.

- **Applied Earth Science** will emphasize Geographic Information Systems (GIS), cartography, landforms, environmental assessment, and remote sensing. This
set of skills and knowledge are in demand in such fields as forestry, agriculture, and the military.

The proposed program will be housed in the Department of Geosciences and will capitalize on other close collaborations with the College of Oceanic and Atmospheric Sciences and the College of Agriculture. Only three new courses are needed to implement the program. All students will complete 81 to 84 core earth science/basic science skills credits and 31 credits in their area of application.

Need for this program has been demonstrated on a number of fronts. A survey of a subset of current OSU students in related areas revealed enough student interest in the program to justify its implementation. Regional, national, and global issues facing scientists (e.g., climate change, energy, natural resource use, pollution) require multidisciplinary understanding and skills. The majority of secondary school teachers in Oregon have little or no training in earth science, a condition that is experienced in other states, as well. The National Park Service program, Geoscientist in the Parks, has signaled its strong support of this major to help meet its important, and increasing, employment demands. Currently, the majority of its hires have backgrounds in biosciences or a highly specialized physical science. However, biotic systems are complex and inextricably linked to the array of physical systems. Issues such as forest wildfire, soil conditions, natural resource use, groundwater, and climate are part of the broader context in which research, policy, and decision-making occurs. Graduates of OSU’s program will be capable of working in this environment.

By the program’s fourth year, OSU expects to enroll 70 students, and graduate 50, each year. The target populations to be served by this degree are teachers and park service personnel. Therefore, key classes will likely be offered on a rotating basis during summers and perhaps via distance delivery, as well.

All faculty, staff, research resources, facilities, and equipment are in place to offer the program. A new faculty hire in paleoclimatology, along with reallocated faculty teaching loads and rotating course schedules, will accommodate offering the new courses.

All appropriate university committees and the OUS Academic Council have positively reviewed the proposed program.

The full report is available at OUS Academic Affairs upon request.

Staff Recommendation to the Board
Staff recommends that the Board authorize Oregon State University to establish an instructional program leading to the baccalaureate degree in Earth Science. The program would be effective fall 2004, and the OUS Office of Academic Affairs would conduct a follow-up review in the 2009-10 academic year.

(Board action required.)
OSU, B.A./B.S., Education

Oregon State University proposes to offer an instructional program leading to the baccalaureate degree in Education, effective fall 2003. (The program will be offered at the OSU–Cascades Campus starting fall 2004.) The education degree may be earned only by current OSU students, in conjunction with another bachelor’s degree in the student’s chosen field. This double-degree program will primarily target students majoring in science disciplines and in applied sciences (e.g., engineering, forestry, agriculture, oceanography, computer science, mathematics, physics, chemistry, environmental sciences, natural resources). The goal is to prepare K-12 teachers in key shortage areas.

Other institutions in Oregon offering undergraduate teacher education programs are Eastern Oregon University, Portland State University, Southern Oregon University, the University of Oregon, Western Oregon University, Cascade College, Concordia University, George Fox University, Linfield College, Northwest Christian College, Pacific University, the University of Portland, Warner Pacific College, and Western Baptist College. OSU’s program differs in that it is open only to current OSU students and targets a different population of students. The proposed undergraduate program will not supplant OSU’s current graduate teacher education offerings (i.e., M.A.T., M.S.).

The proposed program includes all coursework and practica required by the Oregon Teacher Standards and Practices Commission (TSPC) to qualify for an Initial Teaching License. Students will be able to specialize in one of four levels—early childhood, elementary, middle school, or high school. Students will complete 40 credits in addition to the requirements for their other bachelor’s degree—8 core education credits, 17 credits in professional education, and 15 field-experience and seminar credits. The 15-week student teaching/internship includes 9 continuous weeks in schools. Students will also complete shorter experiences in schools as part of the professional education coursework. Graduates of this program must pass the relevant Praxis II exam(s) required by TSPC to obtain an Initial Teaching License.

Development of this program included close collaboration with Linn-Benton and Chemeketa Community Colleges. As a result, the eight core credits (or their equivalent) will be available at these community colleges and will be transferable directly into OSU’s program.

The program is designed to provide flexibility to students. Core courses will likely be offered during the summer. Courses will also be offered in alternative formats and times (e.g., evenings, Friday night/full Saturday), and some courses will be offered in local schools (e.g., Corvallis, Albany, Philomath). OSU expects to serve 175 students in this program by the fifth year of operation.

In the future, OSU may develop an Adult Development/Youth Development Pathway. This 32-credit option would prepare students who are interested in teaching in a
community agency; or in an adult-, youth-, or workforce-development setting. Students in this option would have learning and experiential activities similar to the 40-credit program except that the internship would not be as extensive.

Need for this program is demonstrated in several ways. On the national level, the No Child Left Behind (2002) legislation calls for a highly qualified teacher in all core subjects in American K-12 schools by the end of the 2005-06 school year. Core subjects include English, reading/language arts, mathematics, science, foreign languages, civics/government, economics, arts, history, and geography. Each year, a significant percentage of newly hired Oregon educators are drawn from out of state. In addition, more teachers will be eligible to retire in the coming years. These situations converge, heightening the need for a program such as OSU proposes. The state’s teacher shortage areas include advanced mathematics, physics, chemistry, and professional/technical education, which are the focus areas for this degree.

Student interest in the program was identified through a fall 2002 survey of 3,000 new OSU students. Nearly one-third indicated they would pursue the double-degree in education if it were available. Of 14 students enrolled in the program’s three pilot courses, 5 majored in engineering and 4 in physics.

All courses will be new except one, which will be redesigned. No additional faculty will be added to the OSU main campus, and OSU-Cascades Campus will add one new faculty member for the program. Reallocation of faculty teaching loads (e.g., adjunct faculty and doctoral students to teach many of the lower-division core and selected M.A.T. courses) and reducing the number of M.A.T. students will allow reallocation of resources necessary to support this program. OSU’s elementary education program within the M.A.T. will be moved to a self-support model, and summer school net revenue will be allocated to the program to assist with first-year start-up costs. All necessary facilities, equipment, and technology are in place to offer the program, and only modest additional library resources will be required.

All appropriate university committees and the OUS Academic Council have worked through relevant issues and concluded with positive reviews of the proposed program.

The full report is available at OUS Academic Affairs upon request.

Staff Recommendation to the Board

Staff recommends that the Board authorize Oregon State University to establish an instructional program leading to the baccalaureate degree in Education. The program would be effective fall 2003, and the OUS Office of Academic Affairs would conduct a follow-up review in the 2008-09 academic year.

(Board action required.)
OSU, M.S., Molecular and Cellular Biology

Oregon State University proposes to offer an instructional program leading to the M.S. degree in Molecular and Cellular Biology (MCB), effective fall 2003. The degree will complement OSU’s existing Ph.D. program in Molecular and Cellular Biology.

The proposed master’s program will be unique in the state. Related programs are the University of Oregon’s master’s and doctoral programs in biology with two tracks: (1) molecular biology or (2) cellular biology. Oregon Health and Science University offers master’s and doctoral degrees in Biochemistry and Molecular Biology.

OSU’s program will include both thesis and non-thesis options. The thesis option will serve those students pursuing their degree by conducting research in MCB-faculty laboratories, but whose career goals don’t require the level of scholarship and leadership of a doctorate. The non-thesis option will serve students who have a general interest in MCB, as well as students interested in entering the professional-master’s track in applied biotechnology. All students will be required to complete 17 core credits as part of the program’s total 45-credit requirement. They will also be required to complete a written paper, oral presentation, and defense.

The majority of thesis-track work will focus on thesis research. Students in the professional-master’s track will complete four to six credits of laboratory research in addition to their electives. They will also be exposed to intellectual property concepts, management, and other subjects important in industry settings. Industry internships of three to six months will be available to students in this track.

Advisors of thesis-track students will oversee the student’s research activities. Advisors of non-thesis students will monitor the progress and quality of internships and chair a final committee meeting in which the student is examined orally.

All graduates of this program will possess:
- the skills to perform basic molecular biology procedures common in the biotechnology industry and academic research labs,
- the theoretical training necessary to plan experiments and interpret the results,
- sufficient understanding of advanced technologies to support their participation in scientific-investigation planning, and
- appropriate professional communication skills.

OSU anticipates attracting, serving, and graduating 4 to 14 students per year, and expects that most will pursue advanced scientific careers or professional advancement in industrial, rather than academic, settings. In some cases, students may already be working in their chosen career, yet desire to learn specific technologies available at OSU. Still others may have started OSU’s MCB doctoral program and later decided that the master’s degree better matched their goals.
The proposed program will utilize existing OSU courses. Two new courses will be introduced that will increase the level of technical training students receive. One new course—Advanced Bioscience Technologies—will use a workshop format to teach students about emerging technologies important in the biosciences. The new Industry Internship will familiarize students with common industrial practices and introduce them to potential employers, while providing OSU feedback on the relevancy of its coursework to industry needs.

Need for the program has been demonstrated in a number of ways. A 2001 OSU-commissioned analysis of graduate-program market potential revealed that the biological sciences were among the four categories exhibiting the greatest growth in master’s-degree completions during the 1990s. Both prospective and current students have also expressed interest and need for the program.

The biotechnology industry is a desirable avenue of economic development for Oregon. However, the development of this industry within the state has lagged largely due to a number of factors perceived as unfavorable by industry. A foremost barrier has been lack of a qualified labor pool. Out-of-state biotechnology companies echo these concerns, indicating a need for employees with master’s degrees in molecular and cellular biology.

The immediate budgetary impact of this proposal is minor because it adds a master’s degree to an existing Ph.D. program. Only 0.085 FTE new faculty will be needed to coordinate and teach the new Advanced Bioscience Technologies course. Funding for faculty and services and supplies comes from the Sloan Foundation grant. This grant, which ends December 31, 2004, supports OSU’s establishment of four new training programs, including the applied biotechnology track. Other activities supported by the grant include initial meetings with industry representatives and faculty design/implementation of the new courses.

The dean of OSU’s College of Science has agreed to fund clerical staff support, if needed. It’s been determined that an additional 0.25 FTE classified staff will be needed if the enrollment in the master’s program exceeds four students. Equipment and supplies are anticipated to be loaned by participating industries. All other resources are in place to offer the program.

All appropriate university committees and the OUS Academic Council have positively reviewed the proposed program. The requirement for an external review of the program was waived in accordance with Board policy since OSU has an existing Ph.D. program in Molecular and Cellular Biology.

The full report is available at OUS Academic Affairs upon request.
Staff Recommendation to the Board
Staff recommends that the Board authorize Oregon State University to establish a program leading to the M.S. in Molecular and Cellular Biology. The program would be effective in fall 2003, and the OUS Office of Academic Affairs would conduct a follow-up review in the 2008-09 academic year.

(Board action required.)
OUS Collaborative Reading Endorsement

Five OUS institutions—Eastern Oregon University, Oregon State University, Portland State University, Southern Oregon University, and Western Oregon University—propose to collaboratively offer a distance-delivered program that prepares K-12 teachers to receive the reading endorsement. Currently, four of the five universities have Board and Teacher Standards and Practices Commission authorization to offer a reading endorsement program (EOU, PSU, SOU, and WOU). SOU has the authority to offer a reading endorsement program, but is not currently admitting students because of faculty shortages. OSU does not have an approved reading endorsement program. No other institution in Oregon offers a fully distance-delivered reading endorsement program.

Students will complete 24 graduate-level credits: 3 credits in each of five thematic areas, 3 credits of supervised practicum, and 6 credits of electives. The thematic areas—(1) Literacy Foundations, (2) Literacy Strategies and Methods, (3) Literacy for Diverse Learners, (4) Literacy Assessment, and (5) Leadership in Literacy Programs—align with standards for reading professionals developed by the International Reading Association (IRA). A sixth thematic area, Literature, is also aligned with IRA standards and is available for elective credit only. Following program completion, teachers must pass the Reading Praxis II exam in order for TSPC to add the reading endorsement to their teaching license.

The proposed program utilizes various delivery modes, predominantly online, to allow teachers throughout the state (and out of state) to access the program. The collaborative nature of the program design provides sufficient depth of knowledge and experience among existing reading/literacy faculty to allow for full program delivery on all campuses. Various interinstitutional and intersector groups, who will serve in teaching and advisory capacities, have developed a common policy, process, and content framework. Chancellor’s Office staff will develop and manage a common web-based catalog, as well as assist with policy development, decisions, and grant management.

Students, primarily K-12 teachers, will select a home campus from the five member institutions; however, they will be able to take coursework from any of the collaborative members. EOU, PSU, and WOU have developed a crosswalk that links their existing courses with the program, so that students will clearly understand how those fit within the proposed program’s requirements.

Pilot courses offered in spring and summer 2003 yielded enrollments of 68 and 134, respectively, and nearly 200 students have requested a home institution, to date. Any enrollment limitations would be set by faculty teaching in the program.

This program is responsive to state and national needs. It will help school districts meet the emerging Title I requirements of the No Child Left Behind Act of 2001 (i.e., requires
schools to have a reading teacher and/or paraprofessional(s) on staff). The Act also requires states to “set a high standard for achievement in reading and math—the building blocks of all learning—and test every child in grades 3 through 8 to ensure that students are making progress.” The proposed program is particularly timely because Oregon has a shortage of reading specialists (i.e., teachers with reading endorsements). The proposed program was approved by the TSPC in early August.

No new resources are required for this program. The primary funding source is a three-year, $593,899 OUS grant from the Fund for the Improvement of Postsecondary Education (FIPSE). This funding supports the development of 12 three-credit courses and 30 one-credit modules, as well as overall program development and implementation. Tuition assistance is available from $115,000 in total subgrant funds from the Oregon Quality Assurance in Teaching program and the Eisenhower Professional Development program. The program will be offered on a self-support basis.

All appropriate university and interinstitutional committees, and the OUS Academic Council, have positively reviewed this program.

The full report is available at OUS Academic Affairs upon request.

**Staff Recommendation to the Board**

Staff recommends that the Board authorize Eastern Oregon University, Oregon State University, Portland State University, Southern Oregon University, and Western Oregon University to establish an instructional program that prepares K-12 teachers to receive the reading endorsement. The program would be effective fall 2003, and the OUS Office of Academic Affairs would conduct a follow-up review in the 2008-09 academic year.

**(Board action required.)**
2003-04 Overview

SSP discussions in 2002-03 targeted the broad policy issues of Quality, Access, and Affordability, particularly in the context of declining state resources. The work resulted in a Board statement of its commitment to Quality (adopted jointly with the Board of Education), a Board resolution in support of increased funding for the Oregon Opportunity Grant, and considerable progress in addressing philosophical and practical considerations of Access. Additional policy work in the areas of Access and Affordability will require a total K-16 approach and will be placed on the agenda of the Joint Boards Working Group (JBWG) for further development, before those issues are brought back to the Board of Higher Education. Other topics to be addressed by the JBWG prior to OSBHE discussion include student and teacher preparation and P-16 partnerships.

The SSP calendar for 2003-04 will focus on OUS institution planning and strategic initiatives, including a review of each university’s mission. The proposed format consists of focused discussions with one or two presidents at each SSP meeting, addressing the top strategic issues for that institution. In preparation for these focused discussions, a set of background planning information will be compiled for each institution, using a common format. The content and formats for the background information are currently being developed in consultation with the Administrative and Academic Councils.

The SSP Committee also plans to address a limited number of broad policy issues during 2003-04, including the roles of the State, System, and institutions in higher education policy and decision-making; and racial/ethnic diversity of students, faculty, and staff (including a more in-depth follow-up to the April 2003 presentation on diversity).

In addition to the discussion items, the SSP agenda typically includes a consent agenda at each meeting, the primary purpose of which is to take action on new academic degree program proposals that have received prior review by the Chancellor’s Office and the Academic Council.

Finally, the Committee will receive several planning and policy reports intended to support and enrich the discussions of both the broad policy issues and the individual institution plans. The major reports include: (1) reports from presidents on institution goals and performance targets; (2) the annual report on diversity; (3) the annual report and action item on OUS admission policy; (4) the biennial report of the OUS Technology Plan; (5) a report of the biennial survey of student college plans and choices; and (6) a report on institution performance indicators. The report on performance indicators may also include reports of student satisfaction surveys. Other reports may be added as the year progresses.
<table>
<thead>
<tr>
<th>Month</th>
<th>Committee Meeting Date</th>
<th>Other Relevant Dates</th>
<th>Event/Topic</th>
</tr>
</thead>
</table>
| September 2003 | September 18-19 (PSU)  |                      | **Discussion items:**  
|               |                        |                      | • SSP goals for 2003-04  
|               |                        |                      | • SSP calendar  
|               |                        |                      | • Process  
| October 2003  | October 16-17 (OIT Metro Center) |         | **Discussion items:**  
|               |                        |                      | • State, System, and institution roles in higher education policy and decision making  
|               |                        |                      | • President’s conversation with the Board: Oregon Institute of Technology plans and initiatives  
| November 2003 | November 20-21 (PSU)  | Extended meeting     | **Action item:**  
|               |                        |                      | • Proposed OUS residency rule changes  
|               |                        |                      | **Report item:**  
|               |                        |                      | • Reports from institution presidents on 2003-04 goals and targets  
|               |                        |                      | **Discussion items:**  
|               |                        |                      | • President’s conversation with the Board: University of Oregon plans and initiatives  
|               |                        |                      | • Faculty diversity (gender and ethnicity)—discussion with provosts  
| December 2003 | December 20 Teleconference |                      | **Discussion item:**  
|               |                        |                      | • Joint Boards/P-16 issues (to be identified)  

<table>
<thead>
<tr>
<th>Month</th>
<th>Committee Meeting Date</th>
<th>Other Relevant Dates</th>
<th>Event/Topic</th>
</tr>
</thead>
</table>
| January 2004 | January 15-16 (PSU)    | Extended meeting    | **Discussion items:**  
|           |                        |                      | • President’s conversation with the Board: TBA – institution #3 plans and initiatives  
|           |                        |                      | • President’s conversation with the Board: TBA – institution #4 plans and initiatives |
| February 2004 | February 19-20 (UO)   | Extended meeting    | **Action item:**  
|           |                        |                      | • OUS Undergraduate Admission Policy for the 2005-06 Academic Year  
|           |                        |                      | **Discussion items:**  
|           |                        |                      | • President’s conversation with the Board: TBA – institution #5 plans and initiatives  
|           |                        |                      | • President’s conversation with the Board: TBA – institution #6 plans and initiatives |
| March 2004  | No meeting             |                      |                                                                             |
| April 2004  | April 15-16 (PSU)      | Extended meeting    | **Report item:**  
|           |                        |                      | • OUS Technology Plan – biennial report  
|           |                        |                      | **Discussion item:**  
|           |                        |                      | • President’s conversation with the Board: TBA – institution #7 plans and initiatives  
<p>|           |                        |                      | • Annual Report on Student, Faculty, and Staff Racial/Ethnic Diversity—panel of institution leaders |</p>
<table>
<thead>
<tr>
<th>Month</th>
<th>Committee Meeting Date</th>
<th>Other Relevant Dates</th>
<th>Event/Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2004</td>
<td>May 20-21 (SOU)</td>
<td></td>
<td><strong>Discussion items:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Enrollment projections</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Systemwide planning</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Gaps to be filled</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Mission review</td>
</tr>
<tr>
<td>June 2004</td>
<td>June 18 Teleconference</td>
<td></td>
<td><strong>Discussion item:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Joint Boards/P-16 issues (to be identified)</td>
</tr>
<tr>
<td>July 2004</td>
<td>July 15-16 (PSU)</td>
<td></td>
<td><strong>Report items:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• <em>Where Have Oregon’s Graduates Gone?: Class of ’03</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Annual report on institution performance indicators</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Annual report on the Western Undergraduate Exchange</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Five-year follow up reviews of new academic programs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Discussion item:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Board reflections and positions on institution and System missions, planning, strategic directions, and P-16 partnerships</td>
</tr>
<tr>
<td>August 2004</td>
<td>No meeting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>September 2004</td>
<td>September 16-17 (PSU)</td>
<td></td>
<td><strong>Discussion items:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• SSP goals for 2004-05</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• SSP calendar</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Process</td>
</tr>
</tbody>
</table>
1. Call to Order/Roll Call

2. Approval of Minutes
   - Board Renewal Meeting, July 17, 2003
   - Regular Board Meeting, July 18, 2003
   - Executive Committee Meeting, July 18, 2003

3. Board President’s Report

4. Chancellor’s Report
   - Items from Presidents

5. Reports
   - IFS President
   - OSA President

6. Budget and Finance Committee (see green section)

   Action Item

   a. SOU—Jefferson Public Radio Foundation Ground Lease
      SOU seeks Board approval to authorize the Senior Vice Chancellor for Finance
      and Administration or designee to complete a proposed seven-year lease of land
      on the north campus to the JPR Foundation for the purpose of construction a
      facility to house broadcasting facilities for JPR, JPR Foundation offices, and the
      Western States Museum of Broadcasting. The Foundation will donate the facility
      to the University upon completion of construction.

   Consent Item

   a. Optional Retirement Plan—Proposed Amendment Correction
      On July 18, 2003, the Board approved an amendment to the Optional Retirement
      Plan. This proposal corrects a formatting error in Section 6.2.
7. **SYSTEM STRATEGIC PLANNING COMMITTEE** *(see yellow section)*

**Consent Items**

a. **OSU, Earth Science, B.S.**
   The proposed program will replace the earth science option in OSU’s General Science program. The program is designed primarily for teachers and park service personnel.

b. **OSU, Education, B.A., B.S.**
   The proposed degree may be earned only by current OSU students, in conjunction with another bachelor’s degree in the student’s chosen field. The program is designed primarily for students majoring in scientific fields, thus responding to some of the state’s specific teacher shortage areas.

c. **OSU, Molecular and Cellular Biology, M.S.**
   The proposed program will complement OSU’s existing Ph.D. in Molecular and Cellular Biology and provide students both research and applied biotechnology options.

d. **OUS Collaborative Reading Endorsement**
   Five OUS universities propose to collaboratively offer a distance-delivered program that would prepare teachers to receive the Reading endorsement.

8. **Other Reports**
   - Joint Boards Working Group
   - OHSU
   - Oregon College Savings Plan
   - Oregon Council on Knowledge and Economic Development
   - EOU Presidential Search Committee
   - Legislative Report
   - International Science Fair

9. **Public Input**

10. **Items from Board Members**

11. **Delegation of Authority to Board’s Executive Committee**

12. **Adjournment**

---

**Note:** All docket materials are available on the OUS website at: [http://www.ous.edu/board/meetingmaterials.htm](http://www.ous.edu/board/meetingmaterials.htm). Please contact the Board’s office at (541) 346-5795 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
MINUTES OF THE BOARD RENEWAL WORK SESSION
LOWER LEVEL LIBRARY
CENTRAL OREGON COMMUNITY COLLEGE
JULY 17, 2003

1. CALL TO ORDER/ROLL CALL
President Lussier called the Board Renewal Work Session of the State Board of Higher Education to order at 3:52 p.m.

On roll call, the following Board members answered present:

| Mr. Kerry Barnett | Ms. Rachel Pilliod |
| Mr. Roger Bassett | Dr. Geri Richmond  |
| Ms. Bridget Burns | Ms. Phyllis Wustenberg |
| Ms. Leslie Lehmann | Mr. Jim Lussier |

Absent: Tom Imeson (business conflict), Don VanLuvanee (personal conflict), and Bill Williams.

Chancellor’s Office staff present: Chancellor Richard Jarvis, Tom Anderes, Shirley Clark, Grattan Kerans, David McDonald, Ben Rawlins, Alayne Switzer, Christine Tell, Diane Vines, and Susan Weeks.

Others: Dan Bernstine (PSU), Philip Conn (WOU), Martha Anne Dow (OIT), Dave Frohnmayer, (UO), Dixie Lund (EOU), Tim White (OSU), and Elisabeth Zinser (SOU).

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

2. ASSESSMENT/EVALUATION ITEMS
a. The Chancellor’s Evaluation

President Lussier welcomed the Board to Central Oregon and the OSU-Cascades campus. He introduced the topic of the Chancellor’s evaluation by stating he and Chancellor Jarvis had been working together to set in place a process whereby the Chancellor can assess his progress in meeting agreed-upon goals. President Lussier thanked the Chancellor for the admirable job he did in the past year, given the turbulent budget process, two presidential searches, and turnover in the Governor’s office and legislature. He also acknowledged the outstanding product delivered at the universities, adding that this is the result of the good work of the Chancellor, the seven presidents, and “all of the people that work for you on the various campuses.” Chancellor Jarvis has successfully developed relationships by holding town hall meetings throughout the state, building constructive relationships with the new Governor and legislative leadership, and the citizenry of Oregon. “His tremendous listening and communication skills, as well has his sense of humor, have come in handy on more than one occasion as he’s gone throughout the state.”
In the next year, some of the strategies will be to continue to work on developing relationships with the Governor and legislative leadership to build an effective team approach to the legislative process. This would include tapping into the expertise that obviously exists on various campuses to build a solid strategy with reference to legislative issues. One area noted during a discussion with President Lussier and the Presidents Council is that the Board has a responsibility to make clear its direction and Board policies (e.g., tuition policy), providing clarity to the presidents as to the level of flexibility and delegation of authority.

President Lussier concluded by thanking the Chancellor for his performance, and adding that the Board would begin negotiation and discussions for a multi-year contract.

b. Presidential Evaluations and Structure for the Future

Chancellor Jarvis provided an overview for discussion of the proposed restructuring of presidential evaluations. Currently, presidential evaluations are linked to the institution’s performance indicators, where the Chancellor and president would meet to evaluate and discuss that institution’s and president’s performance during the previous year. The Chancellor and presidents have been evaluating the process and have proposed the following changes for discussion, with a more formalized process that would be brought forward in the near future as an Internal Management Directive (IMD) or Oregon Administrative Rule (OAR) for Board approval.

The key change is to assess the purpose of the evaluation process. This change would move the process from a short-term annual tactical process, which uses the previous year’s fluctuating statistics, to a multi-year longer-term view where the Board builds a stronger relationship with the president in determining and evaluating strategy.

Currently, each president is appointed to a one-year contract after successful completion of the initial contract. This process fundamentally leads to a tactical year-by-year review, only focusing on the prior year. Moving to a multi-year contract, with three-year contracts being the national norm, would provide opportunities for two types of reviews: a contractual reappointment review by the Board, and non-contractual reviews delegated by the Board to the Chancellor. The Board review would be substantial and would allow the Board to connect with a variety of constituencies on- and off-campus, led by a Board committee and staffed by the Chancellor’s Office and/or independent consultants. The off-year non-contractual evaluations would therefore become more routinized. This fundamental contractual change would provide the presidents with more security and would engage the Board “in the strategic direction to which that contract would lead.” Chancellor Jarvis underscored a multi-year contract would also provide the presidents with the tool to set goals for their institutions over a two, three, or four year period.

A multi-year contract would enable the Board to address the difficult situation of presidential compensation. Because of the state’s economic difficulties, the current
annual contractual process only provides the allocation of cost-of-living increases and/or bonuses. In circumstances where presidential salaries have fallen behind peer institutions, these salaries cannot be addressed until a new president is hired. Moving to a multi-year contract provides the opportunity to negotiate a compensation package, not as a bonus or merit, but as an appropriate rate of compensation.

Total presidential compensation is a combination of state funded salary plus what is known as the “expenses incident to position.” This total compensation includes supplemental non-state funding provided by the university’s foundation. The Chancellor proposed moving to a process that is more publicly accountable for the compensation of public employees wherein the Board sets the target compensation for the presidential package, recognizing that state funding and non-state funding would be required. There is a national recognition that state funding will be capped, either formally or informally, and that there will be additional elements to presidential compensation that will come from non-state funds. Responding to a question from Director Richmond, Chancellor Jarvis added that a dialog with the particular university’s foundation would occur prior to the Board setting the level of compensation. Director Richmond emphasized that “it would be unfortunate if it looked as if the responsibility for presidential salaries is shifting from the state to private funds.” Noting that if there is less pressure on the state to shoulder the major portion of the compensation, the responsibility will regrettably shift to the private sector. Chancellor Jarvis added that with a multi-year contract, there would by necessity, be a contingency element. Counselor Rawlins affirmed that because the multi-year contract would span two biennia, the “contract would be contingent upon the continued funding by the state.”

Director Barnett expressed his preference that “we leave open the possibility of the president of the Board participating in the ‘off-year’ evaluation. The other comment is that…if that off-year evaluation showed some serious problems or issues, it presumably would be brought to the Board and could lead to either the Board taking intermediate action on recommendations brought forth by the Chancellor, or conducting a more comprehensive evaluation to determine whether formal action should be taken.” President Lussier agreed and added it is extremely beneficial to receive good communication from the presidents on the happenings of each campus on an annual basis, and the progress of the goals for that campus and presidency.

Chancellor Jarvis emphasized that the setting and status of institutional performance indicator targets be presented in a separate and explicit manner from the presidential personal performance evaluations. “Performance indicators would be part of an annual Board meeting as part of the setting of targets for the institution and not buried in the performance of an individual year,” he explained.

Director Lehmann stated that this would be an improvement both in terms of clarity for the president, the campus, and the Board, but would also make clear to the foundations what the Board’s role is in setting compensation, thereby making the contractual process a strategic tool as opposed to just checking through a routine list. She indicated
this would give the Board an opportunity to express those mission-oriented, leadership objectives for each presidency.

President Lussier noted that in setting compensation, other than seeking more funding from the state, which is problematic, achieving a higher rate of compensation will not be achieved without the use of foundation funds. “How do we engage the enthusiasm and participation of the foundation?” he mused. “It is awkward when, in recruiting for a new president, the in-coming individual is paid substantially more than the former president. This process must be changed.”

President Lussier asked for observations from the presidents:

In regard to the university foundations, President Zinser, SOU, stated that it would be incumbent on the presidents to speak with their foundations in the near future to advise them of this proposed change in the compensation process so that “the foundation leadership does not hear of it in such a way where they feel like it’s being imposed on them.” She emphasized that this is not the intent of the proposed policy. Chair Lussier agreed and added that the foundations may ask what their role will be in the search process, if they are to be responsible for providing funds toward the new president’s compensation. This is an issue that needs to be resolved during this process.

President Conn said that this new process would be a significant improvement over the hiring process he experienced when coming to WOU. When negotiating his contract, he was surprised to find out that he would be employed one year at a time; his previous employment at other state systems was for an initial three-year contract. With multi-year contractual agreements, the Oregon University System would become far more competitive, and would provide the means to set goals and strategies that would be meaningful.

President Frohnmayer, UO, advised that from what he has been hearing around the AAU circles (Associated American Universities), the market is very different than it was even five years ago. Recent executive compensation packages around the nation provide exhaustive provisions for income protection in the event of disability and sabbaticals upon the conclusion of a presidential term. Continuing, President Frohnmayer added that there are routinely provisions for spousal compensation for presidents, some of which can be very substantive. “The Board should be prepared for the eventuality of negotiations with a prospective president’s agent, who are used increasingly for the protection of not only the prospective candidate but also for the Board. The things that people worry about—fringe benefits, health protection, children’s tuition breaks, and all these kinds of things—are routine and at a level that simply would not have passed the front page test in Oregon newspapers in the past but are now part of the culture. These are relevant to the competitiveness of this System in the future in attracting top quality candidates,” he concluded.

Director Richmond stated that it is important to follow up on what President Frohnmayer said. There are areas that are impacted other than just monetary compensation and
whether or not there is state and non-state funding available. In her experience, she was more interested in laboratory space, start-up funds, etc., than what her level of salary was to be. Those issues need to be addressed, also.

President White, OSU, added that the contract policy needs to include flexibility, and that the contract should be built around the individual’s relationship to the community and familial needs.

Director Wustenberg asked how the Internal Revenue Service interprets compensation items such as free college education for children. Counselor Rawlins stated that he would need to research this and advise the Board at a later date.

In conclusion, Lussier stated that issues to be addressed are how to approach the foundations, level of involvement of those foundations in presidential searches, and broadening the scope to look at not only salary but compensation schemes and benefits.

c. Preliminary Examination of Board Self-Evaluation

President Lussier invited the Board to dialog on the results of the self-evaluation. He commented that he was interested to see the areas in which the responses indicated a difference of opinion on the part of the Board members. In response to Director Richmond’s question, Lussier informed the Board that the questions were compiled from a larger questionnaire published by the Association of Governing Board of Colleges and Universities (AGB). It was commented that several Board members would like to have another evaluation that is geared to Oregon rather than national.

Director Pilliod noted, in reference to question 28 on leadership (“If you have not already done so, would you be willing to serve as a committee chair or Board officer?”), the comment was “I would have loved the chance. However, students are not seen as equals.” Noting that all Board members serve because of an interest in higher education, she asked how the Board members would respond to that comment.

Director Barnett noted that student terms are two years, and therefore historically this may have prevented students from serving as a committee chair or officer. However, it is an issue that should be addressed as the new committee structure is set. Lussier added that, to his knowledge, there is nothing in the IMDs or Board policies that would restrict any official Board member from serving in any capacity.

Director Richmond said that her opinion has evolved over the years to be that, as a faculty member serving on the Board, although she does not represent the faculty to the Board, she cannot serve as a committee chair. She added that she has also questioned the appropriateness of serving on the Executive Committee when evaluating the Chancellor and President Frohnmayer, as they are essentially her bosses. Therefore, “I am very comfortable not having a faculty member serve as a head of a committee or on the Executive Committee.” She advised Director Pilliod, “I think there are just too many
conflicts of interest that go beyond financial that you just are much better to stay away from in that respect.” She added that she has always felt that the student opinions are valued.

Director Wustenberg stated that, “even if we do come in with an interest, we have the responsibility of representing the citizens of the whole state, and to see things in the whole picture. To say that the students represent only the student bodies of the universities is a misconception; the students provide valuable insight and comments and remind the Board of what its total responsibility is.”

Director Burns said that in reading the Board bylaws, she understands why there is the issue of conflict of interest on the part of the faculty Board member. However, she indicated that she doesn’t believe there is a conflict of interest that pertains to student Board members. The student Board members don’t represent just students and have been appointed to the Board by the Governor the same as all Board members. She questioned why students have not served on the Executive Committee or in Board leadership. In this time of transition, she anticipates that she and Director Pilliod will demonstrate their abilities and experience necessary to fill those roles. “This is a unique time to reevaluate the way students serve on the Board,” she indicated.

President Lussier added that “there are three positions on the Board that are designated and can only be filled by faculty or students, so in that respect you are a little different than we because we can’t fill a student position with a non-student on the Board—but that’s the only difference.” It was clarified that the faculty position can be filled with a non-faculty person.

Director Bassett said that one particular shortcoming in the Board’s organization or performance that needs attention is in the area of Board deliberations. He believes that in attempting to accomplish everything on a given agenda, the quality of discussions are cut short and the constituencies affected by the Board’s decisions are not adequately heard nor their issues addressed. Unless the Board can reconcile between the need to deliberate and the brevity of the meetings, the items under discussion will only be accommodated, not solved.

President Lussier agreed and pointed out that going through the self-evaluation and seeking the university presidents input can improve the deliberation—make it more specific and with an ultimate outcome that provides clarity and measurable outcomes to guide the direction in which the System will go.

Tim White noted that physical plant understanding seems to be low (pertaining to question 12 “Are you acquainted with the major aspects of physical plant needs at all institutions…”). Lussier agreed, but added that even though the Board members visit and tour each campus, he questions whether or not Board members need to be knowledgeable about each individual campus or is the Board only responsible for the general approach that affects all seven campuses. White emphasized that the physical
plant (facilities and campus master plans) is of strategic importance to the System, and that he sees having the Board not be knowledgeable as a "red flag."

Director Lehmann said that question 6 ("Do you find any conflict between our responsibility for the welfare and advancement of the various institutions in your System and your responsibility to the citizens of your region, state, or nation?") was interesting in that three responses indicated feelings of some internal conflict. Director Burns said that even in her position as a student and a Board member, she must overlook those interests and address issues as a Board member.

Director Wustenberg stated that, pertaining to question 30 and rating their participation as Board members, “if Board members don’t feel they are doing a good job, they were derelict in their duty.” She indicated that being a Board member has been a positive experience and that all Board members are trying hard to do their job. President Lussier agreed and said that the Executive Committee might together review the comments and suggestions and compile four or five areas that should be considered during the next year in order to improve Board performance.

Director Lehmann said that she feels the Board is putting good emphasis on strategic planning, clarification, and strategic hydraulics, and have received positive public expression of that. But, there is more work to be done. She feels the need for more clarity between System decisions and campus-level decisions. What are the reasons behind the level of turnover and retention rate of campus administrators and faculty?

Director Richmond reiterated that she would like to see a questionnaire more directed towards specific issues confronting the Board (for example, autonomy). Director Lussier acknowledged her concerns and added that this was just an initial step. He recommended forming a committee that would draft a self-evaluation more tailored to this Board.

Director Barnett agreed and added that a “confidential self-assessment of the role each of us plays on the Board that could be followed up with a one-on-one conversation between the president and each individual to talk about leadership roles, process, and how Board meetings are run would be a helpful mechanism for getting feedback to the Board. I think that needs to be a more confidential interaction as opposed to ‘publishing the results.’” Director Lussier affirmed his comments and added that the ultimate goal of a self-evaluation is one that helps pinpoint areas for added value or correction. He concluded by asking the Board to email either him or Director Lehmann with their comments and suggestions, and priorities for the coming year.
3. **DISCUSSION ITEMS**  
   a. **Joint Boards and the K-16 Connection**

**DOCKET ITEM:**  
*Executive Summary*

**How is K-12 student learning aligned with public university admission in Oregon?**

- Following directions set by the Board of Higher Education in 1993, proficiency standards for entry into the Oregon University System (OUS) have been developed and aligned with Oregon’s K-12 standards. Student proficiency levels have been benchmarked at grades 3, 5, 8, and 10 indicating students' preparation in K-12 for postsecondary education.
- State assessments at the high school level in English, math, and science and commonly used national assessments have been aligned with proficiency standards for entry into OUS.
- Oregon is the first state to have accomplished this K-16 alignment and have it supported in policy by the Joint Boards of Education.

**How does alignment impact the preparation of students for success in college?**

- *The First Year Study* found that (1) students who met standards in high school were more likely to succeed in their first year of college than those who did not meet standards; (2) evidence of proficiency, including the 10th grade benchmark performance information, can serve as a planning tool for the last two years of high school; and (3) while there is no single perfect predictor of first-year college success, there is a positive relationship among the high school GPA, SAT I, and evidence of proficiency (performance on state high school assessments).
- In order to ensure the rigor of the high school coursework that students complete in the process of preparing for college, *The OUS Course Approval Process* was redesigned to require high schools to map course content to college entry standards.

**What legislative and policy changes affect alignment?**

- The federal No Child Left Behind (NCLB) legislation requires states to develop or adopt standards in reading/language arts, math, and science and assess these areas at the high school level by 2006-07. Assessments must involve multiple measures of learning, including higher-order thinking and understanding.
- New graduation requirements adopted by the State Board of Education in March 2002, require that all students have an education plan and profile that prepares them for postsecondary opportunities in college or work.
- In June 2003, the Oregon Legislative Assembly adopted HB 2744 that focuses the direction of school reform on requiring state-level assessments in English, math, and science, and specifying establishment of performance standards only (minus required assessments) in second languages, social sciences, and the arts. This
legislation streamlines Certificate of Initial Mastery (CIM) requirements and delays implementation of the Certificate of Advanced Mastery (CAM).

Where are we headed?

- Results of a decade of alignment of K-16 standards and assessments with OUS expectations of student preparation for admission, and outcomes of *The First Year Study* linking college success with high school performance, indicate that evidence of proficiency significantly enhances information traditionally provided in the admission process.

- When the Board of Higher Education directed development of the Proficiency-based Admission Standards System (PASS) in 1993, PASS was expected to become the primary admission policy when K-12 reform and OUS alignment made that feasible. Given the lengthy evolution of reform, changes in legislation and policy in the state and nation, and significant resource constraints in the K-12 schools and OUS, staff propose that the Board clarify its policy position, as follows:

  *Evidence of applicants’ proficiency will be required in fall 2006 to complement rather than replace current undergraduate admission requirements. For this policy to become effective, implementation of an integrated data transfer system between Oregon high schools and postsecondary institutions is necessary.*

- Based on recent progress by the K-12/community colleges/OUS partnership that is designing an integrated data transfer system, and a plan for piloting the prototype among high schools and postsecondary institutions in 2003-04, we can be reasonably confident that the gap between planning and implementation will close in the next three years. In the meantime, the Board of Higher Education will have reaffirmed the importance of proficiency attainment as preparation for college, Oregon high schools will receive the policy clarifications they seek from OUS, and OUS universities will have clear Board-established parameters within which to make refinements in their undergraduate admission strategies.

**BOARD DISCUSSION:**
President Lussier asked for clarification on the CIM and the CAM and their dependence on PASS. Dr. Clark advised that PASS is indirectly very dependent on the same sets of assessments as the CIM and the CAM. However, it’s not dependent on the student having actually been awarded the CIM. There is no relationship with the CAM because the CAM was put on a slower track for development and relates to assisting students to think through their longer-term career goals. In reality, we are moving in tandem with the CIM and the CAM, yet allowing for custom tailoring at the campus level, to include campus-based measures. For example, EOU has implemented the Eastern Portfolio; Oregon State wants to move forward with the requirement of the Insight Essay, which lends itself also to writing proficiency; and the University of Oregon also has a focus in the writing area.
In response to Director Lehmann’s query, Dr. Clark advised the PASS requirements would be supplemental to the standard university admissions requirements (i.e., SAT/ACT and high school GPA minimum requirements). Director Wustenberg observed that with regard to the SAT and GPA scores, that GPA scores can be markedly different between high schools, and grade inflation can be a factor. She asked if the SAT is a better predictor of college eligibility.

Dr. Tell replied that in the “First Year Study,” the relationship between the high school GPA and the first year performance is the highest at a .51 level, but the SAT-I equivalent to the state assessments with first year college performance is at a .38 and a .39 level, respectively. However, the information from proficiency is substantially different. For example, 34 percent of the students currently attending OUS universities did not pass the 10th grade benchmark assessment in math knowledge skills, yet they did achieve a GPA to allow them admission to OUS institutions, and their SAT scores were also comparable. It is different, yet complementary information that allows for more accurate academic advising once students are in the System.

Director Wustenberg expressed concern regarding the high school practice of inflating grades and allowing students to take pass/fail classes in order to maintain their high GPA scores. Dr. Tell responded that when the “First Year Study” results are shared with high schools across the state, the high schools provide feedback. This feedback has revealed concern about the disparity between the entering high school GPA and the subsequent first year performance at the universities. They learned where the student had met or not met standards and, for the first time, the feedback from the high schools affirmed that this information was extremely helpful in communicating with teachers, with departments, etc., particularly in math and science.

Director Pilliod asked if information was obtained relating to the availability of baccalaureate and the international baccalaureate, and Advanced Placement programs compared to the level of progress experienced by the student after completion of their first year at a university. Mr. McDonald advised that national data shows that students who engage in a more rigorous curriculum during high school (such as the AP or international baccalaureate) perform to a greater degree at every institution to which they enroll, whether it be liberal arts, regional institutions, comprehensive research universities, or private universities.

Director Pilliod further queried as to whether or not admissions boards at the universities take into account the level of classes taken by the incoming student. Mr. McDonald replied that, unfortunately, half of Oregon high schools do not offer AP classes, so the average student applying to an OUS university has not taken an AP course. Also, of those high schools that do offer AP classes, the majority only offer one AP class wherein fewer than 15 students typically enroll. Therefore, the typical in-state student entering an OUS university is void of an AP experience, and there are only 15 international baccalaureate programs offered in the state, again affecting a very limited number of students.
Due to time constraints, discussion items b. (Lessons Learned from the WOU and OSU Searches—Implications for Procedural Changes) and c. (Governance and the Intent of SB 271 and SB 437) were postponed until September 2003.

4. **ADJOURNMENT**
   The Board meeting adjourned at 5:30 p.m.

Virginia L. Thompson
Secretary of the Board

James T. Lussier
President of the Board
1. **CALL TO ORDER/ROLL CALL**

President Lussier called the meeting of the State Board of Higher Education to order at 9:35 a.m.

On roll call, the following Board members answered present:

- Mr. Kerry Barnett
- Ms. Rachel Pilliod
- Mr. Roger Bassett
- Dr. Geri Richmond
- Ms. Bridget Burns
- Ms. Phyllis Wustenberg
- Ms. Leslie Lehmann
- Mr. Jim Lussier

**Absent:** Tom Imeson (business conflict), Don VanLuvanee (personal conflict), and Bill Williams.

**Chancellor’s Office staff present:** Chancellor Richard Jarvis, Tom Anderes, Shirley Clark, Grattan Kerans, Ben Rawlins, Alayne Switzer, Diane Vines, and Susan Weeks.

**Others:** Dan Bernstine (PSU), Philip Conn (WOU), Bill Danley (IFS), Martha Anne Dow (OIT), Dave Frohnmayer (UO), Lesley Hallick (OHSU), Dixie Lund (EOU), Maddy Melton (OSA), Tim White (OSU), and Elisabeth Zinser (SOU).

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

2. **APPROVAL OF MINUTES**

- May 16, 2003, Board Meeting Minutes
- June 4, 2003, Special Board Meeting Minutes
- June 5, 2003, Special Board Meeting Minutes
- May 15, 2003, Budget and Finance Committee Meeting Minutes
- May 15, 2003, System Strategic Planning Committee Meeting Minutes
- June 24, 2003, Executive Committee Meeting Minutes

The Board dispensed with the reading of the minutes of the May 16, 2003, regular Board meeting, June 4 and 5, 2003, special Board meetings, May 15, 2003, Budget and Finance Committee meeting, May 15, 2003, System Strategic Planning Committee meeting, and the June 24, 2003, Executive Committee meeting. Director Barnett requested the minutes of the May 16, 2003, be revised to clarify the inclusion of the president and vice president as members of the Executive Committee. Director Barnett
moved and Director Wustenberg seconded the motion to approve the minutes as revised. The following voted in favor: Directors Barnett, Bassett, Burns, Lehmann, Pilliod, Richmond, Wustenberg, and Lussier. Those voting no: none.

3. **Board President’s Report**

President Lussier welcomed everyone to the OSU-Cascades Campus. He applauded the progress made at the Bend campus and underscored the importance of the campus to the community. He reminded those individuals wishing to speak to the Board to sign up with the secretary.

4. **Chancellor’s Report**

*Presidents’ Reports*

President Elisabeth Zinser announced that Southern Oregon University has accepted membership in the Council of Public Liberal Arts Universities (COPLAC) and noted that SOU’s engagement in looking into membership in this organization began with her predecessor, Steve Reno, but was only recently finalized. SOU is the 20th member nationally to be accepted into COPLAC. She stated that students from middle and high schools have been attending various programs on campus throughout the summer. There were 300 students on campus in the Youth Academy as well as the Pacific Northwest Cheerleader group. President Zinser announced that SOU student Christopher Huntley received the Academic All American Award this year at the NAIA (National Association of Intercollegiate Athletics) wrestling conference.

President Philip Conn expressed excitement in presiding as president at the Western Oregon University commencement and stated that 1,253 students graduated; the largest group in WOU history. He thanked Director Bassett and Chancellor Jarvis for attending the ceremony. President Conn announced that WOU was hosting music camps throughout the summer, including a camp for young composers.

President Martha Anne Dow thanked Director Richmond for an outstanding presentation at the Oregon Institute of Technology commencement. She announced that OIT’s pre-college programs are taking place this summer and of particular interest was the TWIST (Teen Women in Science and Technology) program. She stated that OIT’s Oregon Renewable Energy Center is working in collaboration with the State Department of Energy to build three self-sustainable homes in various locations throughout the state using ground source heat pumps, photovoltaics, and fuel-cell energies. President Dow announced that they are remodeling one of the classroom buildings to enhance capacity for the dental hygiene program and a larger facility for medical imaging.

President Dave Frohnmayer announced that the University of Oregon has successfully concluded its 34th season of the Oregon Bach Festival. He described a recent meeting of the Association of Pacific Rim Universities, which was held by videoconference and included participants from four continents, 14 sites, 30 economies, and 30 universities. He touted the success of the meeting and anticipated more successful
videoconferences in the future. He stated that UO will be hosting the Association of American Universities in October. He announced that the Lillis Business Complex, a $42 million project made possible primarily through private fundraising efforts, is nearing completion. He noted that UO continues to be actively engaged in continuing plans for a major capital campaign.

President Dan Bernstine announced that Portland State University’s softball coach, Teri Mariani, will be inducted into the Oregon Sports Hall of Fame in mid-August along with A.C. Green, a basketball player from Oregon State University. He announced that PSU will host the PICMET (Portland International Conference on Management of Engineering and Technology) conference, the largest technology management conference in the world, from July 20 to 24. PSU has received a grant from the Tokyo Foundation to train middle-management Japanese government officials on issues such as sustainability. They have also received $750,000 to support a transportation research center in the PSU School of Engineering building.

President Dixie Lund announced a ribbon-tying event to take place on Saturday, October 4, to commemorate the remodel and new facility that make up the Science Center. She noted that the center is a partnership with the Oregon Health and Science University (research center); OHSU School of Nursing; Oregon Department of Fish and Wildlife, and Oregon State University Agriculture. She stated that the oldest graduate this year from Eastern Oregon University was 84 years old. She introduced Sheldon Nord, the new vice president for student affairs at EOU, formerly with OIT.

President Tim White stated that two initiatives are beginning with the distance education program at the Oregon State University extended campus explaining that they will offer graduate degrees in nuclear engineering and radiation health physics and OSU K-12 Online, which is an effort to create a full curriculum for students to receive their high school diplomas. He stated that the 4-H program received a $750,000 grant from the USDA to expand efforts to reach Oregon’s Latino population. He stated that Kelly Faulkner, an OSU oceanographer, would be embarking on an international research expedition to the Arctic Ocean aboard an icebreaker. He announced that OSU president-elect Ed Ray and his wife Beth will arrive at the end of the month. He explained that Dr. Ray has visited OSU several times since his appointment in June and is looking forward to settling into Corvallis.

Provost Lesley Hallick announced that construction is abounding at Oregon Health and Science University this summer. New buildings include a research building, a new clinical tower attached to the hospital, and the first building on the Riverfront campus. She stated that OHSU physicians have unified into a single practice with a separate 501-C3, non-profit designation, recognizing that the Riverfront campus is an exciting opportunity for outpatient care.
5. **REPORTS**

**IFS President**

Dr. Bill Danley acknowledged the retirement and resignation from the OUS Board of his friend, colleague, and mentor, Roger Bassett, and thanked Director Bassett for his staunch support of higher education. Dr. Danley noted that the final stages of another legislative session were under way and suggested the prospect of yet another special session to do the work that should have been done earlier. He argued that the state needs more revenue and needs to have it well spent and fairly distributed. (A full copy of the IFS President’s comments is on file in the Board’s Office).

**OSA President**

Maddy Melton spoke about the proposed changes in the Academic Fee Book for 2003-04. She noted that students from across the state have come to Bend during their summer to urge the Board to oppose the changes to the tuition plateau. She argued that delaying the implementation until winter term would provide students who have already registered for classes proper notification of the changes so that they can plan accordingly for winter term. Citing reasons for not implementing the policy, she stated that students were already forced to bear the burden of a large tuition increase last winter because of state budget cuts and they cannot afford continued increases. She pointed out that the elimination of the tuition plateau will mean a per-term tuition increase of 56 percent for Eastern Oregon University from fall 2002 to fall 2003. She argued that low-income students would try to decrease their costs in the short term by taking fewer credits, which means they will be staying in school longer. She explained that financial aid does not increase on a per credit basis but is a set amount for a full-time student. Finally, she argued that eliminating tuition plateaus would damage students’ overall university experience and price students out of an education. (A full copy of the OSA President’s comments is on file in the Board’s Office).

6. **PUBLIC INPUT**

Joe Johnson, student body vice president of PSU, addressed the tuition and plateau issues. He said it was his goal to graduate in four years citing three main reasons: time, money, and his personal goal to contribute to the society that helped put him where he is today. He commented that PSU students were informed rather than consulted about the decision. He argued that if the tuition plateau is removed or changed, many students will have to drop out, take fewer credits, or extend their time to graduation in order to obtain their degrees.

Katie Carpenter, a student at WOU, pointed out that by the end of her education, she will be approximately $30,000 in debt. She urged the Board to move the fee book process up so that students can participate more fully.

Andy Saultz, president of the Associated Students of Oregon State University (ASOSU) and a member of the Oregon Student Association Board (OSA), felt that the testimony
focused too much on the numbers and not enough on student voices and student stories. He acknowledged that administration at OSU did work with students, but that information wasn’t disseminated to other students, therefore the campus was caught off guard. He cited some examples of students who would be adversely affected by the proposed tuition fee book changes and, on behalf of those students, urged the Board to take them into consideration when making a decision. (Mr. Saultz provided a copy of his written testimony, which is available in the Board’s office.)

7. **Budget and Finance**

   **Action Items**

   a. Managerial Reporting—Quarterly Management Reports

**Docket Item:**

**Background**

One of the recommendations coming out of the *fiscal accountability framework* project was that mechanisms be established to provide assurance to the Board that the financial activity of OUS universities is being monitored on an ongoing basis. It is understood that each university is responsible for monitoring its financial activity. An objective of the *fiscal accountability framework* was to ensure that sufficient controls and documentation are in place to provide the Board with assurance that ongoing monitoring is indeed taking place.

Monitoring OUS financial activity is a significant challenge given its annual revenues exceed $1.5 billion and its accounting records comprise over 31,000 funds in 28 major fund groups. The *management reporting workgroup* of the *fiscal accountability framework* reviewed various external resources to identify managerial reporting needs. One key resource included a publication entitled *Financial Responsibilities of Governing Boards of Colleges and Universities (Second Edition)*, which was produced jointly by the Association of Governing Boards of Universities and Colleges (AGB) and the National Association of College and University Business Officers (NACUBO). Other resources included sample reports from a number of major institutions and systems of higher education, as well as certain reports already produced within OUS, both by the Chancellor’s Office and University personnel. The workgroup identified 15 management reporting needs, in varying degrees of detail, that would be prepared by each university, reviewed by the Chancellor’s Office, and summarized for the Board. The 15 management reporting needs are listed in Table A on page 171.

A subsequent work team developed reporting formats to satisfy five of the 15 management reporting needs. The report formats resulted in three reports:

- Comparison of projected end-of-year amounts to initial and operational budgets,
- Comparison of year-to-date financial activity to prior year, and
- Tracking of monthly cash balances.
The intent was to report the operating activity of the seven OUS universities and the Chancellor’s Office into a series of summarized and useful reports.

The reports noted above and presented herein focus on unrestricted funds (including designated operations and service departments) and auxiliary enterprise funds. Reports addressing the other funds of OUS will be incorporated in future phases of the managerial reporting project.

The above reports are intended to be prepared quarterly. It was determined that first quarter reports would not be presented because of the timing of the Board approval of the annual operating budget, and because the first quarter occurs before the beginning of fall term and therefore may not be useable for making reasonable year-end projections. Therefore, it was determined that reports would be prepared and presented to the Board for three quarters each year:

<table>
<thead>
<tr>
<th>Quarter Ending</th>
<th>Presented to Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>December</td>
<td>March</td>
</tr>
<tr>
<td>March</td>
<td>June</td>
</tr>
<tr>
<td>June</td>
<td>September</td>
</tr>
</tbody>
</table>

Analysis
The attached management reports (Appendix “C”) of unrestricted funds (including designated operations and service departments) and auxiliary enterprises are designed to provide information of the financial activity of the current fiscal year, to identify potential problems, and to provide consistent documentation that ongoing monitoring is taking place. The three reports contain data from the accounting records but also contain end-of-year projections from university management, which are estimates based on the information available at the time the projections are made.

After reviewing the series of unrestricted funds and auxiliary enterprise reports received from each university, we have noted the following:

Comparison of projected end-of-year amounts to initial and operational budgets:
1) Operational versus Initial Budget
The Board approves an initial budget in October of each year. The initial budget contains projected revenues, with a general understanding of a balanced budget in which projected expenditures equal projected revenues.

As additional information becomes available throughout the year, the universities make adjustments to update the initial budget. Examples include expected changes in government appropriations and tuition and fee revenue. Another example would include carrying forward a department’s unexpended budget balance from the prior year into the expenditure budget of the current year. The initial budget and the adjustments become the operational budget.
8) **Government Appropriations**
   Government appropriations in the initial budget were $386 million. Current projections for government appropriations are $342 million, which is $44 million, or 11 percent, less than the initial budget approved by the Board. These reductions are due to the budget reductions made by the Oregon Legislature.

9) **Student Tuition and Fees**
   The increase in current projections for student tuition and fees is primarily attributable to the tuition surcharge implemented in winter term. The initial budget projected student tuition and fees of $340 million. The current projection of $349 million now makes student tuition and fees a larger revenue source than government appropriations.

10) **Education and General Expenditures**
    Due to the decline in government appropriations, the projected Education and General expenditures (including $12 million of transfers out to other funds) are $35 million, or 4 percent, less than the initial budget approved by the Board.

11) **Ending Fund Balance of Unrestricted and Auxiliary Enterprise Funds**
    In addition, due to Education and General other revenues shortfall of $7 million, projected FY 2003 operating deficits of designated operations of ($2 million) and service departments of ($4 million), and miscellaneous net positive variances of $3 million, the fund balance projected for the end of the year is lower than the beginning fund balance by $10 million, or 4 percent.

**Comparison of year to date financial activity to prior year:**

2) **Student Tuition and Fees**
   Student Tuition and Fees recorded through March 31, 2003, of $341 million are $66 million higher than recorded for the same period last year. The increase is attributed to the following:
   - Timing and reclassifications of tuition revenue included in Clearing funds in the prior year of approximately $22 million.
   - Increased enrollment revenue of approximately $17 million.
   - Tuition increases of approximately $14 million.
   - Tuition surcharge of approximately $14 million.

2) **Auxiliary Operations**
   Auxiliary Operations increased $19 million to $184 million for the nine months ended March 31, 2003, compared to the same period in 2002. The increase is primarily attributed to the following:
   - Increased athletics ticket sales and concessions of $7 million.
   - Increased rates for housing, student incidental, and health enrollment fees of approximately $5 million.
   - Increased occupancy of approximately $2 million.
• Timing of Auxiliary revenue included in Clearing funds in the prior year of approximately $3 million.

4) Education and General Expenditures
Education and General expenditures for the nine months ended March 31, 2003, are lower than the Education and General revenues. This is because the revenues relating to Education and General (e.g., tuition and fees) are generally received once each quarter and need to be sufficient to cover expenditures that occur throughout each of the following three months.

Education and General expenses of $554 million for the nine months ending March 31, 2003, are $23 million, or 4 percent, higher than for the same period one year ago. Total salaries and wages costs increased by 4 percent, other payroll expenses (e.g., payroll taxes, retirement, and health insurance benefits) increased by 13 percent, and services and supplies increased by 0.6 percent.

5) Net Operating Surplus (Deficit)
Although March 31, 2003, and 2002 show a current operating surplus, much of the surplus will be used up during the months of April, May, and June, when no additional tuition and fee revenues are received.

Tracking of monthly cash balances:

2) Cash Balances at March 31, 2003
The cash balances are comparable to prior months and generally higher compared to the same periods in prior years. This is due to the increased enrollment, increased tuition and fees, and the tuition surcharge. It can be predicted that the fiscal year-end 2003 cash balance will be comparable to or slightly lower than the prior year-end. We did note that cash balances of service departments have been showing continual declines. Service departments provide services to other university departments. Revenues of service departments are only recorded when the billings are generated and issued to university departments. University management attributes the cash balance decreases to some service departments not generating billings until the following month. Management will continue to monitor this issue.

Additional reports to support the above analysis are on file and are available upon request.

Conclusions
OUS universities are responsible for monitoring their financial activity. Much of the financial activity is monitored in relation to the projected year-end totals of revenues and expenditures. These projections are estimates.

The Controller’s Division requested the management of each university verify the amounts in the managerial reports, update annual projections, and identify and provide explanations to significant variances. The Controller’s Division reviewed the managerial
reports and variance explanations provided by each university for reasonableness and compiled the managerial reports of each university into a series of consolidated Systemwide reports.

The fiscal status of OUS unrestricted funds (including designated operations and service departments) and auxiliary enterprise funds at March 31, 2003, is stable. University management has adjusted their budgets and managed revenues and expenditures in response to the state appropriation reductions. University projections indicate year-end results within reasonable operational parameters.

**Staff Recommendation to the Board**

Staff recommended the Board accept the above management reports for March 31, 2003. Additional reports will be prepared for the quarter ending June 30, 2003, and will be presented to the Board in September 2003.

**Table A – 15 Management Reporting Needs**

The managerial reporting workgroup identified 15 reports, falling into the following categories:

<table>
<thead>
<tr>
<th>Managerial Reporting Need</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preliminary Estimates of Revenue and Expense (annual report)</td>
<td>Implemented</td>
</tr>
<tr>
<td>Estimates versus Actual Comparisons</td>
<td>Implemented</td>
</tr>
<tr>
<td>Revised Estimates of Annual Revenue and Expense</td>
<td>Implemented</td>
</tr>
<tr>
<td>Comparison of Actual Revenue and Expense to Prior Year</td>
<td>Implemented</td>
</tr>
<tr>
<td>Capital Projects Summary</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Development (fund-raising)</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Cash</td>
<td>Implemented</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Investments – Endowments</td>
<td>Investment Committee</td>
</tr>
<tr>
<td>Debt Capacity</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Legal</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Grants/research</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Technology (Information Technology)</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Regulations</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Risk Management</td>
<td>To be implemented</td>
</tr>
</tbody>
</table>

**BOARD DISCUSSION AND ACTION:**

Mike Green, OUS Controller, explained that, as a result of the *fiscal accountability framework* project, they have established a periodic managerial reporting system to assist the Board, the Chancellor’s Office, and institutions in carrying out their fiduciary responsibility and monitoring the financial status of the University System. He briefly described the 15 managerial reporting needs (see Table A above). He explained that
three quarterly reports would be presented before the Board for December, March, and June.

Addressing the year-to-date activity, Mr. Green noted that student tuition and fees recorded through March 31 are $66 million higher than in the same period of the previous year. He explained that $22 million is due to the reclassification of a clearing fund; increased enrollment drove tuition fees up about $17 million; and tuition in general, along with the surcharge, increased by $14 million. Regarding the clearing funds, Mr. Green stated that the Controller’s Office will be working with the universities to close them at the end of the quarter to avoid future inconsistencies. He explained that Education and General expenses are $23 million higher than the same period last year due primarily to salary and wage increases of 4 percent, and cash balances are generally higher due in part to increased enrollment, tuition, and fees. However, he noted that some departments have declining cash balances due to the timing of billing of revenues, therefore staff will continue to monitor those departments.

Mr. Green noted that the fiscal status of the unrestricted funds and auxiliary enterprise funds as of March 31 was stable. Mr. Green predicted that, although the books for the biennium haven’t closed yet, there will be a carryover in Education and General Funds of approximately $70 million compared to the prior biennium carryover of approximately $30 million. Responding to a question by Director Bassett, Mr. Green explained that staff has been working with DAS (Department of Administrative Services) on a continuing resolution to allow OUS to advance on state appropriations even though they don’t yet have a budget.

Director Wustenberg moved and Director Lehmann seconded the motion to approve the reports as submitted. The following voted in favor: Directors Barnett, Bassett, Burns, Lehmann, Pilliod, Richmond, Wustenberg, and Lussier. Those voting no: none.

Motion passed unanimously.


DOCKET ITEM:

Introduction
During the fiscal year ended June 30, 2002, the Oregon University System implemented Governmental Accounting Standards Board Statement No. 35 (GASB 35), which significantly changed the accounting standards and presentation of the OUS financial statements. These changes were discussed in some detail during the February 2003 presentation of the OUS Annual Financial Statements for 2001-02. Now that the implementation of GASB 35 is complete at the institution level, these provisions are being implemented at lower levels within each institution. The units impacted are the self-liquidating activities of OUS, namely auxiliary enterprises and service departments. These self-liquidating activities are funded primarily through user fees and, as a
consequence, are managed much like for-profit entities. This requires recording the capital assets and long-term debt within the accounting records of each self-liquidating activity, recognizing the expense of long-lived capital assets over their useful life (depreciation), and charging only the interest portion of debt payments as an expense, rather than the entire payment. This change facilitates a more complete analysis of the financial health of each of these organizations and necessitates a reexamination of the related fiscal policies developed over the years.

With the changes that have occurred, it is important that a more complete and comprehensive framework of fiscal accountability for self-support units be established that will provide the Board and the Chancellor’s Office with a means of fulfilling their fiduciary responsibility and under which campus administrations can operate with flexibility and accountability. The objectives of this new accountability structure are to provide clear accountability points and structures while providing appropriate operational flexibility.

**Internal Management Directive (IMD) Updates**

As a first step to provide a complete framework of fiscal accountability for self-support activities, new IMDs need to be added and existing IMDs need to be updated. Detailed below are the proposed updates to the IMDs. One new IMD is proposed that more clearly sets forth the accountability structure under which self-liquidating activities operate and more clearly defines high level roles and responsibilities of both the institution and the Chancellor’s Office. In addition, the proposed revisions to existing IMDs focus on bringing the IMDs into compliance with new interpretations of state law (use of excess sinking funds and debt service reserves), eliminating unnecessary provisions (referencing OHSU specifically), streamlining and improving the provisions relating to the equipment replacement and building repair reserves, and updating provisions relating to self-support budget development. Since significant changes are proposed in the IMDs establishing and governing the building repair and equipment replacement reserves for auxiliary enterprise and other self-liquidating activities, additional background and summary information is presented.

**Background - Building Repair and Equipment Replacement Reserves**

The policy creating the building repair and equipment replacement reserves was formally established by the Board in 1976 to help ensure that “each self-liquidating activity is responsible for its own self-support,” including funding the depreciation of equipment and the repair and maintenance and deferred maintenance of buildings. During the deliberations leading up to the establishment of this policy, concern centered on the impact that the accumulation of these reserves would have on students and the Education and General fund budget. Because of that concern, the accumulation of reserves was limited to the accumulated depreciation for equipment and to a range from 1 percent to 2 percent of the replacement value of buildings. Different annual funding levels were required for the diverse activities to recognize the disparate sources of funds required to fund these activities (student fee funded activities would be required to increase fees or decrease service levels if the funding requirement was increased.
The Board directed that reserve levels be built to their required levels as soon as possible.

In 1979, the Board modified the policies to formally adopt IMDs 6.350 and 6.380. These IMDs included the requirements to fund deficiencies in the reserves and thresholds for the establishment of the equipment reserves.

Oregon Revised Statute (ORS) 351.615, passed into law in 1979, established a separate, interest-bearing account for the purposes of setting aside monies from auxiliary enterprise activities for repair and alteration of buildings and replacement of equipment.

At the time the reserve requirements were initially established, service departments were not required to maintain building repair reserves. In response to changes in the Office of Management and Budget (OMB) Circular A-21, the Board, in 1981, established a building repair reserve requirement for service departments that mirrored the requirements for auxiliary enterprise activities.

In 1986, the Board further simplified the auxiliary enterprise building repair reserve funding requirements by removing the differential funding requirement for parking activities and removed the funding range in favor of more flexible language to allow for exceptions. Exceptions were only allowed upon approval by the Senior Vice Chancellor for Finance and Administration. The service department requirements remained unchanged.

Summary of Proposed Modifications to the Building and Equipment Reserve Requirements

The proposed changes to the reserve requirements, detailed below, continue with the long-established intent and practice of setting aside sufficient reserves to repair or replace the assets used in the self-liquidating operations of OUS. These proposed changes:

- Merge the policies relative to auxiliary enterprises and service departments to eliminate unnecessary duplication and confusion.
- Clearly assign the responsibility for establishing and maintaining adequate reserves to campus administration.
- Add new reserve requirements relating to depreciable assets other than equipment and buildings, recognizing a significant asset class that was not previously considered.
- Increase the threshold for the establishment of reserves to recognize the increase in the capitalization threshold and eliminate the need to establish reserves for small operations.
- Change the reserve calculation for equipment and buildings and other long-lived depreciable assets to an amount based on a long-term maintenance plan to allow for the differential funding that is inherent between the varied self-support activities carried on by OUS institutions.
Recognize that depreciation expense relating to all depreciable assets of auxiliary enterprises and service departments will now be charged to operations and change the funding of the reserves from an operating expense to an equity transfer, thereby avoiding the duplication of expense. Charges for services will now be based on total operating expenses, including mandatory depreciation charges, rather than charges for funding the reserves.

- Repeal irrelevant IMD sections.
- Recognize the limited authority relative to interest earnings on reserves granted in ORS 351.615.
- Recognize the limitations on the use of auxiliary enterprise and service department reserves pursuant to ORS 351.615 and OMB Circular A-21.

**Proposed New Fiscal Policies**

To further strengthen the accountability framework for self-liquidating activities, new fiscal policies that will provide more detailed guidance relating to the financial management of these activities must be established. Proposed new fiscal policies (established under the authority of ORSs, Oregon Administrative Rules (OARs), IMDs, and/or Board Policy) covering the financial management of the self-liquidating activities have been drafted and are currently being reviewed. These new policies set forth some financial reporting standards and establish parameters for the fiscal condition of each activity.

The proposed financial reporting standards will require each self-support activity to combine all funds under their control and prepare a Statement of Net Assets (Balance Sheet), including all capital assets and long-term debt of the entity, and a Statement of Revenues, Expenses, and Changes in Net Assets (Income Statement). It is anticipated that, after needed training, each self-liquidating activity will also prepare a Statement of Cash Flows.

The Statement of Net Assets will provide information on the liquidity of a given entity, the ability of the entity to meet its short-term obligations with liquid or near-liquid assets (cash and short-term accounts receivable), and its fiscal health at a given point in time (quick ratio, current ratio, debt to equity ratio, etc.). The Statement of Revenues, Expenses, and Changes in Net Assets will provide information as to the fiscal performance over a period of time; the ability of the unit to generate sufficient revenues to cover its cost of operation. The Statement of Cash Flows will provide information on the management of cash and cash flows, highlighting receivables and payables management, and providing disclosure of all sources and uses of cash during the period.

These proposed policies will include minimum financial standards addressing cash balances, working capital balances, balances of long-term debt, and net asset balances. It is anticipated that other requirements will be added over time to provide a more comprehensive set of fiscal standards.
Since these proposed policies are being established under the authorities noted above, Board action will not be required for their adoption.

**Proposed IMD Updates**
The following are the proposed IMD updates. Additions are in [brackets] and deletions in strikeout.


6.300 Financing Self-Liquidating Bond Debt Services
(6.300-6.325 were approved by the Board in November 1997)

1. Auxiliary enterprise and other self-liquidating activities shall be assigned to one of the following categories for debt financing purposes:
   
   a. Residence halls and residential dining facilities (other than Portland State University).
   b. Portland State University residence halls.
   c. Other housing facilities.
   d. Parking facilities.
   e. Auxiliary enterprise facilities financed primarily from building fees.
   f. Other facilities that meet the requirements of Article XI-F(1) and are specifically approved by the Board of Higher Education.

2. The projects approved in accordance with (1) above are expected to be fully self-supporting and self-liquidating from user fees, gifts, grants, building fees, [rental income,] or other sources as approved by the Board of Higher Education.

6.305 Bond Issues for Auxiliary Enterprise and Other Self-Liquidating Activities

When authorized pursuant to ORS 351.350 or 351.353 and Article XI-F(1) of the Oregon Constitution, bonds may be issued to finance construction of auxiliary enterprises and other self-liquidating facilities only if the Board:

1. Establishes and maintains for bonds so issued appropriate reserves as described below; and

2. Otherwise conforms to statutory and constitutional requirements.

6.306 Provision for Debt Service Reserves [Sinking Funds]

(1) The auxiliary enterprise or other [self-liquidating] activity responsible for annual debt service shall provide and maintain [sinking funds] debt service reserves for the ensuing year except that for bonds issued prior to July 1986, a two-year [sinking fund] debt service reserve is required.
(2) Debt service funds are available for transfer to other funds and accounts as authorized by ORS 351.460 (4) to the extent that excess funds exist after projecting debt service fund balances taking into consideration the Board's approved capital construction project for the ensuing biennium and any other factors affecting the available funds.

6.310 Financial Operating Resources for Auxiliary Enterprise and Other Self-Liquidating Projects

(1) The building fee, established by the Board pursuant to ORS 351.170, is a Department resource, without regard to the institution at which it is collected, and shall be applied for debt service other than for residence halls, housing, parking, clinics, or other self-liquidating facilities.

(2) Debt service for bonds issued for housing, parking, clinics, or other self-liquidating facilities shall be provided primarily from fees charged to users of the facilities.

(3) Debt service for other specifically approved facilities shall be provided from sources identified at the time of authorization and approval of the project by the Board.

(4) Income from investment of debt service reserves, sinking funds, and building repair and equipment replacement reserves shall be credited to the institution [sinking] reserve funds, except as otherwise provided.

(5) Income from investment of [XI-F] bond building funds shall be distributed to the sinking funds in proportion to the allocation of the unspent building funds to the respective auxiliary enterprise and other self-liquidating project categories.

6.315 Allocation of Debt Service Responsibility for Auxiliary Enterprise and Other Self-Liquidating Projects

Annual debt service on bonds issued for auxiliary enterprise or other self-liquidating projects shall be apportioned on the following bases:

(1) Interest and principal payments for debt service on:

   (a) bond proceeds allocated to residence hall and residential dining facilities after February 28, 1997,
   (b) Portland State University residence halls,
   (c) other housing, and
   (d) parking shall be the responsibility of the institution at which the facilities are located.
(2) Interest and principal payments for debt service on bonds allocated before March 1, 1997, for residence hall and residential dining facilities at all institutions, except Portland State University, shall be allocated to each institution in proportion to the average academic year occupancy of its residence halls for a five-year period beginning 1994-95 and ending 1998-99.

(3) Interest and principal payments for debt service on other auxiliary enterprise facilities shall be provided from building fees or other income as identified in the specific construction program.

6.316 Residence Hall Emergency Reserve Fund

The purpose of the Residence Hall Emergency Reserve Fund (Reserve) is to provide for unanticipated financial emergencies in the residence hall operations, which could otherwise affect the ability of a single institution to support the payment of its debt service obligations. The Reserve shall not be a supplemental source of funds that may be considered or relied upon when planning for the financing of construction, renovation, or repair/upgrade of projects. Each institution must have a business plan in place addressing current and future needs of its student housing operations and how it intends to fund those needs through institutionally-initiated efforts. The policy described in this section shall apply to residence hall operations referenced in section 6.300(1)(a) above.

(1) Specific Provisions:

(a) The Reserve will be funded by an institutional payment equivalent to twenty dollars ($20) per occupant, per year, based on the number of students living in the residence halls referenced in section 6.300(1)(a).

(b) The number of students for purposes of (a) shall be determined by the prior year three-term average residence hall occupancy as of the fourth week of each term. (An "occupant" is any student living in a residence hall who is not a residence hall director.)

(c) Institutional payments to the Reserve will be made by May of each year beginning in fiscal year 1999-2000. All payments to the Reserve will be monitored by the Chancellor's Office with a record kept of payments made by each institution.

(2) Institutional payments to the Reserve will be made for eight (8) fiscal years, 1999-2000 through 2006-07. In 2006, the Board will review the provisions and status of the Reserve.

(3) Interest earnings of the Reserve through June 30, 2007, will accrue to the Reserve. Distribution of interest earnings thereafter will be determined by the Board.
(4) Authorization for use of funds from the Reserve shall require a written application and comprehensive business plan from the requesting institution. The application and business plan shall be submitted to the Senior Vice Chancellor for Finance and Administration for approval.

6.320 Budgeting for Auxiliary Enterprise Activities [replaced by IMD 6.520 July 18, 2003]

Annually, at a time determined by the Vice Chancellor for Finance and Administration, each institution shall propose housing, parking, or other specified auxiliary activities budgets. The budgets shall conservatively anticipate income from user fees and other sources to provide for all operating expenses and for the establishment and maintenance of debt service reserves, including the repayment of any outstanding obligations and the elimination of operating overdrafts. If income has been or appears likely to be insufficient for these purposes, the proposed budget shall identify the sources from which needed resources are required to eliminate such deficiencies. The resources shall include an institution’s debt service reserves and unencumbered balances of other auxiliary activities.

Deficiencies in self-supporting auxiliary enterprise activities shall be carried as overdrafts. The institution must request Board approval of a revised budget plan for eliminating overdrafts either for debt service or for operations.

6.325 Other Uses of Auxiliary Enterprise and Other Self-Liquidating Debt Service Funds [repealed—July 18, 2003]

(1) Authority is delegated to the Vice Chancellor for Finance and Administration or designee, following consultation with the officials of the institution, to transfer Article XI F(1) debt service reserve funds to other funds and accounts for the following purposes, in accordance with ORS 351.460:

(a) To finance architectural and/or engineering planning of proposed construction for auxiliary enterprises and other self-liquidating projects.

(b) To fund capital construction, capital improvements, or major repairs of auxiliary enterprise or other self-liquidating projects.

(c) To purchase new equipment or replace old equipment for auxiliary enterprise or other self-liquidating projects, if sufficient funds are not available in equipment replacement reserves.

(d) To establish or maintain at required levels, reserves, such as building repair reserves and equipment replacement reserves, for auxiliary enterprises.
(e) To eliminate overdrafts in other auxiliary enterprise operating accounts of the institution that generate funds for the debt service reserve accounts.

(2) Plans for the usage during the following fiscal year of debt service reserve funds for purposes stated in IMD 6.325(1) shall be submitted to the Vice Chancellor for Finance and Administration by June 1 so that priorities may be established and approval granted for the use of the funds. Capital construction projects costing $100,000 or more must also be reviewed and approved in advance by the Vice Chancellor for Finance and Administration or designee.

Financing [Reserves for Repair or Replacement of Depreciable Assets of] Auxiliary Enterprise and [Other Self-Liquidating Activities] Service Department
Building Repair and Equipment Replacement Reserves

6.350 Auxiliary Enterprise Building/IOTB Repair and Equipment Replacement Reserves [for Auxiliary Enterprises and Other Self-Liquidating Activities]

(1) [Auxiliary enterprises and other self-liquidating activities shall maintain building/IOTB repair and equipment replacement reserves for the purpose of funding the cost of repairs or replacement of depreciable assets. Such reserves should be sufficient to promote the efficient and effective operation of the related operating unit, avoid significant fluctuations in fees charged for services, and minimize the potential for unanticipated financial shortfalls that may impact the other funds of the institution.]

(2) Each auxiliary enterprise and other self-liquidating activity shall determine the appropriate level of repair reserves for buildings and improvements other than buildings (IOTBs) and equipment replacement reserves based on a capital asset management plan (Plan) that is prepared/updated at least annually and approved by the institution’s vice president for finance and administration or designee. The Plan required under this provision will be based on a minimum five-year planning horizon and will assess the repair or replacement needs of each asset or asset class and include an analysis of the annual funding necessary to accumulate the funds required to execute the plan. When preparing/updating the Plan, consideration should be given to the availability of interest earnings on reserves of auxiliary enterprises in order to maximize the benefits of setting aside reserve funds. The Plan required under this section must be retained for audit purposes.

(3) Each auxiliary enterprise and self-liquidating activity with capital assets of $150,000 (recorded cost) or more will prepare and retain the capital asset management plan (Plan) referred to in section (2) above. Should the Plan indicate the need for building/IOTB repair and/or equipment replacement reserves, a fund should be established for those purposes (if not already established) and funded accordingly. Institution-specific policies will determine
whether activities with less than $150,000 (recorded cost) of capital assets will prepare a Plan and establish and fund any reserves.

(4) Generally, building/IOTB repair and equipment replacement reserves may not be used for any other purpose than to repair or replace capital assets used in the operation of the related auxiliary enterprise or other self-liquidating activity. Consideration should be given to statutory requirements (see section (6) below), applicable federal cost requirements, and the source of funding before authorizing the use of building/IOTB repair and equipment replacement reserves for any other purpose. Authorization for such other use may only be granted by the institution’s vice president for finance and administration or designee and must be documented and retained for audit purposes.

(5) Pursuant to ORS 351.615, only building repair and equipment replacement reserves of auxiliary enterprises may be credited to the Higher Education Auxiliary Enterprise Building Repair and Equipment Replacement Fund (Fund). Reserves for the repair or replacement of other depreciable assets (IOTBs) of auxiliary enterprises may not be credited to the Fund. Monies deposited in the Fund may not be used for any other purpose than for the repair and alteration of auxiliary enterprise buildings and the replacement of auxiliary enterprise equipment. No repair/replacement reserves of service departments or any other self-liquidating activities may be credited to the Fund.

(6) Except as otherwise provided, exceptions to the requirements of sections (1) through (5) may be granted by the Senior Vice Chancellor for Finance and Administration or designee.

(1) Auxiliary enterprises establish and maintain reserves for the purpose of funding the cost of building repairs and the replacement of equipment. Such reserves are utilized for their stated purpose before the building fee portion of the XI F(1) Debt Service Fund may become available, either by permanent transfer or advance of the funds.

(2) The Building Repair Reserve is normally maintained at not less than 1.5 percent of building replacement value for each category of auxiliary enterprise. Exceptions to this policy may be granted by the Office of Administration, where age or condition of facilities warrant either a greater or smaller reserve balance. Deficiencies at fiscal year-end are recovered over the following seven years.

(3) Equipment replacement reserve requirements are determined by the cost and life expectancy (usually ten years) of the equipment in each auxiliary enterprise category. At the end of the fiscal year any deficiency in this reserve is scheduled for recovery within the following ten years. No reserve is required when the total value of equipment used in the activity is less than $2,500.
(4) Exception to Sections (1) and (3) may be authorized by the Office of Administration where circumstances warrant.

6.380 Service Department Building Repair and Equipment Replacement

[–repealed July 18, 2003]

(2) Reserves to provide for the replacement of equipment for Service Departments are required if the total value of this equipment used in a Department is $2,500 or greater. The reserve level needed is based upon the original cost of the equipment and its expected life (usually ten years). Fiscal year-end deficiencies in the reserve balance are recovered over the following ten years.

(3) Reserves to provide for the repair of buildings are maintained at a level of not less than 1% or more than 2% of the replacement value of the building or the proportionate share of the building occupied by the Service Department. Deficiencies in the reserve balance at the end of a fiscal year are to be recovered in not less than the succeeding 5 years. Building repair reserves are optional for Service Departments with activity less than the minimum established for Specialized Service facilities as defined by the Federal Office of Management and Budget in Circular A-21 and in accordance with agreement between the Department of Higher Education and the cognizant Federal Audit Agency.

(4) Exceptions to the requirements of sections (1) and (2) may be authorized by the Office of Administration where circumstances warrant.

6.390 University Hospital Building Repair and Equipment Replacement

[–repealed July 18, 2003]

(1) Reserves to provide for the replacement of equipment for the University Hospital -- Oregon Health Sciences University -- are required for all items of equipment valued at or above the Medicare threshold for capital equipment. The reserve level needed is based upon the original cost or value of the equipment and its expected life (usually ten years). Patient fee revenue not required to meet current obligations will be used for payments into such reserves. Fiscal year-end deficiencies in the reserve balance are to be recovered within the following ten years.

(2) Reserves to provide for the repair, renovation, and replacement of buildings are maintained at a level of not more than 20 percent of the replacement value of the buildings occupied by the University Hospital -- Oregon Health Sciences University. This shall be accomplished by the annual payment into such reserves of not less than three percent or more than four percent of the replacement value. Patient fee revenue not required to meet current obligations will be used for payments into such reserves. Deficiencies in the reserve balance at the end of a fiscal year are to be recovered within the following ten years.

(3) Exceptions to the requirements of sections (1) and (2) may be authorized by the Office of Finance and Administration where circumstances warrant.
6.500 Policy for Education-Related Business Activities

The primary mission of the institutions within the Oregon University System is the creation and dissemination of knowledge. To carry out this mission, institutions do engage in education-related business activities, i.e., activities which enhance, promote, or support instruction, research, public service, or other education-related activities where goods or services being sold or rented are directly and substantially related to an educational or research program.

The Board affirms that all institution education-related business activities shall meet the following conditions:

A. The activity is deemed to be an integral part of, and directly and substantially related to, the fulfillment of an institution's instructional, research, public service, or other education-related mission.

B. The activity is operated for the primary benefit of the students, staff, and faculty associated with and served by the institution or its affiliated units. The activity is needed to provide goods or services at a reasonable price, on reasonable terms, and at a convenient time and location. Sales or rental of services and products to on-campus visitors and campus conference participants are considered incidental to the purpose of these activities.

Some typical products, services, and facilities provided at or in close proximity to an institution to meet the needs of its constituents are instruction-related materials; housing and food services; student health services; and athletic, cultural, and recreational activities; including the facilities where such products and services are provided.

In furtherance of education-related business activities, institutions shall provide for the following:

1. When determining whether any particular education-related business activity should be provided by an institution, institutional presidents or their designees shall consider whether the activity is currently and adequately provided by private businesses. If the services of private businesses are considered adequate but the activity is nevertheless deemed important to be provided by the institution, the institution president or designee shall state in writing its justifications for providing the activity. A copy of the statement shall be submitted for review to the Senior Vice Chancellor for Finance and Administration or designee.
2. To insure recovery of direct costs of engaging in the education-related business activities, institutions shall charge students, faculty, staff, campus conference participants, and the public to participate in institutional events, for the purchase of the goods or services, and for the rental of any facilities. An institution president may waive charges for selected education-related business activities.

3. An institution may make its services and facilities available to nonprofit or community organizations without recovering all direct costs, provided there is sufficient inventory or capacity. An institution may also make its services and facilities available to for-profit community businesses and organizations provided there is sufficient capacity and availability. Charges to profit-making organizations shall cover the direct and indirect costs of the use of the facilities and services provided. Services, products, and facilities may similarly be provided to federal, state, and political subdivisions, subject to negotiated charges, terms, and conditions.

4. An institution may promote and market in off-campus public media only those services and events which are of interest to the general public, such as cultural presentations, intercollegiate athletics contests, and educational programs.

5. Following approval by the institution president to provide goods, services, and facilities referenced above, the institution shall adopt a fee schedule or, in cases where prices fluctuate, a pricing markup policy for those services, products, and facilities.

[6.510 Responsibilities and Authorities]

(1) The Senior Vice Chancellor for Finance and Administration, or designee, is responsible for establishing and maintaining Systemwide fiscal policies and monitoring and reporting processes; and reporting to the Board as needed regarding compliance with fiscal policies and fiscal results.

(2) Each institution president, or designee, is responsible for establishing and maintaining institution-specific fiscal policies and monitoring and reporting processes; reporting to institutional management and the Chancellor’s Office as required regarding compliance with fiscal policies and fiscal results; and strategic planning and operational management.

[6.520 Budgeting for Auxiliary Enterprises and Other Self-Liquidating Activities]

(1) Each institution shall prepare and submit budgets for auxiliary enterprise and other self-liquidating activities (housing, student centers, intercollegiate athletics, health services, parking, bookstores, other rentals, other auxiliaries, service
departments, designated operations) as a part of the annual operating budget development process.

(2) The budgets shall be prepared based on the flow of economic resources measurement focus as required for financial reporting by the Governmental Accounting Standards Board.

(3) The budgets shall conservatively anticipate income from user fees and other sources to provide for all operating expenses (including depreciation) and for the establishment and maintenance of bond sinking funds, including the repayment of any outstanding obligations, the establishment and maintenance of building/ITOB repair and equipment replacement reserves, and the elimination of prior year cash overdrafts and/or negative net asset balances, subject to policies governing service departments approved by the institution’s federal cognizant agency. If income has been or appears likely to be insufficient for these purposes, the proposed budget shall identify the sources from which needed resources are required to eliminate such deficiencies.

(4) If any auxiliary enterprise or other self-liquidating activity ends a fiscal year with a cash overdraft, a negative working capital position, or a negative net asset balance, the institution will submit a revised budget plan for eliminating the cash overdraft(s), the negative working capital position, and/or the negative net asset balance(s) to the Senior Vice Chancellor for Finance and Administration or designee for approval. If the Senior Vice Chancellor for Finance and Administration or designee determines that the cash overdraft(s), negative working capital position, and/or negative net asset balance(s) are material, the revised budget plan will be submitted to the Board for approval after consultation with institution management.

(5) Exceptions to the requirements of sections (1) through (4) may be granted by the Senior Vice Chancellor for Finance and Administration or designee.

Staff Recommendation to the Board
Staff recommended that the Board adopt the updates to the Internal Management Directives as proposed herein.

BOARD DISCUSSION AND ACTION:

Senior Vice Chancellor Tom Anderes explained that, in reviewing the accountability framework process, a disconnect was found between the present policies and accounting standards as compared to a decade ago. Some areas that need reassessment include the self-liquidating activities such as housing, student centers, and student health centers. They will be looking into new accounting standards for these entities as well as revisions to the building and equipment reserves. He addressed the auxiliary enterprises, including athletics, and noted that, currently, reports are made to the Board on OSU Athletics on a regular basis and likewise this will be
done with the other athletic programs over the next several months. Staff will also review progress in the other auxiliary enterprises such as housing and health services, looking for ways to improve in those areas.

Director Pilliod moved and Director Bassett seconded the motion to approve the modifications to the IMDs as submitted. Upon a roll call vote, the following voted in favor: Directors Barnett, Bassett, Burns, Lehmann, Pilliod, Richmond, Wustenberg, and Lussier. Those voting no: none.

Motion passed unanimously.


DOCKET ITEM:

Introduction
The purpose of this report was to communicate the fiscal status of the Intercollegiate Athletics Department (Athletics) of Oregon State University (OSU) in accordance with the request of the Budget and Finance Committee (Committee). In their April 19, 2002, meeting, the Committee requested monthly reports on the fiscal status of OSU Athletics to more closely monitor the progress being made by Athletics in meeting their deficit reduction commitments.

Change in Accounting Principle
During the fiscal year ended June 30, 2002, OUS implemented Governmental Accounting Standards Board Statement No. 35 (GASB 35), which significantly changed the accounting standards and the presentation of the OUS financial statements. These changes were discussed in some detail during the February 2003 presentation of the OUS Annual Financial Statements for 2001-02. Now that the implementation of GASB 35 is complete at the institution level, these provisions are being implemented at lower levels within each institution. The units that are impacted are the self-supporting activities, including Athletics. These changes have delayed the submission of status reports as we have been focusing on implementation of the accounting changes and their effect on the financial reports and commitments for fiscal improvement.

The major changes affecting Athletics financial reporting is that the Statement of Net Assets (Balance Sheet) now includes capital assets and any related long-term debt. The Statement of Revenues and Expenses (Income Statement) now includes depreciation expense on capital assets. As a result of these changes, the old fund balance (deficit) measurement is no longer indicative of Athletics’ fiscal solvency.

It is with some regularity that accounting standard-setting bodies change accounting and reporting standards. The purpose of changes such as these is to improve the disclosure of financial information and, as such, they are not indicative of inaccurate reporting in the past. Both OSU management and the Chancellor’s Office believe that the financial statements required under these new accounting standards will be more
readable and understandable and will lead to a more comprehensive view of the fiscal status of OSU Athletics.

**Restated Fiscal Status at June 30, 2002, and Establishment of New Fiscal Measure**

The basis for evaluating the fiscal status of Athletics in past periods was the fund balance (deficit). The fund balance (deficit) reported as of June 30, 2002, was approximately ($4.7 million). Under the new accounting standards, with the inclusion of capital assets and long-term debt, and several additional funds under the control of Athletics that are restricted for repair and replacement of capital assets, the fund balance (now termed net assets) is a positive amount totaling $7.1 million. The fund balance, or net assets measurement, is no longer indicative of fiscal solvency. Under the new accounting standards, a far more effective measurement of fiscal solvency is “working capital.” Working capital compares current assets (cash and assets that can be converted into cash in the next year) to current liabilities (amounts owed in the next year). Both OUS and OSU officials have agreed that working capital should be the new basis upon which to measure Athletics’ progress.

**Fiscal Targets**

OSU management has proposed the following plan for the continuing improvement in working capital with the goal of a positive working capital balance achieved in FY 2010-11:

<table>
<thead>
<tr>
<th>Improvement Target</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base – June 30, 2002</td>
<td>($5.9 million)¹</td>
</tr>
<tr>
<td>Fiscal Year 2002-03</td>
<td>$1.0 million</td>
</tr>
<tr>
<td>Fiscal Year 2003-04</td>
<td>$1.0 million</td>
</tr>
<tr>
<td>Fiscal Year 2004-05</td>
<td>$1.0 million</td>
</tr>
<tr>
<td>Fiscal Year 2005-06</td>
<td>$0.75 million</td>
</tr>
<tr>
<td>Fiscal Year 2006-07</td>
<td>$0.5 million</td>
</tr>
<tr>
<td>Fiscal Year 2007-08</td>
<td>$0.5 million</td>
</tr>
<tr>
<td>Fiscal Year 2008-09</td>
<td>$0.5 million</td>
</tr>
<tr>
<td>Fiscal Year 2009-10</td>
<td>$0.5 million</td>
</tr>
<tr>
<td>Fiscal Year 2010-11</td>
<td>$0.5 million</td>
</tr>
</tbody>
</table>

The previous improvement target (approved by the Board in April 2002) for fiscal year 2002-03, based on the old measurement basis, was $1.5 million. The previous improvement targets established for fiscal years 2003-2004 through 2005-06 totaled $2.5 million, versus the more accelerated plan above totaling $2.75 million. Given the change in measurement basis, these proposed new targets, taken in aggregate, do not differ materially from those previously established.

**Fiscal Status Report as of May 31, 2003**

The Statement of Net Assets and Statement of Revenues, Expenses, and Other Changes in Net Assets present the fiscal condition and operating results of Athletics as

---

¹ The reconciliation of the ($4.7 million) fund (deficit) reported prior to GASB 35 to the ($5.9 million) negative working capital is in Note 5 to the financial statements.
of May 31, 2003. The restated Statement of Net Assets at June 30, 2002, is also presented. As discussed above, OSU management has projected the working capital deficit for fiscal year-end June 30, 2003, to be ($4.9 million). The working capital deficit of ($8.1 million) at May 31, 2003, was compared to the projected balance at June 30, 2003, and OSU management has provided information describing the fiscal expectations for June that will bring the working capital deficit up to the target. Footnotes to the financial statements are attached to provide additional disclosure and explanation.

**University’s Analysis**

Working capital at May 31, 2003, is ($8.1 million). During June, Athletics expects to receive incremental gift revenues in the amount of $3.5 million from the OSU Foundation, $100,000 of royalty income, and anticipates other June operating activity to net a $400,000 reduction in working capital. Should each of these expectations be met, Athletics’ June 30, 2003, working capital balance is projected to be approximately ($4.9 million).

**Chancellor’s Office Review**

**Process**
The Chancellor’s Office has reviewed the financial statements and analysis prepared by OSU to test the reasonableness of the amounts reported, the projections presented, and management’s assumptions. This review included the following:

$ Reconciliation of amounts reported to the accounting records
$ Selected review of unusual amounts, trends, etc.
$ Review of material accounts receivable balances
$ Review of management’s expectations relative to working capital improvement for reasonableness

**Analysis**
The amounts reported in the financial statements have been reconciled to the accounting records and the review of material accounts receivable balances further substantiates the operating results. Athletics’ expectations relative to working capital improvements could not be independently verified at the time this report was finalized.

The University’s projections indicate that Athletics will meet their proposed working capital target for the year ending June 30, 2003.

**Follow-on Report**
The Chancellor’s Office plans to present financial statements of OSU, PSU, and UO Intercollegiate Athletics departments for June 30, 2003, under the new accounting and reporting standards, along with an analysis of the fiscal status of each, at the October 2003 Budget and Finance Committee meeting.
Staff Recommendation to the Board

Staff recommended that the Board approve the working capital improvement plan for OSU Intercollegiate Athletics as proposed above and accept the fiscal status report of Athletics as of May 31, 2003.

BOARD DISCUSSION AND ACTION:

Mike Green noted that the implementation of GASB 35 has significantly changed accounting standards, primarily in capital asset and expense recognition. He explained that one of the major changes affecting athletics is the requirement to include their capital assets on their balance sheets as well as their long-term debt thereby presenting a clearer picture of the true fiscal status. While the changes are positive, he explained that they have brought with them some challenges in comparing prior years. He explained that bringing the capital assets to the balance sheet significantly changed the fund balance.

Mr. Green noted that, as of June 30, Athletics had a cash overdraft of $2.1 million. He explained that the money is operating out of a pooled account on the institution’s books with other student activities funds and the total current assets were approximately a negative $1 million. He explained that the deferred revenue line of $4 million was primarily advanced ticket sales, which increase cash balances, but are not realized revenue until the following fiscal year. He explained that the measure for liquidity is working capital: current assets over current liability. He stated that, as a not-for-profit entity, they have a negative working capital, or zero liquidity, and are operating on other institutional funds.

Referring to the balance sheets, Mr. Green explained that as of May 31 there was a cash overdraft of $5.6 million due in large part to a receivable balance of $3.1 million from PAC 10 revenues, which are not realized until the very end of the fiscal year. He stated that the OSU Foundation has brought in $3.5 million revenue to help OSU reach the targeted goal of $4.9 million negative working capital.

Director Wustenberg asked what was being done to make things transparent so everyone can understand. Mr. Green responded that the new model of looking at these self-supporting entities is much easier to understand and will be brought to the Board on a periodic basis. Responding to a question by President Lussier, Dr. Anderes opined that the OSU Athletics issue is on target and there is a positive trend line.

Director Wustenberg moved and Director Barnett seconded the motion to accept the OSU Intercollegiate Athletics Department Fiscal Status Report as submitted. Upon a roll call vote, the following voted in favor: Directors Barnett, Bassett, Burns, Lehmann, Pilliod, Richmond, Wustenberg, and Lussier. Those voting no: none.

Motion passed unanimously.
Consent Item
a. Optional Retirement Plan—Proposed Amendment

DOCKET ITEM:

Summary
An amendment to the Optional Retirement Plan (ORP) was proposed for adoption by the Board. Amendment No. 2 adopts a series of administrative clarifications based on statutory review and a need to conform the Plan to operational standards used by the University System, vendors, and the state. Amendment No. 2 also incorporates final Treasury Regulations to update Plan rules on required minimum distributions and death benefits. Board action was requested to approve the proposed amendments. An overview of the Optional Retirement Plan is provided to outline the current status of the Plan.

Staff Report to the Board
The Optional Retirement Plan (ORP) has been offered as a retirement plan alternative to membership in the Public Employees' Retirement System (PERS) for academic and administrative employees since 1996, authorized under ORS 243.800. Eligible unclassified employees may elect to participate in the ORP in lieu of membership in PERS.

The original four fund sponsors—American Century, Scudder Investments, TIAA-CREF, and AIG VALIC—continue to offer mutual funds and annuities through the defined contribution retirement plan. Annually, the consulting firm of RV Kuhns conducts a funds performance review to confirm financial stability of the fund sponsors and to monitor the performance of funds selected by OUS employees for their retirement investments.

Plan Highlights

Table 1. Employee Participation, May 2003

<table>
<thead>
<tr>
<th></th>
<th>Tier One (Hired Before 1/1/96)</th>
<th>Tier Two (Hired 1/1/96 or After)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>ORP Participants</td>
<td>762</td>
<td>1,613</td>
<td>2,375</td>
</tr>
<tr>
<td>PERS Participants</td>
<td>4,858</td>
<td>3,998</td>
<td>8,856</td>
</tr>
</tbody>
</table>

Participation in the ORP has grown steadily. Originally adopted to provide retirement benefits for a mobile faculty population, the ORP has been valuable in recruitment. A review of total terminations from the ORP confirms that Plan participants are highly mobile: from February 2001 to March 2003, 458 participants left employment with the University System and the ORP. Regardless, the ORP participation continues to grow, as shown in Table 2.
Table 2. ORP Enrollment Growth Since Plan Inception

<table>
<thead>
<tr>
<th></th>
<th>1996</th>
<th>1998</th>
<th>2000</th>
<th>2002</th>
<th>% Inc 96-02</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOU</td>
<td>43</td>
<td>47</td>
<td>71</td>
<td>72</td>
<td>67%</td>
</tr>
<tr>
<td>OIT</td>
<td>85</td>
<td>105</td>
<td>116</td>
<td>116</td>
<td>36%</td>
</tr>
<tr>
<td>OSU</td>
<td>390</td>
<td>588</td>
<td>571</td>
<td>715</td>
<td>83%</td>
</tr>
<tr>
<td>PSU</td>
<td>211</td>
<td>297</td>
<td>336</td>
<td>407</td>
<td>93%</td>
</tr>
<tr>
<td>SOU</td>
<td>45</td>
<td>55</td>
<td>71</td>
<td>82</td>
<td>82%</td>
</tr>
<tr>
<td>UO</td>
<td>367</td>
<td>527</td>
<td>547</td>
<td>627</td>
<td>71%</td>
</tr>
<tr>
<td>WOU</td>
<td>84</td>
<td>93</td>
<td>109</td>
<td>106</td>
<td>26%</td>
</tr>
<tr>
<td>OUS</td>
<td>14</td>
<td>19</td>
<td>25</td>
<td>27</td>
<td>93%</td>
</tr>
<tr>
<td>Total</td>
<td>1,239</td>
<td>1,731</td>
<td>1,849</td>
<td>2,152</td>
<td>74%</td>
</tr>
</tbody>
</table>

Employer contribution rates are statutorily linked to the PERS contribution rate, which is adjusted semi-annually for the PERS State and Local Governments Rate Pool.

Table 3. Employer Contribution Rate (Percent of Pay)

<table>
<thead>
<tr>
<th></th>
<th>Tier One</th>
<th>Tier Two</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Hired Before 1/1/96)</td>
<td>(Hired 1/1/96 or After)</td>
</tr>
<tr>
<td>2003-2005</td>
<td>11.31</td>
<td>11.71</td>
</tr>
<tr>
<td>2001-2003</td>
<td>9.49</td>
<td>8.52</td>
</tr>
<tr>
<td>1999-2001</td>
<td>9.73</td>
<td>7.33</td>
</tr>
<tr>
<td>1997-1999</td>
<td>8.20</td>
<td>5.75</td>
</tr>
<tr>
<td>1995-1997</td>
<td>8.46</td>
<td>5.75</td>
</tr>
</tbody>
</table>

The OUS proposed in 2003 to decouple PERS and OUS employer contribution rates, but did not receive authorization from the legislature to allow the Oregon State Board of Higher Education to set contribution rates for this plan. Recent market performance and account crediting decisions by the PERS Board nearly doubled the proposed rates for 2003-2005 until recent legislative changes reduced the PERS rate. Further significant rate increases are expected when investment losses in 2001 and 2002 are fully recognized by PERS, and the revised PERS rates have been challenged through the courts. Resolution of final PERS (and ORP) rates may not occur until the end of the 2003-2005 biennium.

The ORP is comprised of participant-directed accounts. Participant accounts in the ORP were affected in the same way investment markets were affected in 2001 and 2002, and overall asset volume growth from 2000 to 2002 stems from increased participation.
instead of strong investment performance, which drove Plan growth in the prior period from 1998 to 2000.

### Table 4. Plan Assets of Vested and Active Participants, by Fund Sponsor

<table>
<thead>
<tr>
<th>Plan Year</th>
<th>American Century</th>
<th>Scudder Investments</th>
<th>TIAA-CREF</th>
<th>VALIC</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/02</td>
<td>11,513,730</td>
<td>1,829,080</td>
<td>34,837,589</td>
<td>21,874,069</td>
<td>70,054,468</td>
</tr>
<tr>
<td>12/00</td>
<td>9,766,199</td>
<td>1,314,867</td>
<td>25,443,787</td>
<td>18,745,275</td>
<td>55,270,128</td>
</tr>
<tr>
<td>12/98</td>
<td>5,096,709</td>
<td>532,750</td>
<td>12,279,936</td>
<td>10,297,974</td>
<td>28,207,369</td>
</tr>
</tbody>
</table>

**Plan Revisions**

Prior to the 2002 Plan restatement, the Plan document has been amended twice to respond to legal advice and to make administrative clarifications. On February 22, 2002, the restated Plan document was submitted to the IRS for a determination letter of qualified Plan status to adopt six tax laws—the Uruguay Round Agreements Act (GATT), USERRA, SBPJPA, RRA 97, RRA 98, and The Community Tax Relief Act of 2000—collectively known at GUST. The Plan document received a favorable determination letter on September 11, 2002, after adopting IRS-suggested language (Amendment No. 1) related to definitions of compensation and leased employees.

The Plan restatement also incorporates provisions of the Economic Growth and Tax Reconciliation Relief Act of 2001 (EGTRRA). Effective April 1, 2002, EGTRRA 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. The Oregon Department of Justice has reviewed and approved all of the EGTRRA amendments included in the Plan restatement.

**Action Item**

The Retirement Committee and Trustees proposed adoption of Amendment No. 2 to address operational and definitional issues that have arisen since its original implementation, and to recognize new Treasury Regulations. Amendment No. 2 (Appendix “E”) makes the following changes to the Plan document:

1) Updates definitions and terms used in the Plan document.
2) Restates Plan eligibility rules, adding qualifying position requirements to conform the Plan to PERS eligibility rules.
3) Clarifies participant status, designating participants as “active,” “inactive,” or “retired” for determination of contribution status.
4) Adopts advice provided by the Oregon Department of Justice regarding irrevocability of the original election to participate in the ORP instead of PERS.
5) Reorganizes date-linked Plan provisions for sequencing.
6) Describes forfeiture accounts held by the fund sponsors, the timing of transfers to such accounts, and allocation of forfeiture funds.
7) Revises portions of Plan language to improve readability and interpretability by administrators.
8) Clarifies vesting status of separated individuals in the event of Plan termination.
9) Updates Plan sections on minimum required distributions and death benefits to reflect Treasury Regulation Section 1.401(a)(9), which was finalized after the Plan restatement had been submitted to the IRS.

The restated Plan document is available upon request to the Retirement Committee, care of the OUS Human Resources Division.

**Staff Recommendation to the Board**

Staff recommended that the Board approve the proposed amendments to the Optional Retirement Plan as submitted in Appendix “E”.

**BOARD DISCUSSION AND ACTION:**

Dr. Anderes stated that there may be a minor change in this item and, if so, a copy will be forwarded to the Board.

Director Bassett moved and Director Lehman seconded the motion to approve the Optional Retirement Plan proposed amendment as submitted. The following voted in favor: Directors Barnett, Bassett, Burns, Lehmann, Pilliod, Richmond, Wustenberg, and Lussier. Those voting no: none.

Motion passed unanimously.

8. **SYSTEM STRATEGIC PLANNING**

With the consent of the Board, SSP Chair Bassett changed the order of the SSP items to allow for discussion items to be addressed prior to the action, consent, and report items.

**DISCUSSION ITEM**

a. **Access**

While Quality has been the initial focus of both the Strategic Planning Committee and the Joint Boards Working Group, the broader interest of both groups has been to connect and activate the several links within the hydraulics of a strategic policy framework for Board decision-making over the next several years.

The Board has already adopted a policy position on Quality that directly ties the quality of instruction in the System to the level of state supported enrollment provided by the legislature. While quality is not defined in precise terms, the policy makes it clear that
quality must not drop below current levels and, if necessary, that enrollments must be
limited when state-supported enrollment funding declines. It is possible that this policy
will require a Board action sometime in the future to reduce 2003-2005 System
enrollments in order to implement the existing policy on Quality.

Director Bassett suggested that “the consequence of such a motion, implementing the
Board policy on Quality, would be to place Access in a variable position among all the
hydraulics. In other words, access has to give in order for other things to be in balance.
There is very serious decision-making involved in this,” Director Bassett continued. “So
in the urgency questions and in some of the other lead-in information (on this page) is
the groundwork for thinking about such decisions.”

Further, Mr. Bassett suggested that, while the number of students enrolled would
become the variable in a policy on Access and might be limited in total, the Board must
reassert its commitment to fair and balanced admission requirements, diversity
initiatives, credit hour plateaus for fee schedules, etc., as part of how even a limited
enrollment level is implemented. “These are all appropriate conditions of an Access
policy, no matter how it is restricted in terms of the total number of students enrolled,”
Director Bassett continued. “It’s not as simple as saying ‘reduce enrollments’ at this
Board table. Under any level of enrollments, the question at this table has to be ‘what
are our accompanying commitments to fair and equitable access?’” He urged the Board
to think about these other elements of access because quality and access do very much
operate one on the flipside of the other.

Director Bassett noted the prior Board discussions on the importance of balance among
policies on Quality, Access, and Affordability. “It is my belief,” he said, “that such a
balance has to be a key part of how we finally resolve the Access policy decision. I
would encourage the Strategic Planning Committee and the Board to bring students to
the table since the OSA has adopted and stayed on the high ground of good policy work
with us from the very beginning. Balance doesn’t mean a little of everything. It does
require great clarity and advance notice about how one decides one of these in relation
to the others. So, I would encourage the participation and full deliberation in Strategic
Planning Committee deliberations of the Student Association as well as of faculty and
campus leadership, since the consequences of this for decision-making at the campus
level are very significant.”

Director Bassett pointed out that the several draft policy papers that form the work plan
of the Strategic Planning Committee are relevant to the current legislative session, but
are also intended to look beyond it to form a policy context, along with ‘The Deal’, that
lasts for several years and forms the basis for the many operational decisions the Board
is called upon to make. “So, what I would like to do, President Lussier, is just run
through a list of four other things that are in the landing pattern for the Strategic
Planning Committee. In doing so, I invite Board members to keep an eye toward the
kinds of decisions that are involved in them and to think about the moment when you
would be casting a vote one way or the other on things like this because they are,
collectively, a context within which many other decisions of this Board will be framed.”
He particularly drew the new Board members' attention to the Joint Boards' policy on Quality, which was covered earlier in this report. This policy has a very specific condition in it and can be seen as binding both Boards to implement, in this current fiscal year, policies that would set maximum capacity levels of funded enrollment based on an index to the state funding level.” Our Board commitment to quality must be strong enough to support a motion to reduce Systemwide state-supported enrollment, conceivably below current levels, if the final legislative appropriation triggers this policy statement.

“I also mentioned earlier the possibility of a future motion related to access – making the total number of students enrolled will the variable among all other elements of the framework so that quality of instruction can be maintained.”

Director Bassett continued. “As Affordability comes up on the screen, and it must soon, the decision for this Board is to choose between (1) need-based assistance and (2) tuition controls as a way to commit to affordability. Obviously, it can be a combination of those two. But to illustrate the difference between the two, consider that a vote to use tuition controls would affect and conceivably change decisions like those we adopted today. But it’s still a vote that will frame decisions like other decisions we have on this Board agenda today.

“Conversely, if need-based assistance is our chosen approach device, the motion before this Board might be to place full funding of the Oregon Opportunity Need Grant as a first priority ahead of our own budget priorities to make sure our overall commitment to Affordability is sustained, not just by the actions we make, but by the actions we encourage others to make. Such a motion would look forward to the next biennial cycle and to a Governor who will hopefully be engaged in that kind of discussion.

“A fourth key element of the policy framework, one that’s been on our list all along but has gained importance in my mind through these last two days, is the subject of Governance. The degree to which we as a System and a Board move toward local autonomy, raises the question of what are the stops that properly express the responsibilities of a System and a Board that is responsible for a System. So, I am suggesting to you that this Board will need to address a motion something like, ‘we endorse the trend toward willful autonomy as our policy,’ in which case all decisions, like tuition and enrollment levels, for example—all decisions that are involved in institutional sustainability would be relatively more institution-driven and relatively less state System-driven. Or the motion might establish that we believe there are limits on institutional autonomy and we are willing to be specific about the limits this Board would use as our guideposts in making decisions. And the clarity in where those limits are is almost as important as precisely where they are, because so many other decisions in a very dynamic System are made, hopefully, without having to check in every time there’s one to be made.
“This is not the big governance debate, but I think there is appropriately placed in this landing pattern a policy, or at least a Board decision, on what are the limits of the trend toward local autonomy and how operational can those limits be made so that they do not have to be considerations or guesses or worries in the midst of other decisions.”

Director Bassett pointed out a fifth item—mission differentiation—and suggested that a motion someday would be to declare a category of academic programs in this System that is essentially those lead programs for each particular campus, chosen for their essential role in the marketability of that campus. Those would be, however it’s defined, protected in some fashion, so that as we are more and more reliant upon local campuses for keeping their own doors open, the Board would do some things, hopefully with a fairly light touch, to assure that the marketability of any one of the campuses, as sustained by the leadership of that campus, is supported by this Board, even if it means that another campus is not able to start the same program. “It’s a different look at program approval,” Director Bassett indicated, “but I think it’s consistent with the idea that campuses are increasingly responsible for sustaining who they are and what they want to be and it implies, and maybe it’s a separate motion, that seven institutions within the System, plus the programs of the Health and Science University, aren’t too many. This Board would commit to not losing any of those institutions in the bargain as we look at declining state resources.”

The last item presented was Preparation, which is really a Joint Boards’ issue. Director Bassett referred to an excellent report given the previous day about the work OUS has done to make sure that the postsecondary education pipeline means something at the moment when a high school student and their family are sitting around the kitchen table making decisions about college. “The work done so far meets that test as well as all of the policy tests,” Director Bassett asserted. He suggested that a motion reasserting the Board’s commitment to that work may be necessary and other motions related to it should be considered. “For example,” Director Bassett continued, “I think it’s going to be important for this Board to take a position on the practice of advanced placement, which is a very attractive choice for many high school students. It is almost an icon of what ‘pipeline’ and ‘preparation for college’ mean. Motions such as these suggest that this Board might need to enter the political fray sometime in the future when that kind of legislation is once again on the agenda of the legislature. In a fashion, it would be similar to what I was suggesting—that the Oregon Opportunity Need Grant might want to support state funding for such an activity even ahead of our own System priorities if the transition from high school to college is important to us.”

Director Bassett pointed out that chief among all six policy areas is the Governance question. Depending on how comfortable the Board is with either a trend toward local autonomy or a particular definition of the limits on it, many of these other policy choices are changed. “That doesn’t necessarily mean taking Governance out of order,” Director Bassett said, “but it does mean, I think, that there is some urgency to addressing governance soon and in a deliberative way.”
“And the final comment I’d like to make as kind of a swan song on this agenda is this: The key to all of this is going to be engagement of institutional leadership, including the Interinstitutional Faculty Senate, in our work. I mean real engagement. And I don’t see how we’re going to get there without an opportunity for deliberation. Each of us engages in this discussion at different times. We raise our hands or insert ourselves into the discussion at different times. If the finish flag falls before the best comment is made, then we’re all the less for that. So we need to, I think, find ways within the meeting process of this Board to allow time for that last comment that changes the direction of all the discussion that went before it—something that Director Watari has been very good at bringing to this Board.

“So we, I think, have a particular responsibility for the engagement of students in all of this.

“I repeat what I said a moment ago. The Student Association itself and the quality of the two new members of this Board, suggest to me that policy level cooperation with student leadership is very available to us. We need to think of students more as colleagues working together on a policy that is, in a lot of cases uncomfortable to each of us and to all of us—to acknowledge that this is policy work and we are all equally good at it because it’s essentially a life experience-based kind of thing by the time it comes to this Board table.”

Director Bassett concluded by indicating that this kind of engagement allows all of the institutional constituencies to be part and parcel of Board discussions, both for the ideas they bring and for the checks and balances that are involved when the Board hears the realities of how one of the proposed decisions plays out.

**ACTION ITEM**

a. Amendment of OAR 580-010-0035, Residence Classification of Armed Forces Personnel, Temporary Rule

**DOCKET ITEM:**

*Summary and Background*

The 72nd Legislative Assembly passed, and the Governor signed, Senate Bill 525, which expands the definition of Armed Forces personnel eligible for consideration as Oregon residents for tuition purposes at Oregon University System institutions. This proposed administrative rule amendment would modify the Board's current residency policy to be consistent with Oregon law. Because of the need to bring the Board's rule into conformity during summer term 2003, the proposed amendment will be adopted as a temporary rule. Permanent rulemaking procedures will be undertaken so that a permanent rule will be in place prior to the expiration of the temporary rule. The proposed new language is noted in **bold** text.

OAR 580-010-0035
Residence Classification of Armed Forces Personnel
(1) For purposes of this rule, members of the armed forces means officers and enlisted personnel of:
(a) The Army, Navy, Air Force, Marine Corps, and Coast Guard of the United States;
(b) Reserve components of the Army, Navy, Air Force, Marine Corps, and Coast Guard of the United States;
(c) The National Guard of the United States and the Oregon National Guard.
(2) Notwithstanding OAR 580-010-0030, members of the armed forces and their spouses and dependent children shall be considered residents for purposes of the instructional fee if the members:
(a) Reside in this state while assigned to duty at any base, station, shore establishment or other facility in this state;
(b) Reside in this state while serving as members of the crew of a ship that has an Oregon port of shore establishment as its home port or permanent station; or
(c) Reside in another state or a foreign country and file Oregon state income taxes no later than 12 months before leaving active duty.
(3) An Oregon resident entering the armed forces retains Oregon residence classification until it is voluntarily relinquished.
(4) An Oregon resident who has been in the armed forces and assigned on duty outside of Oregon, including a person who establishes residency under section (2)(c) of this rule, must return to Oregon within 60 days after completing service to retain classification as an Oregon resident.
(5) A person who continues to reside in Oregon after separation from the armed forces may count the time spent in the state while in the armed forces to support a claim for classification as an Oregon resident.
(6) The dependent child and spouse of a person who is a resident under section (2) of this rule shall be considered an Oregon resident. "Dependent child" includes any child of a member of the armed forces who:
(a) Is under 18 years of age and not married, otherwise emancipated or self-supporting; or
(b) Is under 23 years of age, unmarried, enrolled in a full-time course of study in an institution of higher learning and dependent on the member for over one-half of his/her support.
Stat. Auth.: ORS 351.070 and 351.642

Staff Recommendation to the Board
Staff recommended the Board amend OAR 580-010-0035, Residence Classification of Armed Forces Personnel, as a temporary rule.

BOARD DISCUSSION AND ACTION:

Ben Rawlins, OUS General Counsel, explained that the temporary amendment to this rule relates to in-state residency status. He explained that the legislature adopted a rule change allowing for persons in the military to have the benefit of Oregon residency by filing Oregon income tax. That bill has already passed and is currently effective. This amendment modifies our rules to be in conformity with the legislative change. He explained that, in order to comply immediately, the amendment currently before the
Board was a temporary rule change, which takes effect immediately and a permanent rule would still need to be approved at a future date.

Director Barnett moved and Director Bassett seconded the motion to approve the amendment to OAR 580-010-0035, Residence Classification of Armed Forces Personnel, as submitted. Upon a roll call vote, the following voted in favor: Directors Barnett, Bassett, Burns, Lehmann, Pilliod, Richmond, Wustenberg, and Lussier. Those voting no: none.

Motion passed unanimously.

**Consent Items**

a. **OIT, Certificate, Dispute Resolution**

**DOCKET ITEM:**

Oregon Institute of Technology proposed to offer an instructional program leading to an undergraduate certificate in Dispute Resolution, effective fall 2003. Dispute resolution involves the skills of negotiation and facilitation to assist parties in resolving their conflicts as individuals, groups, or organizations. Other Oregon institutions offering related programs are:

- Portland State University, M.A./M.S., Conflict Resolution;
- Marylhurst University, 12-credit certificate, Conflict Resolution and Mediation;
- University of Oregon, mediation training and clinics through the Law School; and
- Southern Oregon University, dispute resolution and conflict management courses offered through its Extended Campus program.

OIT’s proposed program requires students to complete 27 credits in various aspects of communication (e.g., intercultural, organizational, nonverbal), mediation, facilitation, negotiation, and conflict resolution. Students will also complete a mediation practicum at the Klamath Mediation Center to gain hands-on experience deemed by the Oregon Dispute Resolution Commission to be essential for qualified mediators.

Practicum students will observe mediations, partner with experienced mediators and, ultimately, mediate “solo” to resolve community disputes.

The field of dispute resolution is growing and its value rising. For example, rationally, the Alternative Dispute Resolution (ADR) Act of 1998 requires federal district courts to adopt an official ADR program. The U.S. Postal Services, the largest federal employer, conducts over 10,000 mediations a year. Sixteen states, including Oregon, Washington, and California, require some form of mandatory mediation in cases involving divorce, child custody, small claims, and landlord/tenant disputes.
The proposed program will enhance student skills in conflict resolution and communication, regardless of their career or life choices. Graduates of the program will, among other things, be able to

- document a facilitation or mediation,
- recognize group dynamics and respond effectively,
- adapt appropriately for intercultural communication,
- understand how group membership and organizational membership affect conflict,
- respond appropriately to nonverbal communication, and
- demonstrate mastery of facilitation and mediation.

The program will utilize existing coursework, mainly from the Communication Studies area. OIT anticipates serving 25 students per year.

Although Oregon does not professionally regulate mediators and facilitators, the Oregon Dispute Resolution Commission sets standards for mediators working in Community Dispute Resolution Centers, such as the Klamath Mediation Center. These standards include academic and practical training in communication and dispute resolution skills. OIT’s proposed program exceeds those standards.

Because the program relies on current course offerings, no new faculty, staff, facility, equipment, or library resources are required.

**Staff Recommendation to the Board**

Staff recommended that the Board authorize Oregon Institute of Technology to establish a program leading to the undergraduate certificate in Dispute Resolution. The program would be effective fall 2003, and the OUS Office of Academic Affairs would conduct a follow-up review in the 2008-09 academic year.

**BOARD DISCUSSION AND ACTION:**

Director Wustenberg moved and Director Bassett seconded the motion to approve the Consent Calendar items as submitted. The following voted in favor: Directors Barnett, Bassett, Burns, Lehmann, Pilliod, Richmond, Wustenberg, and Lussier. Those voting no: none.

Motion passed unanimously.

**b. OIT, B.S., Echocardiography**

**DOCKET ITEM:**

Oregon Institute of Technology proposed to offer an online, degree-completion program leading to the baccalaureate degree in Echocardiography, effective fall 2003. This program would be open only to registered cardiac sonographers, and students who hold cardiac credentials through the American Registry of Diagnostic Medical Sonography or
Cardiovascular Credentialing International will be awarded 72 credits toward the degree. They will be required to complete an additional 61 OIT credits in health care, cardiology, pediatric and adult echocardiography, and an echocardiography externship.

In the U.S., 6,500 people are registered cardiographers. However, the only relevant educational programs lead to certificates or associate degrees, or offer study in an area of concentration within an ultrasound baccalaureate degree. OIT’s program would be the first of its kind in the field.

The proposed program will be taught by adjunct faculty under the leadership of the director/instructor of OIT’s Ultrasound Vascular Technology degree-completion program. Because the program is totally distance delivered, there will be little effect on OIT’s on-campus infrastructure. Students will be required to use lab facilities and equipment at their current work sites and have access to library resources through their lab, hospital or clinic libraries; and their local colleges/universities. The program will be self-supporting, with faculty paid on a per-student basis. As soon as the proposed program is implemented, full accreditation will be sought through the Joint Review Commission on Diagnostic Medical Sonography.

Estimated enrollment is 25 students per year, with up to 100 students enrolled at any given time. OIT projects that the majority of students would likely be from outside the state.

Staff recommended that the Board authorize Oregon Institute of Technology to establish an online, degree-completion program leading to the B.S. in Echocardiography. The program would be effective fall 2003, and the OUS Office of Academic Affairs would conduct a follow-up review in the 2008-09 academic year.

Board Discussion and Action:

Director Wustenberg moved and Director Bassett seconded the motion to approve the Consent Calendar items as submitted. The following voted in favor: Directors Barnett, Bassett, Burns, Lehmann, Pilliod, Richmond, Wustenberg, and Lussier. Those voting no: none. Motion passed unanimously.

c. OSU, Certificate, Language in Culture

Docket Item:

Oregon State University proposed to offer an instructional program leading to an undergraduate certificate in Language in Culture, effective immediately upon Board approval. This 31-credit certificate will be offered by the OSU Departments of Anthropology and Foreign Languages and Literatures. Students will be required to
complete a 13-credit core and 18 elective credits, and to study two languages other than English, one of which must not be in the Indo-European language family. End-of-first-year proficiency is required in one language, and end-of-second-year proficiency in the other. Participation in a study-abroad program is highly recommended.

OSU’s certificate program would be the only one in the state. Currently, OSU offers no organized educational experience in linguistics. Interested students must put together their own set of courses, which lacks any specific transcription beyond the individual courses themselves, or attend another university. UO has a linguistics department, but the focus is not on the contextualized study of language in culture, and UO’s anthropology department offers one undergraduate class in linguistic anthropology. PSU offers a bachelor’s degree in applied linguistics, but there are no linguistic-oriented courses in the anthropology department.

In the workforce, the ability to communicate cross-culturally continues to be a valued and important skill. Students with this certificate will be prepared to understand linguistic diversity at the level of phonology, morphology, and syntax; and to understand the ways in which communication patterns vary among cultural groups. Program graduates will be able to apply their knowledge of sociolinguistics to real-life situations. OSU anticipates admitting 20 students in the first year of the program.

The proposed program will utilize existing coursework, and no additional faculty, staff, facilities, or equipment are needed to support the program. Library resources are adequate, and potential additions and avenues for acquisition of targeted materials have been proposed.

Staff Recommendation to the Board

Staff recommended that the Board authorize Oregon State University to establish a program leading to the undergraduate certificate in Language in Culture. The program would be effective immediately, and the OUS Office of Academic Affairs would conduct a follow-up review in the 2008-09 academic year.

BOARD DISCUSSION AND ACTION:

Director Wustenberg moved and Director Bassett seconded the motion to approve the Consent Calendar items as submitted. The following voted in favor: Directors Barnett, Bassett, Burns, Lehmann, Pilliod, Richmond, Wustenberg, and Lussier. Those voting no: none.

Motion passed unanimously.
d. UO, M.Ed., Teaching and Learning

DOCKET ITEM:

The University of Oregon proposed to offer an instructional program leading to the Master’s of Education (M.Ed.) degree in Teaching and Learning, effective fall 2004. All aspects of the program are currently operational in the UO College of Education as specialty areas within the master’s degree in Educational Leadership. The formation of a new, stand-alone degree will bring visibility to the major and allow it to be more appropriately placed within the College’s organizational area of Teacher Education.

Currently, the Oregon Teacher Standards and Practices Commission (TSPC) requires that, within six years of initial licensure, all teachers complete a master’s degree and provide evidence of advanced proficiency. The proposed program is designed to produce a cadre of teachers who meet these requirements and are well-positioned to effectively contribute to the implementation of the state’s educational reform agenda. Overall, the training will focus on an analysis of student learning, classroom and behavior management, assessment, and teaching. Graduates will understand the state’s core curriculum and performance standards and know how to implement them in ways appropriate for a diverse group of students in their selected authorization levels.

Students in the proposed program will select one of three fields of study associated with teacher development – (1) Integrated Teaching (IT), (2) Early Childhood/Elementary (GET), and (3) Middle/Secondary (MSEC) – and will be able to earn both the M.Ed. degree and recommendations for licensure for GET or MSEC authorizations. Those students with the IT focus would earn the master’s degree and receive an endorsement in early childhood/elementary special education.

IT students will be required to complete a total of 64 credits, 36 of which are required licensure and foundations courses. Depending on the emphasis area chosen (i.e., ESOL/bilingual, middle school authorization, technology, or early intervention), IT students will need to earn an additional 18 to 23 credits. GET students must take 61 credits required for licensure and, for the degree, an additional 9 credits in research, current issues in teaching and learning, and a capstone. MSEC students will complete 49 credits for licensure and, for the degree, an additional 12 credits that include research, current issues in teaching and learning, an elective, and capstone. Combined program capacity is 200 students – 60 IT, 30 GET, and 80 MSEC. Enrollment is limited by practicum placement requirements.

The critical need for teachers is well-known, nationally and across the state. With the K-12 student population growing at a time when teacher retirements are on the rise, that need is expected to continue. In addition to UO’s teacher education programs, the following Oregon schools offer graduate programs leading to TSPC licensure in Early Childhood, Elementary, Middle, and/or Secondary levels: EOU, OSU, PSU, SOU, WOU, Concordia University, George Fox University, Lewis and Clark College, Northwest
Christian College, Pacific University, the University of Portland, and Willamette University.

With the recent addition of two tenure-track faculty, all requisite faculty are in place to offer the program. Support staff in the College of Education will provide necessary administrative assistance, and all other facilities, equipment, and resources are sufficient.

An external review team conducted an on-site evaluation of the program. The team members were:

- Mark Alter, professor, educational psychology and chair, Department of Teaching and Learning, New York University
- Steven Bossert, professor, Teaching and Leadership, Syracuse University
- Cecil Miskel, professor, educational administration and policy, University of Michigan

The team supported the program’s structure and direction, agreeing that the reorganization into a full major would “provide an organizational and pedagogical integrity.” The report returned several times to the strength of the faculty expertise and energy; however, they underscored the challenge of faculty being able to sustain their current teaching, research, and service efforts over an extended period of time.

**Staff Recommendation to the Board**

Staff recommended that the Board authorize the University of Oregon to establish a program leading to the Master’s of Education in Teaching and Learning. The program would be effective fall 2004, and the OUS Office of Academic Affairs would conduct a follow-up review in the 2009-10 academic year.

**BOARD DISCUSSION AND ACTION:**

Director Wustenberg moved and Director Bassett seconded the motion to approve the Consent Calendar items as submitted. The following voted in favor: Directors Barnett, Bassett, Burns, Lehmann, Pilliod, Richmond, Wustenberg, and Lussier. Those voting no: none.

Motion passed unanimously.

e. OHSU, Ph.D., Biomedical Informatics

**DOCKET ITEM:**

Oregon Health & Science University proposed to offer an instructional program leading to the Ph.D. in Biomedical Informatics. The proposed program, housed in the Department of Medical Informatics and Clinical Epidemiology in the School of Medicine, would be one of only 11 such programs in the country. The goal of the program is to develop independent researchers, dedicated teachers, and leaders who can bring novel
strategies and new ideas to the interdisciplinary domain of biomedical informatics in health care, academia, and industry.

The proposed doctorate will round out the biomedical informatics offerings in Oregon, building on the success of OHSU’s other biomedical informatics programs – two master’s degrees and a graduate certificate. In fall 2002, over 50 students were enrolled in Biomedical Informatics programs on campus, and nearly 200 students enrolled in the distance-learning version. However, students who wanted to continue their studies at the doctoral level had to leave the state.

Students would be required to complete a minimum of 135 credits: 48 in coursework that leads to the demonstration of medical informatics knowledge; 12 in advanced research methods and design; 12 in a cognate area that complements the proposed area of research; 12 departmental seminar credits; 3 credits of symposium; and 48 research and dissertation credits.

According to the Biomedical Information Science and Technology Initiative of the National Institutes of Health (NIH), there exists a “critical importance of integrating computing expertise with biomedical research. . . . The biomedical community is increasingly taking advantage of the power of computing, both to manage and analyze data, and to model biological processes.” However, there’s a “paucity of researchers with cross-disciplinary skills” at a time when there’s “an expanding opportunity to speed the progress of biomedical research through the power of computing.” Information technology benefits health care generally, and Oregonians directly. To the extent that information technology improves the quality of health care delivery, the reduction of medical errors and financial waste, and the discovery and dissemination of new knowledge, it will allow the state to respond more effectively to social, economic, and environmental needs.

Another compelling reason for launching the program at this time is the renewal of OHSU’s biomedical informatics training grant from the National Library of Medicine (NLM). The NLM grant, which extends through 2007, provides funding for an initial cohort of three students. Faculty are also writing support for doctoral graduate research assistants into their research grant proposals, which will provide additional funding for the program. OHSU anticipates enrolling no more than five to seven students in the first few years, graduating that many students in the following four or five years.

The program will be self-supporting, through utilization of the tuition-recovery model, as well as the NLM grant. The department has 60 faculty, 8 of whom will serve as core faculty to this program. All other staff, facilities, equipment, and resources are in place to offer the program.

Board policy requires new graduate programs to be evaluated by an experienced, knowledgeable external review team. Those reviewing the Ph.D. in Biomedical Informatics were:
• Reed M. Gardner, Ph.D., chair, Department of Medical Informatics, University of Utah
• James P. Turley, R.N., Ph.D., associate dean for Academic Affairs, Health Information Sciences, University of Texas Health Science Center at Houston
• Francis Y. Lau, Ph.D., director, Health Information Science, University of Victoria

The review team visited OHSU in March 2003 and “enthusiastically” supports the proposed program. Program strengths identified by the team include flexibility, which allows students to develop a research agenda, and add and apply requisite skills; “exceptionally talented and internationally recognized” faculty; student access to numerous academic programs in the Portland metro area; program adaptability to changes in the market and health informatics field; and strong M.S., medical, and nursing programs at OHSU. The single qualifying statement in the review team’s report related to the faculty’s lack of experience mentoring doctoral students. Faculty awareness of this has resulted in an enrollment limit of two to three students per year for the first few years. Also, a large number of jointly appointed faculty with considerable Ph.D. training experience will provide assistance.

Staff Recommendation to the Board
Staff recommended that the Board authorize Oregon Health & Science University to establish a program leading to the Ph.D. in Biomedical Informatics. The program would be effective fall 2003, and the OUS Office of Academic Affairs would conduct a follow-up review in the 2008-09 academic year.

BOARD DISCUSSION AND ACTION:

Director Wustenberg moved and Director Bassett seconded the motion to approve the Consent Calendar items as submitted. The following voted in favor: Directors Barnett, Bassett, Burns, Lehmann, Pilliod, Richmond, Wustenberg, and Lussier. Those voting no: none.

Motion passed unanimously.

f. OHSU, M.S., Clinical Nutrition

DOCKET ITEM:

Oregon Health & Science University proposed to offer an instructional program leading to the M.S. degree in Clinical Nutrition, effective fall 2003. This program will focus on human nutrition, with a subspecialty emphasis in the student’s chosen area of clinical interest (e.g., pediatrics, renal, medical nutrition therapy). Currently, there is only one other graduate program in Clinical Nutrition in the Northwest. Oregon State University has a long-standing and nationally recognized undergraduate and graduate nutrition program, offering the B.S., M.S., and Ph.D. in Nutrition and Food Management. However, a specific emphasis in clinical nutrition is not available. OHSU’s proposed program would both supplement and complement OSU’s program offerings.
Program curriculum is built on clinically-based science courses currently offered at OHSU and advanced basic nutrition science courses offered at OSU. Students will be required to complete 60 graduate credit hours, including research, practicum, and thesis, and two course offerings at OSU. The nutrition seminar may be taught on alternate years at OSU and OHSU, or taught conjointly on an annual basis. Faculty from OSU and OHSU would serve on thesis committees of graduate students from each others' university where the basic or clinical perspective, respectively, of nutrition is warranted.

The proposed program builds on more than 70 years of successful operation of OHSU's Registered Dietitian (R.D.) program. This one-year postbaccalaureate program, which has been a national model, would serve as a feeder program to the Clinical Nutrition major. Registered Dietitians could matriculate in one of two sequences, depending on whether they graduated from OHSU’s Dietetic Internship program. Other health professionals (e.g., M.D.s) who meet health- and disease-related nutrition prerequisites, and have the science background required for admission to coursework in the Department of Biochemistry and Molecular Biology and the Department of Physiology, would qualify for admission. First-year enrollment will be limited to 5 students, with an anticipated enrollment of 15 to 20 students by the end of a decade.

Training in the U.S. in nutrition has largely been met by nutritional science and food systems management programs, and by dietetic internships leading to eligibility for R.D. certification. Systematic training for health professionals in specialized areas of nutrition that apply to care of specific disorders (e.g., inherited metabolic diseases, kidney failure, infant and geriatric illness, diabetes) is not widely available, and medical, nursing, and dental students receive only minimal instruction in nutrition. Consequently, too few health professionals are available to provide expert clinical services, conduct effective clinical research in nutrition, and educate the next generation of health professionals.

This scarcity of clinical nutrition programs with specialty training options, and the American Dietetic Association’s new specialty certification in nutrition, has resulted in a growing need for formal clinical nutrition training. Registered dietitians and other health professionals themselves have recognized this need for specialization for years and have become certified within specialty groups such as the American Diabetes Association, National Kidney Foundation, and the American Society for Enteral and Parenteral Nutrition. Advanced graduate-level preparation is currently required for advanced practice recognition by the American Dietetic Association and recommended for specialty certification in pediatrics, renal, and metabolic nutrition. It is anticipated that additional specialty certification categories will be developed and require a minimum of a master’s degree and the R.D. credential.

Areas of dietetic practice vary widely, ranging from health promotion and disease prevention programs (e.g., Head Start, sports wellness, maternal/child nutrition) to medical nutrition therapy (e.g., renal disease/dialysis, transplant care, critical care/trauma, burns, geriatric nutrition) to academia (e.g., medical schools, community...
colleges, family practice programs). Qualified R.D.s enrolled in the program will be
prepared to fill academic positions in Dietetic Internship Training programs, to teach
nutrition to other health care professionals in the clinical setting, to teach nutrition to
health science students and residents in U.S. universities, and to participate in human
nutrition research.

OHSU has an increasing number of faculty interested in human nutrition and its
relationship to health, disease, and disease prevention, and many have pursued
nutrition as their primary research area within their medical specialties. The Clinical
Nutrition program will utilize 2.5 FTE faculty, and no new faculty will be required.
Support staff to the Dietetic Internship program will provide the requisite clerical
assistance, and no additional facilities, equipment, or resources will be required for the
program. Teaching facilities are readily available at OHSU, and the former NIH
designation of a Clinical Nutrition Research Center at OHSU resulted in the
establishment of core research facilities, which will also be available to students in the
program.

An external review team evaluated the Clinical Nutrition master’s program. Team
members were:

- Beverly McCabe-Sellers, Ph.D., R.D., L.D., professor, Department of Dietetics
  and Nutrition, University of Arkansas for Medical Sciences
- Sachiko St. Jeor, Ph.D., R.D., director of the Nutrition, Education, and Research
  Program, University of Nevada, Reno
- Rosemary Wander, Ph.D., associate provost of research, University of North
  Carolina at Greensboro

The team reported that the proposed program will offer the clinical focus unavailable in
the OSU program and is important in meeting Oregon’s and the nation’s needs. It noted
that “Oregon is underrepresented with dietitians with advanced training, graduate
degrees, or specialty training compared to the national averages.” The state, in
particular, needs “more advanced-level trained nutritionists for policy, health care
planning, food industry, and clinical research.” The single potential weakness identified
by the external review team was the “faculty’s lack of previous experience with thesis
advising and committees.” However, collaboration with other faculty, and the limited
initial enrollment, will address that concern.

**Staff Recommendation to the Board**
Staff recommended that the Board authorize Oregon Health & Science University to
establish a program leading to the M.S. in Clinical Nutrition. The program would be
effective fall 2003, and the OUS Office of Academic Affairs would conduct a follow-up
review in the 2008-09 academic year.

**BOARD DISCUSSION AND ACTION:**

Director Wustenberg moved and Director Bassett seconded the motion to approve the
Consent Calendar items as submitted. The following voted in favor: Directors Barnett,

Motion passed unanimously.

g. Nominations to the Forest Research Laboratory Advisory Committee, OSU

DOCKET ITEM:

Summary
Pursuant to ORS 526.225, Oregon State University nominates Thomas M. Quigley and Marvin Brown to the Forest Research Laboratory Advisory Committee and requests the Board make the recommended appointments.

Background
ORS 526.225 specifies that the Board of Higher Education shall appoint a Forest Research Laboratory Advisory Committee composed of 15 members, nine of whom are to be individuals engaged, actively and principally, in timber management of forest lands, harvesting, or processing of forest products; three individuals who are the heads of state and federal public forestry agencies; and, three individuals from the public-at-large. Although the statute does not prescribe the terms of the Committee members, the practice has been to make appointments for a period of three years. Traditionally, those who are performing actively and effectively have been recommended for reappointment to a second three-year term, with all members replaced at the conclusion of a second term.

Recommendation by Forest Research Laboratory Director
Dr. Hal Salwasser, director of the Forest Research Laboratory, with the concurrence of President Tim White, has made the following recommendations:

- Appointment of Dr. Thomas M. Quigley, newly appointed Station Director of the Pacific Northwest Research Station to fill the vacant position as head of a public forestry agency. Dr. Quigley is a third-generation Forest Service employee whose entire career, except for a short stint in the military, has been in the Forest Service. He began in the PNW Research Station in 1977 and returned 26 years later as the Station Director. He holds a bachelor’s and master’s degrees in watershed and range science from Utah State University and a doctorate in range science, with an emphasis in economics, from Colorado State University.

- Appointment of Marvin Brown, who has been named the State Forester replacing Acting State Forester, Roy Woo. Mr. Brown comes to the State Forester position after serving as the director of private forestland management with the American Forest and Paper Association in Washington, D.C. He served as State Forester of Missouri from 1992-99. He worked for Willamette Industries from 1999-2002 as director of forest policy, stationed in Portland Oregon, and also Ft. Mill, South Carolina. Mr. Brown has forestry credentials that include international
policymaking experience. He served on a panel that wrote the “Montreal Process Criteria and Indicators,” widely recognized measures of forest sustainability that the Oregon Board of Forestry has adapted and incorporated into its draft 2003 strategic plan.

**Staff Recommendation to the System Strategic Planning Committee**
Staff recommended that the Board approve the above appointments to the Forest Research Laboratory Advisory Committee.

**BOARD DISCUSSION AND ACTION:**

Director Wustenberg moved and Director Bassett seconded the motion to approve the Consent Calendar items as submitted. The following voted in favor: Directors Barnett, Bassett, Burns, Lehmann, Pilliod, Richmond, Wustenberg, and Lussier. Those voting no: none.

Motion passed unanimously.

**REPORT ITEMS**

a. **Follow-up Reviews Conducted in 2002-03 of Selected Programs**

**DOCKET ITEM:**

**Staff Report to the System Strategic Planning Committee**
In November 1990, the Board approved a policy directing the OUS Office of Academic Affairs to conduct a follow-up review of each degree program or significant new option within an existing degree program approved by the Board since January 1, 1983. The purpose of the follow-up review is to describe the status of the programs five years after their full implementation. For each program, institutions have reported briefly on major modifications in the program, enrollment, degree production, accreditation (when applicable), resources, and student outcomes. Certificate and subdegree programs, such as teacher licensure endorsement programs, provide abbreviated information.

During the 2002-03 academic year, the following programs were reviewed:

**Oregon Institute of Technology**
- Applied Psychology, B.S.
- Civil Engineering, B.S.
- Health Sciences, B.S.
- Management, B.S.
- Ultrasound, B.S. with options in Vascular Technology and Diagnostic Medical Sonography

**Oregon State University**
- Bioengineering, B.S.
- Radiation Health Physics, Ph.D.
Portland State University
- Mathematics Education, Ph.D.
- Performance or Conducting, Master of Music
- Women’s Studies, B.A./B.S.

Southern Oregon University
- Language and Culture, B.A. with concentrations in French, German, and Spanish

University of Oregon
- Biochemistry, B.S.
- Ethnic Studies, B.A./B.S.
- European Studies, undergraduate certificate
- Mathematics and Computer Science, B.S.

Western Oregon University
- Community Crime Prevention, B.A./B.S.
- Computer Science and Mathematics, B.S.

Summaries of the 17 program reviews follow.

OIT, APPLIED PSYCHOLOGY, B.S.

In June 1997, the Board authorized Oregon Institute of Technology to offer an instructional program leading to the baccalaureate degree in Applied Psychology. The objectives of the program are to (1) produce graduates with the necessary levels of social and communication skills required by a variety of social service agencies, (2) provide educational opportunities for placebound students wanting to pursue an applied social science curriculum related to current employment opportunities or in preparation for graduate programs in the field, (3) provide bachelor’s-level training for employment in social service settings with mandated clients such as criminal substance abusers, and (4) serve as a minor field of study in health psychology for students training for health-related occupations. Students select one of three emphasis areas for in-depth study: human services, health psychology, or organizational development.

The program has undergone only minor modifications in the last five years. Course sequencing has been adjusted to facilitate smooth student progress through the curriculum; new electives have been added; and a fourth track – pre-education – has been added for students who want to pursue an M.A.T. following graduation.

Although not required, most seniors take advantage of the externship opportunities in the program. Students register for 4 to 15 credits, depending on how much time they spend at the extern site. Seventy-five sites have been used so far and include Community Corrections, Klamath County Mental Health, Oregon Human Services Division, Klamath Youth Development, Klamath Falls City Schools, and Klamath County Head Start.
An advisory board of human service agency directors and business managers provides advice regarding the program's direction. OIT is considering offering the program at their Metro Center.

Since program implementation in fall 1997, 126 students have been awarded degrees. Currently, 185 students have declared Applied Psychology as their major, which is consistent with the student enrollment (≤ 200) anticipated in the original program proposal.

Faculty resources have remained constant at 4.0 FTE. Two additional faculty hires originally proposed have not been made due to constrained budgets. However, several adjuncts bring expertise to classes that cannot be taught by full-time faculty. The library has been supportive of the program by providing journal subscriptions, videotapes, books, and other relevant materials.

Over the past five years, program graduates have attained a 90 percent placement rate in employment or graduate school. Currently, two graduates are pursuing Ph.D.s.

**OIT, CIVIL ENGINEERING, B.S.**

In December 1997, the Board approved OIT’s transformation of the B.S. in Civil Engineering Technology to a B.S. in Civil Engineering. This move was largely in response to declining enrollment and a 1996 licensure change by the Oregon State Board of Engineering Examiners that, by 2006, would allow only those who earned an engineering degree that was approved by the Engineering Accreditation Commission (EAC) of the Accreditation Board for Engineering and Technology (ABET) to sit for the exam.

Consistent with changing ABET accreditation requirements, the program has undergone significant modifications in the last two years, especially in the senior-year curriculum. Rather than selecting from a variety of design electives and integrated design projects, students complete a year-long design project that integrates a civil engineering project with technical writing and oral communication.

No other major program modifications are anticipated.

In fall 1997, 32 students were admitted to OIT’s Civil Engineering Technology program. Today, 95 students are enrolled in the Civil Engineering program and, to date, 107 students have graduated from the program.

Approximately $22,000 in external funding has been generated by the program. Faculty resources remain strong, with 9.0 FTE ranked faculty contributing to the program. OIT library holdings in the area of civil engineering have increased substantially over the past five years. Hundreds of new civil engineering books, periodicals, and resources
have been added to the library, and membership in the Orbis consortium allows faculty and students to access a large number of engineering references.

A number of laboratory facilities also support civil engineering. In fall 2002, the Civil Engineering and Geomatics Departments’ Design Resource Center (DRC) opened. The 1,200-square-foot DRC houses 20 fiber-optic networked computers and state-of-the-art practice software in the areas of structural, geotechnical, environmental, construction, and transportation engineering. Layout tables and a plans file support student teams working on a project. Other facilities include:
- Soils/concrete lab
- Strength of materials lab
- Hydraulics lab
- Geotechnical lab
- Structural engineering lab

OIT, HEALTH SCIENCES, B.S.

In May 1997, the Board authorized OIT to offer an instructional program leading to the baccalaureate degree in Health Sciences. This program provides a balanced course of study in basic sciences, social sciences, communications, and mathematics. Program graduates are prepared for employment in biomedical and biotechnological industries or entry into professional or graduate programs in the allied health and medical sciences fields.

A number of curricular changes have been made to the program. Course deletions include abnormal psychology, clinical pharmacology, three terms of general physics with calculus, two terms of public health, health psychology, advances in medical sciences, several seminars, and the senior-year research and project. New courses include immunology, biochemistry II, three terms of general physics, and medical terminology. The overall credit requirements have been reduced to 185 from 190. Only minor modifications are anticipated in the future (e.g., upgrading the general biology sequence from four-credit courses to five-credit with the addition of a one-hour recitation section).

Many of the Health Sciences course materials are posted on the web. Faculty are experimenting with virtual-classroom help sessions before exams, using the format of chat room discussions.

Health Sciences has sufficient faculty, staff, and other resources necessary for the program; however, the majority of faculty in the Natural Sciences department and Health Sciences program are teaching overloads. Faculty are involved with community outreach programs such as TWIST, Saturday Experience (a.k.a., Saturday Academy), and Expanding Your Horizons, believing that it’s important to stimulate an interest in the sciences in children of all ages.
OIT has invested in the construction of a new anatomy and physiology facility, which opened in 2000 and included $65,000 for new lab equipment, furniture, and computers. In addition, OIT’s Resource Fee Commission has provided approximately $107,000 during the past five years to update equipment in the biology, chemistry, and anatomy laboratories.

Sixty students are currently enrolled in the major, and 19 students have graduated to date. The original program proposal projected 50 majors and 50 graduates by the end of five years. Seventy-five percent of the program’s seniors who have applied to graduate or professional school have been accepted. Some are interested in studying molecular biology or biochemistry as preparation for hospital administration or teaching science at the high school or community college level. The majority of students intend to enter the fields of dentistry, medicine, physical therapy, pharmacy, or veterinary medicine. The Health Sciences program meets or exceeds prerequisite requirements for these graduate/professional programs. Those students who have entered the workforce have found employment with biotechnology companies and government agencies, including the military.

The OIT Health Sciences Club offers students additional information. Guest speakers, usually professionals in the field, provide “insider” information, clarify expectations, and provide networking contacts.

**OIT, MANAGEMENT, B.S.**

In June 1997, the Board authorized OIT to offer an instructional program leading to the baccalaureate degree in Management. Students choose an emphasis area: accounting, marketing, or entrepreneurship and small business management. All students complete a two- to three-term senior project in which they work with a client in the business community to develop an original solution to a real-world problem. Each senior project requires a 200-hour time commitment from the student, who must use tools and techniques drawn from at least five disciplines within the curriculum.

In the accounting track, students develop an accounting system and must cover all phases of systems analysis, design, installation, and testing. Students in the marketing track work with a client on one or more phases of marketing or marketing research. Recent student projects have included marketing research for the Ross Raglan Theater, advertising literature development for Avista Utilities, newspaper advertising development for Rina’s Flowers and Gifts, development of a marketing plan and literature for the Wildland Fire Training courses at Klamath Community College, marketing plan development for Kla-Mo-Ya Casino, and a business retention-and-expansion study for the Klamath County Chamber of Commerce. Examples of the projects completed by students in the entrepreneurship and small business management area include preparation of extensive business plans for a tax-preparation service, a home remodeling business, an urgent care medical clinic, a web-page design business, a family fun center, a crafts and scrapbooks business, and a Sno-Cat skiing-guide business.
Currently, 126 students have declared Management as their major—39 in the accounting track, 42 in marketing, and 45 in entrepreneurship and small business management. In the past five years, a total of 92 degrees have been awarded—27 in the accounting track, 34 in marketing, and 31 in entrepreneurship and small business management.

Graduate outcomes have been positive. Students from the accounting track who wish to become licensed CPAs take the additional required credits at OIT or complete a one-year master’s program. Some students have found immediate employment with public accounting firms (e.g., KPMG, Isakson & Co., Stephen Greer & Associates), banks (e.g., Klamath First Federal, South Valley Bank), financial services providers (e.g., Elliot-Ledgerwood & Co.), city and county government, hospitals (e.g., Merle West Medical Center), the Klamath Tribes, and the Confederated Tribes of Warm Springs. Job titles include accountant, staff accountant, financial statement accountant, auditor, and controller.

Most graduates in the marketing track are seeking, or have found, employment in the Pacific Northwest. Current employers include Jeld-Wen, Klamath First Federal, Klamath County, Sykes Enterprises, Enterprise Rent-a-Car, the Herald and News, and Columbia Forest Products.

Graduates from the entrepreneurship and small business management track have pursued graduate studies or employment. Some of the graduates are self-employed, having started businesses in tax preparation, home remodeling, and private-label recording. The majority of graduates have found employment with Pacific Northwest firms, including Klamath First Federal, Klamath County Economic Development Association, South Valley Bank, Les Schwab Tires, Lithia Motors, the Herald and News, the Bureau of Land Management, and OIT.

Current department and associated faculty are sufficient to support this program. A departmental computer lab, which has 28 workstations, was upgraded in 2000. It is used as a teaching classroom and open lab for student projects, and all necessary software is available. In addition, the library has increased acquisitions and electronic subscriptions to support the program.

**OIT, ULTRASOUND, B.S. WITH OPTIONS IN VASCULAR TECHNOLOGY AND DIAGNOSTIC MEDICAL SONOGRAPHY**

In January 1997, the Board authorized OIT to offer an instructional program leading to the baccalaureate degree in Ultrasound. Students complete one of two options, both of which receive guidance and input from advisory committees. Diagnostic Medical Sonography (DMS) involves the imaging of anatomical structures and pathological conditions using an ultrasonic beam. Students in this track receive three years of instruction and are placed in an externship during their senior year. They also participate in part-time clinical rotations at the local hospital during their junior year. A clinical laboratory practicum is obtained with weekly three-hour labs. Program graduates...
are prepared to take the national registry examinations in ultrasound physics, abdomen, and obstetrics/gynecology sonography.

Vascular technology (VT) is the imaging of vascular structures and pathological conditions using an ultrasonic beam. The curriculum design is similar to the DMS track, with the student's fourth year devoted to an externship at an OIT-affiliated clinical site. After graduation, students may sit for two national board examinations: Vascular Technology and Vascular Physical Principles and Instrumentation.

The only program modifications have been curricular adjustments. For example, a patient-care course was not in the initial proposal for the DMS track. However, because most students in the program enroll immediately following high school and thus have little or no acute-care patient experience, a course was created to provide fundamental clinical information. Although the VT track does not envision future modifications to the program, the DMS track does. With continued advances in the field, additional requirements may be necessary. Also, whenever possible, seminar courses in such areas as breast ultrasound and neurosonography are offered.

The vascular technology track is currently undergoing accreditation through the Joint Review Committee on Diagnostic Medical Sonography. Programmatic accreditation of the DMS track began in spring 2003 by the Commission on Accreditation of Allied Health Education Programs.

Currently, 117 students are majoring in Ultrasound—53 in the VT track and 64 in the DMS track. A total of 169 Ultrasound degrees have been awarded—129 in the VT track and 40 in DMS. (Approximately 275 graduates had been anticipated in the original program proposal.) Ninety-five percent of all graduates in the VT track are employed in the vascular field, four percent have furthered their education, and one percent are not working in the field. The vast majority of DMS-track graduates are currently employed full time.

Faculty, staff, and other resources are sufficient to support the program. Computer equipment and library resources are deemed barely adequate to support the program; the equipment is degrading because of lack of service contracts for preventive maintenance. Equipment to support DMS is adequate. The Society of Vascular Ultrasound contributed $50,000 to the program at its implementation. For DMS, three Acuson 128-XP imaging systems have been donated from hospital affiliates, and funding was received from the Northwest Health Foundation for a matching-funds purchase of one ultrasound simulator. The resource fee at OIT provides funding for the shared purchase of software. OIT has purchased two used Acuson 128 and Acuson 128-XP imaging systems.
OSU, BIOENGINEERING, B.S.

In June 1996, the Board authorized Oregon State University to offer an instructional program leading to the baccalaureate degree in Biological Engineering. In April 2001, the name of the major was changed to Bioengineering to conform to program definitions developed by the National Institutes of Health. Bioengineering is an interdisciplinary field that applies engineering principles and quantitative methods to the advancement of knowledge at the molecular, cellular, tissue, organ, and system levels; and to the development of new biologicals, materials, devices, and processes. Bioengineers may design systems for prevention, diagnosis, and treatment of disease; for patient rehabilitation; and for improving health.

OSU's program requires students to complete 192 credits, which meets the institution’s requirements for the baccalaureate core as well as the requirements for accreditation conferred by the Accreditation Board for Engineering and Technology (ABET). ABET accreditation will be sought within the next two years.

Major modifications have been made to the bioengineering curriculum. In 1999, OSU received a $1 million grant from The Whitaker Foundation’s Special Opportunity Awards program, the mission of which is to support the development of quality programs that substantially enhance the field of biomedical engineering education. Upper-division curricular changes now allow students to choose a focus area—either biomedical engineering or biochemical engineering. Organic chemistry sequencing was changed to provide students the appropriate biochemistry background. The choice among upper-division biosciences courses was increased, an engineering ethics course was added, and a new seminar dealing with emerging issues in the field was developed.

In spring 2002, the program moved administratively from the Department of Bioengineering in the College of Agricultural Sciences to the Department of Chemical Engineering in the College of Engineering. This move prompted another set of curricular revisions to take advantage of the expertise, resources, and coursework available in that department.

Internships are not required of bioengineering students; however, such experiences are encouraged. Last year, students completed internships at Bayer Corporation, Bend Research, Legacy Clinical Research and Technology Center, MicroVention, National Institutes of Health, Good Samaritan Hospital, and Providence St. Vincent Hospital, among others. On-campus research experiences involve students with the departments of Bioengineering, Biochemistry and Biophysics, Chemical Engineering and Mechanical Engineering, the Forest Science Laboratory, and the Linus Pauling Institute. Some students also participate in research experiences at other campuses (e.g., Vanderbilt University, the University of California–Berkeley, and Georgia Institute of Technology).

Support from The Whitaker Foundation allowed OSU to hire three tenure-track bioengineering faculty in the fields of biomechanics (hired), cardiovascular engineering (hired), and tissue engineering (search in progress). Foundation money, along with
associated OSU cost sharing, supported substantial enhancements to the program infrastructure. For example:

- A new bioengineering instructional lab was completed in March 2003, and includes networked, wet chemistry workstations for 16 students; a large fume hood; sinks; and a portable research bench.
- $300,000 in new instructional equipment (e.g., automatic surface tensionmeter, centrifuges, incubators, spectrophotometer) either have been added or will be in place by fall 2003.
- Two undergraduate computer labs were upgraded with 30 new computers.
- Other technological improvements include a new network backbone with extensive wiring improvements and a building-wide wireless network for access by personal wireless devices such as laptops and personal digital assistants.
- Funds are budgeted for upgrading library collections and services relevant to the bioengineering program. In addition, Good Samaritan Hospital’s newly refurbished medical library is accessible to those in the program.

To date, 27 degrees have been awarded, and 94 students are currently enrolled in the program. The original program proposal anticipated 30 graduates and 75 majors at the end of five years. Although the number of degrees awarded is slightly below the original estimate, graduate success has been high. Approximately 30 percent of the graduates sat for the Fundamentals of Engineering exam and, following work experience, completed the Principles and Practice exam. The pass rate is 100 percent.

Other graduate outcomes include:

- military service (1)
- employment in the biotech industry (3)
- employment in the biomedical device industry (1)
- graduate school: bioresource engineering (1), chemical engineering (1), bioengineering (4)
- medical school (2)
- research assistant at OHSU Department of Molecular Medicine (1)

Some students who went on to graduate programs have been awarded the Whitaker Foundation Graduate Fellowships in Biomedical Engineering (2), NSF Graduate Research Fellowships (2), and the Howard Hughes Medical Institute Predoctoral Fellowship in Biological Sciences (1).

**OSU, RADIATION HEALTH PHYSICS, PH.D.**

In May 1997, the Board authorized OSU to offer an instructional program leading to the Ph.D. in Radiation Health Physics. Health physicists are dedicated to the protection of people and their environment from the harmful effects of radiation. Their concerns include ionizing radiation, such as X-rays and gamma rays, and nonionizing radiation, such as microwaves and ultraviolet light. The program requires students to complete 135 credits, which are divided about equally among a major area, minor area, and thesis work. This program is among those that receive regular (i.e., biannual) review by
the Department of Nuclear Engineering and Radiation Health Physics Advisory Board. No major modifications have been made to this program.

OSU is one of only four universities nationwide that offers the bachelor’s, master’s, and doctoral degrees in Radiation Health Physics. Graduates find employment in such fields as environmental monitoring, nuclear medicine, radioactive waste management, radioactive material transportation, emergency planning, risk assessment, research, and radiation detection instrumentation.

OSU had anticipated enrollment at five to ten students, with two to four students graduating per year. Currently, three students are enrolled and a total of four students have graduated from the program.

Health physicists are certified by the American Board of Health Physics. Certification can be sought only after students complete additional work experience beyond the terminal degree. None of the four graduates has been certified; however, they should become eligible for certification soon.

All faculty, staff, facilities, equipment, and other resources are sufficient to support this program.

**PSU, MATHEMATICS EDUCATION, PH.D.**

In September 1997, the Board authorized Portland State University to offer an instructional program leading to the Ph.D. degree in Mathematics Education. The main objective of this program is to develop mathematics educators by providing students with broad, in-depth knowledge of mathematics, as well as knowledge of the research regarding the teaching and learning of mathematics. This 84-credit program has several emphases: (1) learning and instruction, (2) experience in teaching mathematics, (3) research, and (4) interdisciplinary emphases. Candidates are required to hold a teaching assistantship in the department for at least part of their program. They must also acquire a concentration in a supporting area that has ties to mathematics education and gain experience working with urban issues and community outreach programs in mathematics and science.

No major modifications have been made to the program, nor are any envisioned in the future. In the original program proposal, PSU anticipated serving up to 15 students at any given time. Currently, nine students are admitted in the major, with two more accepted for fall 2003. One degree has been awarded so far, with two students expected to graduate in the next year.

Several grants have been generated by this program. One mathematics faculty member received a $790,000, three-year National Science Foundation (NSF) grant that supports investigation of middle and high school students’ understanding of some statistical concepts, particularly variability. Another faculty member was awarded a $6,500 contract to investigate students’ thinking in college-level differential equations. A third
A faculty member was awarded a five-year, $5 million NSF collaborative grant (OCEPT) to improve the teaching and learning experience of preservice teachers in mathematics and science throughout Oregon.

Faculty resources are sufficient to support this program, and their grant projects enrich the program for students, particularly if they are involved as research assistants. The program has 5.0 FTE faculty; three of these are heavily involved in offering this program, and the other two serve on committees and help as readers of comprehensives and doctoral proposals.

An ongoing concern is maintaining up-to-date materials and equipment. Sometimes materials can be partially supported by grants. PSU has invested in equipping classrooms with the necessary technology for instruction in the program. Ten more classrooms will be upgraded by fall 2003 with projection, computer interface, and other resources.

Employment opportunities for graduates of this program are excellent. The student who graduated in 2001 received several job offers. The student who is expected to graduate in fall 2003 has accepted a job offer for next year. Nationally, for the past ten years, there have been more employment opportunities for doctoral students in mathematics education than there have been students available. Students graduating from this program are qualified to be state mathematics supervisors, curriculum specialists, and higher education faculty.

**PSU, PERFORMANCE OR CONDUCTING, MASTER OF MUSIC**

In February 1997, the Board authorized PSU to offer an instructional program leading to the master of music in Performance or Conducting. The performance option focuses on the performance of traditional Western music on all major instruments and voice. The conducting option focuses on the development of the skilled professional in both choral and instrumental conducting.

Program applicants audition before the appropriate faculty and a jury system monitors the progress of candidates during the course of their studies. The preparation and presentation of a formal public recital serves as the thesis. Students in the conducting option are required to prepare an ensemble program for public presentation. The Graduate Committee administers a comprehensive exit examination in the final term of studies.

Only one significant modification has been made to the program. Originally, the number of conducting applicants was limited by the number of active ensembles because those candidates would have responsibility for rehearsing all or part of a student ensemble as part of their curriculum requirements. Because of the popularity of the conducting option, more students have been admitted than there are active ensembles to conduct. Therefore, ensembles are shared by more than one student in a rotating process that allows students rehearsal time for preparation and mentoring by the major professor.
One positive result of this change is that students receive feedback from peers as well as from the major professor. However, the department intends to add ensembles to serve the majors (e.g., a chamber orchestra).

The professional accrediting body for this major is the National Association of Schools of Music. The performance option has been accredited, and the conducting option should be accredited as soon as the Association receives confirmation of recent graduates in that option.

Twenty-five students are currently enrolled in the program, and 35 students have graduated since program inception.

Faculty resources have remained sufficient to support the program. Collections in the Millar Library have been upgraded significantly due to both University commitments and targeted gifts. University and private funding have also allowed PSU to start replacing its aging piano fleet.

**PSU, WOMEN’S STUDIES, B.A./B.S.**

In October 1997, the Board authorized PSU to offer an instructional program leading to the baccalaureate degree in Women’s Studies. Students complete 32 core credits, which include 6 credits of experiential learning (i.e., practicum, internship); and 20 credits in an emphasis area in a department or program outside Women’s Studies. The core program focuses on the development of critical thinking skills and an appreciation for the range of theoretical frameworks and methodologies present in contemporary feminist scholarship. Coursework incorporates the diversity of women’s experience, with attention to race, class, and sexual orientation as well as gender. No major modifications of the program have occurred or are foreseen.

The Department places students with one of 51 different community organizations for the practicum. Students also take a capstone senior seminar, which requires them to develop and complete a project of their own design.

Currently, 68 students are admitted to the major, and 61 students have earned degrees in Women’s Studies. Approximately 80-105 graduates were anticipated in the original program proposal.

About a third of the graduates work in social service, public advocacy, or community education positions. Often, internship and practicum placements have led to employment. Another third of the graduates have chosen to continue their education.

Faculty (2.0 FTE), staff, facilities, and equipment continue to be sufficient to support this program.
SOU, LANGUAGE AND CULTURE, B.A. WITH CONCENTRATIONS IN FRENCH, GERMAN, AND SPANISH

In November 1997, the Board authorized Southern Oregon University to offer an instructional program leading to the baccalaureate degree in Language and Culture. The original program required 32 credits of coursework in one of three languages (French, German, or Spanish); 16 core credits in cultural anthropology, intercultural communication, and modern Europe or Latin American history; 12 upper-division credits in related fields; 6 internship/practicum credits; and 3 capstone credits. Every student in the program would be required to complete a minimum of three months in an approved international work or study program in a country where the student’s chosen language was spoken. Internships would either be completed overseas or, if done locally, have an international scope. Students must maintain a 3.0 GPA in their chosen language.

The following modifications have been made to the program:

- Noninternship option: Because some students were unable to leave the country for various reasons (e.g., financial barriers), an alternative pathway, called the Integrated Skills option, allows students to take additional courses on campus and participate in a community-based work experience in which they use their language skills.
- Required minor: To increase the employability of program graduates, all students are required to complete a minor or second major.
- Culture electives: The number of credits was reduced from 12 to 8 when the minor requirement was added.
- Change in core courses taken outside the department: The history requirement was replaced with two courses: Introduction to Literature and Introduction to Literary Criticism.
- Language assessment: Students are expected to reach the Advanced-Low proficiency level on the ACTFL scale.

Current faculty, staff, facilities, and equipment are sufficient for the program. Adjunct faculty assist with the provision of lower-division courses. Because of budget cuts, the department will use self-support and course fees to continue funding lower-division language courses. In addition, the department generates a few thousand dollars annually from the SOU Foreign Language Proficiency program; those dollars are generally used to offset the services and supplies budget.

The availability of interlibrary loans and electronic publications and databases has enhanced the resources available to the program. The SOU library has been increasing its holdings in linguistics and cultural studies, and a library staff person is designated to help students conduct research in foreign languages.

In 2002, the language lab was updated with new computers and Sony Soloist software that allows faculty to create interactive exercises or assessments for the students. The lab also receives international broadcasts. One of the department’s priority classrooms is a “smart classroom” with computer, network connections, and large-screen projector.
Currently, 82 students are declared majors in the program (compared to 30-60 projected) and 34 students have graduated in this major (compared to the approximate 51-72 anticipated). The greatest number of students choose the Spanish option, followed by French, then German. For example, of the 2002 graduates, 14 chose Spanish, 5 French, and 3 German. Graduate outcomes have included:

- ESL teacher in Mexico
- bilingual-school secretary
- Spanish language specialist in county long-range planning department
- Spanish teacher in Guam
- second-language teacher
- graduate school (e.g., M.A.T., linguistics, speech pathology, ESL, Latin American studies, ethnomusicology)
- military linguist, Defense Language Institute

**UO, BIOCHEMISTRY, B.S.**

In June 1997, the Board authorized the University of Oregon to offer an instructional program leading to the baccalaureate degree in Biochemistry. Students complete 56 credits of lower-division requirements in science and mathematics, 71-74 credits at the upper-division level in science (chemistry, biochemistry, and biology), and three courses of advanced science electives. No major modifications have been made to the program nor are any expected in the future.

Roughly 50 percent of students entering chemistry studies choose to major in Biochemistry, and current Biochemistry enrollment is 97 students. Student enrollment in the Chemistry major has remained strong; fall 1997 enrollment was 98; fall 2002, 168 students majored in Chemistry. In the last five years, 92 students have graduated, which is close to the number anticipated (approximately 100-125) in the original program proposal. The majority of graduates either enter the workforce as research technicians in industry or academia, or continue their education in medical, dental, veterinary medicine, education, law, or business programs.

All faculty, staff, facilities, equipment, library, and other resources are sufficient to offer this program.

**UO, ETHNIC STUDIES, B.A./B.S.**

In October 1997, the Board authorized UO to offer an instructional program leading to the baccalaureate degree in Ethnic Studies. Students in the program examine the construction and context of ethnicity in the United States, with a primary focus on Americans of African, Asian, Latino, and Native American descent. As an element of American identity that cuts across disciplinary categories, ethnicity requires a mode of study that draws on the humanities and the social sciences, as well as such fields as cultural studies. Ethnicity must also be addressed both historically and comparatively, with attention to the five centuries of North American minority experience and the
Aspects of other New World societies (e.g., Mexico, Brazil, Peru). The Ethnic Studies curriculum includes two introductory ethnic studies courses; three lower-division courses that concentrate on the social, historical and/or cultural experience of a specific group; five upper-division courses in ethnic studies or approved cross-listed courses; two upper-division core courses; and a capstone seminar in which students conduct independent research and produce a substantial seminar-length paper.

No major modifications have been made to the program, other than changes to keep the program aligned with scholarship in the field of ethnic studies and to reflect faculty research areas.

Faculty, staff, library, equipment, and other resources are adequate to support the program.

Currently, 98 students major in Ethnic Studies, which exceeds the original expectations. To date, 31 degrees have been awarded in this major. Many graduates have continued their education in graduate or professional (e.g., law) school. Others have found employment in educational and social service capacities.

**UO, EUROPEAN STUDIES, UNDERGRADUATE CERTIFICATE**

In fall 1997, UO implemented an instructional program leading to an undergraduate certificate in European Studies. Students complete an 8-credit core, 12-16 elective credits, and an independent research project. They must also study a European foreign language through at least the second year at the college level. No major modifications have been made to the program. An expansion of course offerings continues. For example, this year Professor George Sheridan taught a course on the history of the European Union, using the extensive collection of official documents in the Knight Library. All resources are in place to support this program.

Although program planners anticipated enrollment of about 190-250 students and certificate completion by 250 students over five years, currently, 8 students are enrolled in the program, and 25 students have been awarded certificates in the last five years.

**UO, MATHEMATICS AND COMPUTER SCIENCE, B.S.**

In June 1997, the Board authorized UO to offer an instructional program leading to the baccalaureate degree in Mathematics and Computer Science. The program integrates coursework from both fields (that have separate undergraduate-degree authorization, as well) to better prepare students for graduate work or employment in information technology industries. No major modifications have been made to the program or are foreseen in the future.

Currently, 21 students are enrolled in the major, and 35 degrees have been awarded in the last five years, compared to the 50-100 graduates expected. Most of the graduates have found employment in computer science-related jobs in industry. Students in this
program generally are strong in both math and computer science. This attribute, and their education (which is broader than traditional computer science programs), gives them an edge, especially in positions that are more research oriented. Some of the graduates continue their education at the professional/graduate level.

Current faculty, staff, equipment, facilities, and other resources are sufficient to support this program.

**WOU, COMMUNITY CRIME PREVENTION, B.A./B.S.**

In October 1997, the Board authorized Western Oregon University to offer an instructional program leading to the baccalaureate degree in Community Crime Prevention, a specialty within the field of criminal justice. The program requires completion of 18 core credits, 15 criminal justice credits, 27 social science credits, and a 12-credit practicum. Students have worked with police and sheriff departments, adult and juvenile parole and probation departments, city and county crime prevention agencies, and adult and juvenile correctional institutions for their practical experience.

Students in the program gain an understanding of the conditions under which crime can be prevented at the community level; which actions, programs, and policies are successful in preventing crime; the extent to which such efforts have been successful in the past; and how to differentiate more-effective from less-effective community crime prevention programs. The only modification to the program has been to reduce the total baccalaureate requirement from 192 to 180 credits—a change implemented in all WOU bachelor’s programs.

Currently, eight students are enrolled in the major. Western anticipated some of the 400 criminal justice majors would enroll in this program, as well as new students. To date, 12 students have graduated. Four of these have gone on to graduate school, three are employed in a crime-prevention capacity in the nonprofit sector, two are working in county-level juvenile departments, one is working in a county crime-prevention office, and one is a deputy sheriff.

**WOU, COMPUTER SCIENCE AND MATHEMATICS, B.S.**

In April 1997, the Board authorized WOU to offer an instructional program leading to the baccalaureate degree in Computer Science and Mathematics. The program was designed specifically for students desiring a solid foundation in mathematics and in programming/language skills sought by high-technology industries. Students are required to complete 53 mathematics credits and 52 computer science credits. No major modifications have been made to the program.

A two-quarter computer science senior project is required. Student teams work with an off-campus client who needs a software application written. Each team has a faculty project mentor to whom it reports weekly. The team project includes analysis, design, implementation, and testing of the application. The team also produces many of the
standard documents, such as the user’s manual and testing manual. The project culminates in a public presentation of the project.

Current resources are sufficient to support this program. Because it represents an administrative way of combining two existing majors and because no major-specific courses are offered, the program does not drain resources from any other program.

Currently, 2 students are enrolled in this major, compared to the 10-15 students envisioned in the original program proposal and 6 students have graduated in the last five years.

**BOARD DISCUSSION:**

Director Wustenberg inquired about the apparently low yield in some of the programs reported and asked Senior Vice Chancellor Shirley Clark to elaborate. Dr. Clark stated that she has requested the provosts to pay particular attention to programs that seem to have a low yield. She agreed that programs that are languishing and have poor long-term prospects should be eliminated.

**b. Status of the Western Undergraduate Exchange Program**

**DOCKET ITEM:**

**Staff Report to the System Strategic Planning Committee**

This is the annual report on Oregon’s experience with the Western Undergraduate Exchange Program (WUE), established by the Western Interstate Commission for Higher Education (WICHE) in 1988. Over time, the number of states participating at some level has grown to include 14 of the 15 WICHE states. In 1989, the Oregon State Board of Higher Education approved entry of Oregon University System (OUS) institutions in the WUE program.

The goals of WUE are to increase student access and choice while enhancing the efficient use of educational resources among the western states. The basic assumptions underlying WUE are (1) that most institutions have some programs that can accommodate additional students at little or no additional cost, and (2) that additional nonresident students can be attracted to those programs by offering a tuition discount.

The Board guidelines for OUS participation in WUE provide that:

- $ A WUE program must be able to accommodate a limited number of additional students without requiring additional resources;

- $ WUE admissions must be on a space-available basis and limited to the programs approved for WUE participation by the OUS Office of Academic Affairs;
Nonresident students previously or currently enrolled at OUS institutions will not be allowed to convert to WUE status;

WUE students who change majors to a non-WUE program will lose their WUE status;

WUE students enrolled in accordance with the aforementioned guidelines shall continue to be eligible for the WUE tuition rate for the duration of their undergraduate academic program, even if that program is removed from the approved list; and

Institutions participating in WUE are required to provide an annual report to the OUS Office of Academic Affairs reflecting the number of WUE students enrolled by program, together with the students’ states of origin.

It is WICHE policy that nonresident WUE students pay 150 percent of resident tuition if they apply and are admitted to one of the designated WUE programs. WUE tuition is substantially less than nonresident tuition at institutions in all participating states.

Since its inception, total WUE enrollment at four-year universities in all participating states has grown to more than 14,000 students. Last year (2002-03), 1,179 Oregon residents participated in the WUE program, and Oregon institutions received 1,389 WUE students, a slight increase of 49 students from 2002-03. This is the fourth consecutive year that Oregon experienced a net gain (i.e., more WUE students coming to Oregon than leaving the state). However, OUS institutions have exercised restraint on increasing WUE students, since limited state funds are reserved for per WUE student FTE support. It is interesting to note that 137 of Oregon’s outgoing students attended two-year institutions.

Each state determines its level of participation and sets limits, if any, on numbers of students received. Each state also determines which programs are available and any conditions.

In keeping with the OUS practice of local campus administration of this program, Oregon State University (OSU) has chosen to end its participation in WUE. Students entering OSU in 2002-03 were the last class to be offered a WUE discount. OSU’s decision to end its participation was based on the negative fiscal impact that receiving only 150 percent of resident tuition was having on its campus.

Idaho and Nevada continue to receive the most students (197 and 258 respectively in 2002-03) from Oregon. Other states receiving significant numbers of Oregon residents are Hawaii (133), Washington (106), Colorado (97) and Arizona (88). Overall, Nevada continues to receive the most WUE students (2,608) from all participating states; New Mexico receives the least (55).
Oregon receives students most frequently from Washington (398), Hawaii (290), Alaska (280), and Idaho (100). The total number of WUE students in OUS (1,389) represents a 33 percent increase from 1998-99.
Table 1

_Students from WUE States Enrolled at_ Oregon Institutions: A Ten-Year Perspective

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EOU</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>OIT</td>
<td>58</td>
<td>67</td>
<td>70</td>
<td>55</td>
<td>54</td>
<td>102</td>
<td>90</td>
<td>79</td>
<td>61</td>
<td>57</td>
</tr>
<tr>
<td>OSU</td>
<td>46</td>
<td>79</td>
<td>112</td>
<td>180</td>
<td>265</td>
<td>329</td>
<td>385</td>
<td>333</td>
<td>255</td>
<td>186</td>
</tr>
<tr>
<td>PSU</td>
<td>2</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>19</td>
<td>45</td>
<td>123</td>
<td>295</td>
<td>480</td>
</tr>
<tr>
<td>SOU</td>
<td>37</td>
<td>34</td>
<td>66</td>
<td>87</td>
<td>174</td>
<td>253</td>
<td>389</td>
<td>360</td>
<td>413</td>
<td>379</td>
</tr>
<tr>
<td>UO</td>
<td>52</td>
<td>84</td>
<td>56</td>
<td>63</td>
<td>43</td>
<td>20</td>
<td>56</td>
<td>86</td>
<td>128</td>
<td>155</td>
</tr>
<tr>
<td>WOU</td>
<td>0</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>32</td>
<td>60</td>
<td>78</td>
<td>148</td>
<td>187</td>
<td>132</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>195</strong></td>
<td><strong>271</strong></td>
<td><strong>313</strong></td>
<td><strong>395</strong></td>
<td><strong>576</strong></td>
<td><strong>783</strong></td>
<td><strong>1,043</strong></td>
<td><strong>1,129</strong></td>
<td><strong>1,339</strong></td>
<td><strong>1,389</strong></td>
</tr>
<tr>
<td>% Change</td>
<td>25%</td>
<td>39%</td>
<td>15%</td>
<td>26%</td>
<td>46%</td>
<td>36%</td>
<td>33%</td>
<td>8%</td>
<td>19%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Note: EOU does not participate in the WUE program.
### Table 2
Oregon Students Enrolled at Institutions in WUE States: A Ten Year Perspective

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Alaska</td>
<td>27</td>
<td>25</td>
<td>34</td>
<td>14</td>
<td>13</td>
<td>12</td>
<td>21</td>
<td>23</td>
<td>22</td>
<td>29</td>
</tr>
<tr>
<td>Arizona</td>
<td>N/a</td>
<td>N/a</td>
<td>N/a</td>
<td>N/a</td>
<td>N/a</td>
<td>N/a</td>
<td>5</td>
<td>13</td>
<td>49</td>
<td>30</td>
</tr>
<tr>
<td>California</td>
<td>N/a</td>
<td>N/a</td>
<td>N/a</td>
<td>N/a</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Colorado</td>
<td>28</td>
<td>39</td>
<td>50</td>
<td>55</td>
<td>57</td>
<td>63</td>
<td>66</td>
<td>78</td>
<td>89</td>
<td>85</td>
</tr>
<tr>
<td>Hawaii</td>
<td>3</td>
<td>6</td>
<td>4</td>
<td>11</td>
<td>21</td>
<td>31</td>
<td>51</td>
<td>47</td>
<td>116</td>
<td>133</td>
</tr>
<tr>
<td>Idaho</td>
<td>305</td>
<td>327</td>
<td>288</td>
<td>226</td>
<td>223</td>
<td>298</td>
<td>286</td>
<td>265</td>
<td>239</td>
<td>280</td>
</tr>
<tr>
<td>Montana</td>
<td>269</td>
<td>215</td>
<td>140</td>
<td>114</td>
<td>87</td>
<td>101</td>
<td>106</td>
<td>106</td>
<td>108</td>
<td>71</td>
</tr>
<tr>
<td>Nevada</td>
<td>62</td>
<td>73</td>
<td>135</td>
<td>163</td>
<td>201</td>
<td>185</td>
<td>211</td>
<td>264</td>
<td>260</td>
<td>252</td>
</tr>
<tr>
<td>New Mexico</td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>North Dakota</td>
<td>16</td>
<td>37</td>
<td>34</td>
<td>29</td>
<td>33</td>
<td>37</td>
<td>58</td>
<td>61</td>
<td>68</td>
<td>69</td>
</tr>
<tr>
<td>South Dakota</td>
<td>12</td>
<td>12</td>
<td>17</td>
<td>19</td>
<td>21</td>
<td>26</td>
<td>16</td>
<td>16</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td>Utah</td>
<td>20</td>
<td>32</td>
<td>31</td>
<td>34</td>
<td>46</td>
<td>48</td>
<td>46</td>
<td>34</td>
<td>54</td>
<td>52</td>
</tr>
<tr>
<td>Washington</td>
<td>N/a</td>
<td>N/a</td>
<td>N/a</td>
<td>N/a</td>
<td>N/a</td>
<td>N/a</td>
<td>21</td>
<td>47</td>
<td>60</td>
<td>90</td>
</tr>
<tr>
<td>Wyoming</td>
<td>17</td>
<td>13</td>
<td>27</td>
<td>20</td>
<td>24</td>
<td>39</td>
<td>34</td>
<td>20</td>
<td>29</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>765</strong></td>
<td><strong>784</strong></td>
<td><strong>764</strong></td>
<td><strong>689</strong></td>
<td><strong>730</strong></td>
<td><strong>867</strong></td>
<td><strong>950</strong></td>
<td><strong>993</strong></td>
<td><strong>1,139</strong></td>
<td><strong>1,139</strong></td>
</tr>
<tr>
<td>% Change</td>
<td>20%</td>
<td>25%</td>
<td>&lt;3%&gt;</td>
<td>&lt;10%&gt;</td>
<td>6%</td>
<td>19%</td>
<td>10%</td>
<td>4%</td>
<td>15%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Note: Arizona joined WUE in 1999, California joined WUE in a limited fashion in 1997, and Washington joined
BOARD MEETING #721 – MINUTES  
July 18, 2003

BOARD DISCUSSION:

Upon consensus of the Board, this report item was not reviewed. It was noted that all the pertinent information was contained in the Board docket.

As a final comment regarding System Strategic Planning issues, President Lussier noted that the Board had been previously driven by Budget and Finance and, while B&F is still an important aspect of their work, he was pleased that the Board is adding a component of planning and is hopeful that the planning will precede financial allocation. Director Richmond added that SSP should also think hard about graduate education.

9. FULL BOARD ACTION ITEMS
   a. Amendment to OAR 580-040-0040, Academic Year Fee Book, 2003-04

DOCKET ITEM:

Executive Summary
Overview
In April 2003, the Board approved proposed tuition plans submitted by the institutions for academic years 2003-04 and 2004-05. The 2003-04 tuition proposals submitted to the Board in April for the various student categories varied widely by institution. Tuition increases for 2003-04 were measured against the annualized 2002-03, spring term tuition with the tuition surcharges. Resident undergraduate rate increases ranged from 0-8 percent; non-resident undergraduate rate increases ranged from 0-16 percent; resident graduate rate increases ranged from 3-16 percent; and non-resident graduate rate increases ranged from 0-30 percent.

Additionally, institutions reported that they were considering alternative ranges to the tuition plateau. Historically, students have paid the same tuition as undergraduates from 12-18 credit hours and as graduates from 9-16 credit hours. With UO gaining approval to compress the plateau in 2002-03, other institutions are proposing similar changes.

In developing the proposal for each tuition rate, campuses had to evaluate their financial conditions in light of several considerations including: 2001-2003 reductions; funding a four percent “rainy day” fund directed by the Governor; continued enrollment growth; potential impact on each student category of tuition differentials; ability to support fee remissions; and, the uncertain economics of the 2003-2005 biennium.

The tuition and fee proposals in this recommendation are based on the Governor’s Balanced Budget (GBB) issued in January 2003 reduced by 4 percent for a “rainy day fund.” At this time the legislature has not finalized the state budget for the 2003-2005 biennium, and the amount of the final OUS budget for 2003-04 is uncertain.

The Co-Chairs of the Ways and Means Committee have proposed a budget for OUS that would reduce the Governor’s Balanced Budget by 11.5 percent and the Governor
issued a revised budget in April that is very close to the GBB, less 4 percent. In addition, the Ways and Means Education Sub-Committee has indicated that the legislature will establish expectations for OUS regarding the levels of increase for tuition, fees, and fee remissions for the University System.

Due to the high level of uncertainty regarding the final 2003-2005 budget, it is possible that additional changes will be needed in tuition and fees for the 2003-04 academic year. If further changes are required when legislative decisions have been finalized, staff will propose an additional administrative rule amendment to the Board in the fall.

**Proposed Tuition Plateau Changes**

All institutions of the Oregon University System proposed changes to the tuition structure that are included in the 2003-04 Draft Fee Book. These changes are in three broad forms: compressing the traditional tuition plateau (OIT, SOU, WOU); replacing the plateau with a straight per credit hour tuition (EOU, PSU); and, implementing a modified per credit structure with a lesser per credit hour increment within a specified range of credit hours (OSU, UO).

The effect of the changes in tuition structure will be to: 1) begin to equalize tuition charges per credit hour between part-time and full-time students, and 2) increase tuition costs for full-time students who enroll for more than 12 credit hours. For resident students enrolled for 12 credit hours, proposed tuition rates changes will range from –2.2 to +8.0 percent. For students enrolled 15 credits hours, proposed increases in tuition range from 3.4 to 27.2 percent.

In response to concerns raised by student representatives in recent discussions regarding the plateau changes, the Chancellor and institution presidents are proposing to defer implementation of the changes in tuition structure contained in the 2003-04 Draft Fee Book until January 2004. It is the intent of the institutions to further modify the tuition plateaus in the future at their own pace, if deemed necessary, based on overall financial and enrollment planning at each institution.

The plateau changes as currently proposed in the Draft Fee Book would be effective beginning winter term of the 2003-04 academic year. All other changes in tuition rates, fee schedules, and housing rates would become effective for fall term 2003.

A memo explaining the 2003 fall term tuition rate transition proposal and tables detailing full-time tuition and fees for fall term at each institution is included in the packet. If approved by the Board, staff will add this information to a new section in the 2003-04 Fee Book on fall term tuition and fees.

**Public Hearing on Academic Year Fee Book**

A public hearing on the 2003-04 Academic Year Fee Book was held Tuesday, June 17, 2003, from 10:00 a.m. to 11:00 a.m., in Room 358 of Susan Campbell Hall, on the University of Oregon campus. No written or oral testimony was presented at that time on any of the proposed changes outlined in the material above.
An additional public hearing was held on Thursday, June 26, 2003, from 10:00 a.m. to 11:00 a.m., in Room 358 of Susan Campbell Hall, on the University of Oregon campus to provide an opportunity for further comment. Approximately 25 students attended the public hearing. Oral and written testimony was presented at that time on the proposed changes outlined in the material above, and a summary of the testimony can be found in Appendix “G”.

Fee Proposals Review
The various fee proposals submitted by each institution undergo a review by the Chancellor’s staff to assure that the proposals comply with related statutes and Board policy. The staff has reviewed each proposed fee for the 2003-04 academic year and recommends Board approval based on the current budget assumptions and the proposal to defer changes in tuition structure until winter term. The various tuition and fee proposals for each campus are noted in the detail section of this document.

Staff Recommendation to the Board
Staff recommended that the Board amend OAR 580-040-0040 as follows: (Underlined material is added; [brackets] denote deletions.)

OAR 580-040-0040 Academic Year Fee Book
The document entitled Academic Year Fee Book, dated July 18, 2003 [July 19, 2002] is hereby amended by reference as a permanent rule. All prior adoptions of academic year fee documents are hereby repealed except as to rights and obligations previously acquired or incurred there under.

Through the amendment, the Board adopts the document entitled Academic Year Fee Book, the memo of attachment amending the draft document, and attached schedules noted in this agenda item. The Chancellor will be permitted to authorize minor clerical adjustments to the final document, if necessary.

The effect of Board action will be:

Fall Term 2003—Adoption of the tuition rates outlined in the Memo of Amendment (without changes in tuition plateaus) and adoption of the fee schedules, part-time tuition rates, and housing rates as contained in the Draft 2003-04 Fee Book.

Winter and Spring Terms 2004—Adoption of all tuition, fees, and housing rates contained in the Draft 2003-04 Fee Book, including the changes in tuition rate structure.

(For a more detailed background and summary, see Appendix “F”).
BOARD DISCUSSION AND ACTION:

Senior Vice Chancellor Anderes recognized Loren Stubbert for his work in developing the fee book and announced Mr. Stubbert's retirement. He introduced Nancy Heiligman who will be taking Mr. Stubbert's place.

Acknowledging the concerns previously expressed regarding the timing of bringing the fee book before the Board, Dr. Anderes noted that the fee book has typically been addressed at the July Board meeting. However, he stated that staff will reconsider the timing issue next year. Dr. Anderes briefly explained the plateau structure and proposed changes in the plateau. He noted the difference in policies at the different institutions.

Director Lehmann pointed out that, when talking about tuition increases at the last Board meeting, there were assumptions about increased financial aid and asked whether those assumptions would be related to the plateau. Dr. Anderes explained that the campuses have expressed a desire to maintain a policy of providing at least for the level previously provided for the financially needy and will try to build that into their financial aid.

Chancellor Jarvis noted the validity of the different views related to the plateau proposals. He stated that staff has struggled greatly with this complex issue over the past several weeks. He acknowledged the student impacts as illustrated in earlier testimony but pointed out that the plateau proposals also have substantial impacts on campus revenue necessary to offer courses. He explained there are three main reasons that support modifying or eliminating the plateau:

1. There are no credits that are free. All courses incur expenses to produce and deliver. The people who service, support, and staff those courses must in turn be supported.
2. At times of budgetary reductions, we can't continue to support a situation in which some courses, on the margin, are not valued and priced in the same way as others.
3. There's a serious issue of equity for part-time students. There are no free seats to fill.

Chancellor Jarvis expressed the need to look carefully at the course pricing policies. He proposed the Board approve the proposals but delay implementation of the changes in the plateau to allow the students time to plan for the year and to give the institutions time to evaluate the fall enrollment. Further, he asked the Board to: approve the principle that campuses may modify or, if they wish, eliminate the tuition plateau, and that campuses may develop individual plans to modify or eliminate the plateau on a schedule that best meets their needs and the needs of their students; and that the Board approve the campus plans to modify their tuition structures as submitted in the draft fee book as amended and that they approve those structures to take effect no sooner than the winter term 2004.
Director Bassett expressed concern regarding the schedule of allowing campuses to develop individual plans as it suits them and suggested that somehow the schedule be addressed as part of the motion. Director Barnett suggested that the Board require that, when individual plans are developed, there be a satisfactory element of notice and student input in order to assess a basis for accountability.

With regard to the timing of the presentation of the fee book, President Frohnmayer pointed out that some legislative cycles may dictate the timing. He noted that for legislative cycles wherein there are tuition freezes or tuition is dictated by a percentage, it may be possible to move up the Board schedule for approving the fee books. However, he noted that there are some external political considerations that render an earlier timeframe impossible.

Dr. Anderes reviewed the tuition proposals by campus and noted that there were no increases on any of the campuses in the technology fee, a fee that drives about 70 percent of the total student fee dollars. He noted that the emphasis on the campuses had been in terms of sustainability.

Director Richmond referred to Schedule 5c, which compares tuitions at peer institutions to the OUS tuitions proposed for 2003-04, and expressed concern regarding the costs for OUS graduate students compared to peers.

Director Burns felt that the proposed policy contradicts the Board’s position on enrollment management by creating policies that limit the number of students entering the System and pointed out that if students have to remain in school longer due to the increased costs, they will occupy seats that would otherwise go to new students, thereby further eroding access.

Director Bassett moved and Director Wustenberg seconded the motion to approve OAR 580-040-0040, 2003-04 Academic Year Fee Book, as amended. Upon a roll call vote, the following voted in favor: Directors Barnett, Bassett, Lehmann, Pilliod, Richmond, Wustenberg, and Lussier. Those voting no: Burns.

Motion passed 7-1.

b. Reappointment of Philip Conn as President of Western Oregon University

DOCKET ITEM:

Summary
In June of 2002, Philip Conn was appointed by the State Board of Higher Education as President of Western Oregon University for a period of two years effective July 31, 2002, to expire July 30, 2004. The Chancellor recommends extending the contract to July 30, 2005.
Staff Recommendation to the Board

Staff recommended the Board approve the reappointment of Philip Conn as President of WOU through July 30, 2005.

BOARD DISCUSSION AND ACTION:
Director Bassett moved and Director Lehmann seconded the motion to approve the reappointment of Philip Conn as President of WOU through July 30, 2005. The following voted in favor: Directors Barnett, Bassett, Burns, Lehmann, Pilliod, Richmond, Wustenberg, and Lussier. Those voting no: none.

Motion passed unanimously.

GOVERNOR’S ACCESS SCHOLARSHIPS FOR EDUCATION TRUST (ASET)

President Lussier announced that the Governor has recommended a new ASET (Access Scholarships for Education Trust) program, which is a trust that is looking at student support. He entertained a resolution that the State Board of Higher Education endorse the concept advanced by Governor Kulongoski and commend the Governor for his leadership on need-based financial aid. President Lussier read the following resolution:

Be it resolved that the State Board of Higher Education endorses the concept advanced by Governor Ted Kulongoski and his Access Scholarship and Education Trust and commend the Governor for his leadership for need-based financial aid through that proposal.

President Lussier pointed out that there are some aspects of the proposal that still need work and the resolution only endorses the concept and not the substance of the Governor’s proposal.

Director Lehmann moved and Director Barnett seconded the motion to approve the resolution as read by President Lussier. The following voted in favor: Directors Barnett, Bassett, Burns, Lehmann, Richmond, Wustenberg, and Lussier. Those voting no: none.

Motion passed unanimously. Note: Director Pilliod was not present during the vote.

Consent Item
a. Ratification of ETIC Proposals Approved by the Executive Committee

DOCKET ITEM:

Summary
In response to the addition of $20 million in Lottery bonds for the Engineering & Technology Industry Council (ETIC) through the Governor’s revised budget, representatives from the seven Oregon University System campuses and the OGI School of Science and Engineering at OHSU have submitted proposals for review by
ETIC. The Council’s voting members met on June 18, 2003, and reviewed the proposals. Based on this review, the proposals were updated by the participating institutions. The updated proposals have received unanimous endorsement from the Council members who participated in the review.

The total proposed capital investment from Lottery bonds is $20 million as summarized below. The combined effect of these investments will be to create a substantial increase in Oregon’s ability to increase the number of graduates of its engineering and computer science programs, as well as the ability to increase the national ranking of these programs and the quality of the research and graduates they produce.

<table>
<thead>
<tr>
<th>Table 1. Proposed Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>$M</td>
</tr>
<tr>
<td>-----</td>
</tr>
<tr>
<td>EOU</td>
</tr>
<tr>
<td>OGI</td>
</tr>
<tr>
<td>OIT</td>
</tr>
<tr>
<td>OSU</td>
</tr>
<tr>
<td>PSU</td>
</tr>
<tr>
<td>SOU</td>
</tr>
<tr>
<td>UO</td>
</tr>
<tr>
<td>WOU</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 2. Proposed use of Lottery Bond Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>$M</td>
</tr>
<tr>
<td>-----</td>
</tr>
<tr>
<td>EOU</td>
</tr>
<tr>
<td>OGI</td>
</tr>
<tr>
<td>OIT</td>
</tr>
<tr>
<td>OSU</td>
</tr>
<tr>
<td>PSU</td>
</tr>
<tr>
<td>SOU</td>
</tr>
<tr>
<td>UO</td>
</tr>
<tr>
<td>WOU</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
Attached are the eight proposal summaries for:

Eastern Oregon University
OGI School of Science & Engineering/OHSU
Oregon Institute of Technology
Oregon State University
Portland State University
Southern Oregon University
University of Oregon
Western Oregon University

**Eastern Oregon University**

$300,000 bond investment
$30,000 private support

**Summary of Proposal:**

The long-term viability of EOU’s Computer Science and Multimedia (CS/MM) degree programs stand at risk as a result of limited faculty, limited faculty support, and aging and undersized laboratory facilities. Thus, this proposal represents high priority funding for maintaining and expanding the CS/MM degree programs. As part of EOU’s overall ETIC investment plan, the intent is to hire new faculty so that a wider variety of courses may be offered and important electives may be offered more frequently. Also, EOU plans to expand faculty support so that faculty will be freed from maintenance responsibilities and security of lab facilities. To maximize the results from the strategic personnel expansions, EOU must upgrade plant and equipment.

Specific capital investment proposals include the following:

- Programming lab includes 16 Linux workstations in a small room.
- Multimedia lab shared with the art department and equipped with 16 Macintosh computers of various vintages.
- New teaching/learning lab and smart classroom for course sections accommodating 20 to 25 students in a new campus building.
- Facilitates classroom demonstrations and enhances communication of abstract topics.
- Enhances capabilities to demonstrate the use of high technology in K-12 education for teacher education programs. Development of a curriculum in computer education and educational technology will provide educators graduating from EOU with knowledge and skills to appropriately use technology in their classrooms.

EOU has worked diligently to respond to the needs of the Oregon employer market and the goals of the legislature, the Governor, State Board, and Oregon taxpayers to develop a high technology field of study in eastern Oregon. However, the ability to capitalize on the above success is hampered by two major limiting factors. First, current faculty size limits the frequency of critical course offerings and seriously limits the number of electives available. Second, aging facilities and outdated equipment reduce
the attractiveness of EOU to prospective faculty and students in this highly competitive field. Existing outdated and undersized labs, combined with the lack of a pool of startup funds for faculty to invest in plant and equipment, threaten the long run viability of EOU's high tech programs. As a result, fewer students currently select EOU as their choice for CS/MM study and some existing students leave EOU to complete their degree plans or change to a different major.

**OGI School of Science & Engineering / OHSU**

$2,100,000 bond investment  
$860,000 private support

**Summary of Proposal:**
OGI/OHSU requests capital bond funds to support the build-out of the Bronson Creek Building on the OGI/OHSU West Campus and to provide instructional and laboratory equipment for that building. Build-out of Bronson Creek will allow OGI to house, in a single location, the newly merged faculty, graduate students, and curricula in computer science, computer engineering, and electrical engineering. Adding classrooms and upgrading instructional laboratories will increase OGI's ability to deliver high quality instruction to larger numbers of students at the M.S. and Ph.D. levels in computer science, computer engineering, and electrical engineering.

Funding of this proposal will allow OGI to increase both the quantity and quality of well-trained graduate students in computer science and electrical engineering and to thus produce highly valued employees for Oregon industries (68% of OGI alumni are employed in the local region). It is well known that physical proximity facilitates collaboration and that adequate facilities enhance the quality of instruction and research as well as the ability to recruit additional students and faculty members.

In computer science and electrical engineering, as in other disciplines, the ability to attract high quality graduate students and faculty members, and to deliver highly valued educational programs is based on the strength of the research programs. The Computer Science and Engineering Department at OGI currently ranks 16th in the nation in federal research funding. Most of those funds support Ph.D. students and their faculty advisors. In the most recent academic year for which data are available (2001-02), OGI produced more graduate degrees in computer science and electrical engineering than any other school in Oregon: 59 of 140 (42 percent) and 33 of 85 (39 percent) respectively. Strategic plans for OGI call for adding 5 to 10 additional faculty members in computer science, computer engineering, and electrical engineering during the next five years, increasing the graduate student population at 5 percent per year for each of the next five years, and increasing the level of research funding and numbers of graduates correspondingly. The requested funds will provide the facilities needed to achieve these goals.

Specific results of this proposed investment will be the addition of two new classrooms (one auditorium-style, one instructional style), two new student computing laboratories, a new data center, and new offices and workspaces for graduate students and faculty
members in the newly-acquired Bronson Creek building at OGI/OHSU. These enhanced facilities will allow OGI/OHSU to improve its research-based graduate education programs in computer science, computer engineering, and electrical engineering and to attract additional high-quality graduate students and faculty.

**Oregon Institute of Technology**

$1,000,000 bond investment

$1,000,000 private support

**Summary of Proposal:**
The Oregon Renewable Energy Center (OREC) has accomplished several objectives in curriculum development, creative applied research projects, and the development of partnerships with private and public entities. In order to continue progress toward regional and national recognition, laboratory and facility enhancements are extremely important. Improvements in electronic capabilities in classrooms and laboratories made possible by broadband access will impact instructional and research goals.

Funding of this proposal would allow OIT to:

- Build a new education/training facility for renewable energy technologies to support academic courses, training courses, and on-site training certifications as well as applied research in renewable energy systems.
- Expand laboratory capabilities to support innovative applied research projects in renewable energy systems.
- Collaborate with Clackamas Community College to deliver academic programs in renewable energy at the Wilsonville Training Center and to serve the workforce training needs of industry in renewable energy.
- Develop the capital infrastructure to electronically deliver engineering and technology courses that will enhance OIT’s ability to double student credit hours.
- The Oregon Renewable Energy Center will deliver academic courses on the web in support of new baccalaureate degree programs in renewable energy.
- Business and industry training courses will be developed for local and electronic delivery in renewable energy technologies.

The funding will enable OREC to fulfill its vision of becoming a world-class applied research and education facility devoted to the rapidly expanding field of renewable energy. The capital investment requested will enable OREC to maximize the investments already made in laboratories and equipment, as well as support electronic delivery of courses in renewable energy for academic degree programs and training for business and industry. The requested funding will enhance the partnership between OIT and Clackamas Community College to deliver three OIT degree programs at the Wilsonville Training Center. A strong electronic connection between OIT/OREC and Wilsonville will substantially strengthen these program offerings. The funding will also strengthen OREC’s emerging applied research program in terms of expansion and improvements in laboratory facilities and through broadband connectivity between OREC and other research centers. Finally, investments in electronic delivery
capabilities will support the expansion of other academic degree programs in engineering, engineering technology, and information technology.

Oregon State University
$8,450,000 bond investment
$8,450,000 private support

Summary of Proposal:
OSU’s capital investment proposal complements the main OSU Engineering proposal submitted through ETIC for the 2003-2005 biennium. It incorporates those capital items that will help close the gap in resources needed to meet the two goals of that proposal: to build a top-25 engineering college that delivers the people, ideas, and innovation needed to power Oregon’s knowledge economy and help fill the intellectual capital pipeline with pre-college Oregonians passionate about careers in engineering and technology.

- Equipment startup for new faculty. Although the amount of capital equipment required for this startup varies quite widely depending on the specific discipline, $70,000 to $75,000 per faculty member represents an approximate average, and we expect 15 to 20 new hires during the next biennium.

- Major equipment acquisitions to further propel collaborative Research Clusters. Research Clusters—Micro2nano, Analog/Mixed-Signal, Environmental Engineering, Kiewit Center/Tsunami Laboratory, Usability Engineering, and Large-Scale Thermal Hydraulics will be the focus for adding faculty and capability in the next biennium. There is a need to invest in several large equipment acquisitions to accelerate capability growth and leadership positions at the national level.

- Renovations of selected space for instructional classrooms and laboratories and offices to accommodate quality growth (Dearborn, Batchellor, and Covell Halls). With the enrollment increases OSU has been experiencing the last several years and that are projected to continue, there is a great need for productive classroom and laboratory space. There are a number of spaces in Batchellor, Dearborn, and Covell Halls that can become much more effective with remodeling.

- Major Renovation of Gleeson Hall to add capability to grow collaborative research and deliver quality learning experiences. This will produce a significant amount of quality infrastructure critical to attracting the people and delivering the results to achieve our goals. The total renovation is projected to cost more than $20 million. With $6.0 million public funds requested here, along with the private funds that can be raised, we feel that we can phase the project and modernize a major portion of the building at this time.

- Mobile Laboratory. Due to its statewide presence and strong credibility with rural 4-H Youth and adults, OSU has the opportunity to leverage its existing programs to infuse business and information technology (BIT) skills into the rural areas of Oregon. However, in these remote areas there is a lack of access to technology classrooms. A BIT Mobile laboratory would consist of a trailer containing a technology laboratory and a vehicle to pull it.
Portland State University
$5,000,000 bond investment
$5,000,000 private support

Summary of Proposal:
PSU will use the capital bonds as part of the $71 million budget for the construction of the Northwest Center for Engineering, Science and Technology (NWCEST). This facility is the top priority for the College of Engineering and Computer Science, for Portland State University, and enjoys support from the City’s government and business leaders, as well as the congressional delegation. Additionally, this project is a priority for the legislature, which authorized $26.5 million in State Article XI-G bonds (the most ever for an OUS project) in 2001. All involved (key donors, government leaders, and industry executives) agree that the NWCEST is essential to the College meeting its goals to serve more students and build national distinction. The building will support faculty research, which is directly linked to economic growth for business and industry; serve as a magnet for business development, and provide incubator space for emerging technology companies; and promote sustainable economic vitality through the expanded partnerships and collaborations with industry and OHSU.

A focus of the College of Engineering and Computer Science is to build spires of excellence in areas directly related to the region’s economy. This building is key to furthering those goals. For example, it will house the Northwest Photovoltaic Technology Center, Biomechanics Research Center, Intelligent Transportation Systems Laboratory, Surface Quality Modeling Center, and Electronic Packaging Center. The links between engineering and science faculty in the currently identified signature research center – Multiscale Materials and Devices – will also be strengthened. Industry and the legislature, including the Oregon Council for Knowledge and Economic Development (OCKED), have identified the need for this research center and the NWCEST will leverage more research and physical space at PSU to support this effort.

This project will support PSU’s plan to double the number of engineering graduates by 2010. It will also expand research funding bringing new dollars to the state and stimulating the economy through employment. Furthermore, it will create jobs beyond the walls of the University and not just those associated with faculty and research employment. For example, we estimate that the total construction jobs created by this project will be about 350 full-time equivalent jobs and that this will be a 14-month construction project. Our goal is to have the building in place for student use in Fall 2005.

Southern Oregon University
$660,000 ETIC bond investment
$300,000 private support

Summary of Proposal:
SOU will use the capital funds to support the creation of a Center of Academic Excellence in Information Assurance Education and to establish a materials research
facility at Southern Oregon University in support of the joint materials science Bachelor's degree with the University of Oregon. The additional investments will make the $40 million projects more effective by improving excellence and laboratory capacity in Materials Science and Information Assurance, thus increasing both the quality and quantity of our graduates.

This past academic year, Southern Oregon University has developed, implemented, and presented a complete undergraduate curriculum in Computer Security and Information Assurance. This program is one of the few undergraduate programs of its kind in the United States. At a recent meeting of the National Colloquium for Information Systems Security Education in Washington, D.C., we were strongly encouraged to apply for National Security Agency certification as a Center of Academic Excellence in Information Assurance Education. As a result, we are applying for NSA’s certification this year and are creating a Center for Information and Infrastructure Assurance Education. Improvement is needed in three areas: 1) faculty and student research, 2) teaching and laboratory facilities, and 3) library holdings in computer security and information assurance. The major challenge to promoting research and development in computer security and information assurance is lack of appropriate facilities. Therefore, we submit this proposal for CSIA laboratory and facility improvement in order to enhance our new program and attain NSA certification.

The proposed capital investment will also develop a materials research facility at SOU. The facility is intended to provide state-of-the-art materials research to the University; to train our students, especially those in pre-engineering and in the proposed Materials Science option; and to serve the regional industrial needs in Materials research and analysis. The facility will act as a focal point for recruiting, retaining, and producing students in engineering and other physical sciences. It will improve the research capability of SOU, provide additional training for our students, and improve the national ranking and reputation of SOU. The requested deposition system, AFM, XRD, and ICP will be the only unit of its kind within a 180-mile radius of SOU. Together with our existing equipment (NMR, TGA, FTIR, DSC, etc.), this facility will attract local industry collaborations in applied research and placement opportunities for our graduates and serve as a major recruiting point for students interested in the engineering and science who like to reside in the southern Oregon region.

University of Oregon (Material Science Institute)
$2,400,000 bond investment
$2,400,000 private support

Summary of Proposal:
Capital funds will be used to renovate laboratory space for new UO faculty and to provide matching funds for federal equipment proposals for materials characterization equipment. An ETIC capital investment would greatly facilitate the Materials Science Institute’s (MSI) achieving the aggressive goals outlined for it in the ETIC program budget for the upcoming biennium.
The long-term plan put forward by MSI to the University is to build a new 125,000 sq. ft. Integrative Science Building intimately connected to the existing science complex. This building would house our existing Center for Advanced Materials Characterization in Oregon (CAMCOR) facilities, a proposed nanofabrication facility, pre-incubator space for start-up companies, space for visiting faculty from OSU, PSU, and Pacific Northwest National Laboratory (PNNL), and space for approximately 25 faculty conducting materials and nanoscience research. The faculty would not be grouped by department, but organized into collaborative clusters to further spur interactions between the participants. It is estimated that this building will cost in the neighborhood of $50 million and will require at least several years of private fundraising to provide the required matching funds for proposed state bonds.

The equipment acquisition plans focus on the characterization and fabrication of new and existing materials. Upgrades of the current electron microprobe, scanning electron microscope, and electron beam writing facilities are planned along with the acquisition of several additional scanning probe microscopes that utilize different excitation and detection mechanisms.

The requested capital funds for renovation and equipment will continue the momentum of the MSI as it strives to enhance its national reputation as a top-tier materials program noted for its research excellence and impact, its innovative degree and graduate internship programs, and the quality and diversity of its graduate students. MSI's graduates tend to remain in the Northwest, either working for Oregon industry or teaching in colleges or universities. The funds will also provide additional laboratory space and facilities enabling MSI to significantly increase the number of graduate students working towards a Ph.D. degree, perhaps by as much as 20 percent.

**Western Oregon University**

$90,000 bond investment  
$30,000 private support

*Summary of Proposal:*
A particular challenge to the Computer Science departments in days of shrinking budgets is maintaining up-to-date hardware for both faculty use and student labs. This proposal has two components. The first is to upgrade aging hardware for faculty use and the second is to build a network laboratory. For these two components, WOU is submitting a proposal for $90,000 for the biennium.

Upgrading the hardware for faculty includes a rotation to replace desk machines and rewiring the network infrastructure of the third floor of the Instructional Technology Center (ITC), which houses the Computer Science division. In addition, it includes renewal of site licenses for software that are used in programming classes, a new, more reliable mail and web server for the department (cs.wou.edu), a new printer for the department, and covering the increased cost of monthly connection fees that will be assessed by University Computing Services for the rewiring.
There has been an ad hoc networking lab for several years. It is time to put together a more comprehensive facility that can handle an increase in students. As the Information Systems major grows in numbers, we find there are quarters where a networking class (IS major), a server administration class (IS major), and a parallel programming class (CS major) are competing for use of the same few machines. Developing the networking lab is driven also by a recent faculty hire whose area of expertise is networking and brings to us several years of industry experience in this area. Included in this component is the purchase of kits for small classroom Cisco labs, additional machines, cabling, and some additional furniture such as chairs, workbenches and server racks for the room.

The Information Systems major is growing rapidly. This major contains several classes related to server or database administration, and these classes require a lab containing machines with which students can experiment and over which they can have administrative rights. In addition, we have expanded our networking classes over the last three years. The quality of these classes increases if the students can have hands-on experience. We expect that the additional machines will allow us to continue to increase the number of students in these classes and to enhance the educational experience that these students have in these classes. Finally, we are not a Unix-based campus, but with the advent of Linux and, as more of our students express an interest in graduate school, we find we need to bring back our introductory Unix class, which went away along with our Sequent Balance three years ago. The additional machines will allow WOU to dedicate some to Linux.

BOARD DISCUSSION AND ACTION:

Director Wustenberg moved and Director Lehmann seconded the motion to ratify the ETIC proposals as approved by the Executive Committee. The following voted in favor: Directors Barnett, Bassett, Burns, Lehmann, Pilliod, Richmond, Wustenberg, and Lussier. Those voting no: none.

Motion passed unanimously.

10. OTHER REPORTS

• Joint Boards Working Group

Director Bassett noted that the Joint Boards Working Group has not met since the last meeting, but stated that the JBWG work plan continues to parallel the work plan of the Board’s System Strategic Planning Committee.

• OHSU

Provost Lesley Hallick thanked Director Wustenberg for speaking at the OHSU commencement.

• Oregon College Savings Plan
Director Lehmann stated that things continue on track with additional accounts and investments options and they’re planning a new marketing program that will be initiated this fall.

- **Oregon Council on Knowledge and Economic Development**

Vice Chancellor Vines stated that the OCKED initiative for multi-scale materials and devices is progressing well.

- **EOU Presidential Search Committee**

President Lussier announced that Director Wustenberg has agreed to chair the EOU Presidential Search Committee.

- **Legislative Report**

Director of Government Relations Grattan Kerans stated that there is a small workgroup assigned to redraft the Governor’s ASET program concept to bring it back to a larger group, including some who are not supportive of it in its present form. The group consists of himself; Melissa Unger, Legislative Director, Oregon Student Association; Cam Preus-Braly, Commissioner, Community Colleges and Workforce Development; a representative from the Community College Association; the Governor’s higher education policy advisor; and one other individual.

Mr. Kerans provided a brief update on Senate Bill 437, the Efficiency Act, noting that the legislative leadership is close to taking action on the bill.

11. **ITEMS FROM BOARD MEMBERS**

It was noted that Henry Lorenzen has been named by the Governor to serve on the Board of Higher Education. Mr. Lorenzen is an attorney and entrepreneur from Pendleton. His appointment was pending senate confirmation.

Several Board members expressed their appreciation to Director Bassett for his service on the Board and wished him well in his future endeavors.

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

President Lussier read the statement pertaining to delegation of authority to the 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, which is scheduled for September 19, 2003. The Executive Committee shall act for the
Board members agreed to the delegation of authority as stated.

13. **ADJOURNMENT**
   The Board meeting adjourned at 1:14 p.m.

Virginia L. Thompson  
Secretary of the Board

James T. Lussier  
President of the Board
1. **CALL TO ORDER/ROLL CALL**

Vice President Lehmann called the meeting of the Executive Committee of the State Board of Higher Education to order at 8:13 a.m.

On roll call, the following Executive Committee members answered present:

- Mr. Roger Bassett
- Ms. Phyllis Wustenberg
- Ms. Leslie Lehmann

Absent: Don VanLuvanee (personal conflict) and Jim Lussier (business conflict).

**Other Board Members Present:** Kerry Barnett, Bridget Burns, Rachel Pilliod, and Geri Richmond.

**Chancellor’s Office staff present:** Chancellor Richard Jarvis, Tom Anderes, Shirley Clark, Diane Vines, Ben Rawlins, Alayne Switzer, and Patricia Snopkowski.

**Others:** Philip Conn and Lesley Hallick

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

2. **DISCUSSION ITEM**

   a. **Review of Audit Findings**

**DOCKET ITEM:**

**I. Background**

As outlined in the Oregon State Board of Higher Education Audit Charter, adopted in November 2002, the Oregon State Board of Higher Education (the Board) has oversight responsibility to ensure that 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 Board shall have the following responsibilities and powers and shall perform the following functions as it relates to audits. The provisions of the charter include (in part) the following:

- The Oregon State Board of Higher Education shall approve annually the Internal Audit Division’s annual audit plans and budget.
Executive Committee Meeting—Minutes

July 18, 2003

- 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 meetings will be held as deemed necessary.

- 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.

The Board shall have and exercise all other powers, as it shall deem necessary, for the performance of its duties.

The Board 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.

II. Audits Completed December 2002 to June 2003

The Internal Audit Division (IAD) issued a total of 29 reports and memos between December 2002 and June 2003. In addition, fieldwork was completed and draft reports were issued to management for 14 other audits. All issued reports contain management’s written response that indicated adequate steps will be taken to address any internal control issues noted.
<table>
<thead>
<tr>
<th>Audit Name</th>
<th>Audit Type</th>
<th>Conclusion/Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>FERPA</td>
<td>Scheduled Audit</td>
<td>Satisfactory—Controls are adequate to provide compliance assurance related to confidentiality of student records as required by federal law.</td>
</tr>
<tr>
<td>Asbestos Abatement</td>
<td>Special Request</td>
<td>Noted a need to improve procurement procedures.</td>
</tr>
<tr>
<td>Procurement Review</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Application Security</td>
<td>Information Technology</td>
<td>Noted a need to restrict access on FIS security classes and create a security policy.</td>
</tr>
<tr>
<td>PARS Follow Up</td>
<td>Audit Follow Up</td>
<td>100% compliance with recommendations—noticed improved safeguarding of assets.</td>
</tr>
<tr>
<td>intoCareers Follow up</td>
<td>Audit Follow Up</td>
<td>100% compliance with recommendations—noticed improved accounting procedures and safeguarding of assets.</td>
</tr>
<tr>
<td>Athletics Follow Up</td>
<td>Audit Follow Up</td>
<td>85% compliance with original recommendation—noticed lack of supervisory review of travel vouchers and communication to management on non-compliance issues noted by staff.</td>
</tr>
</tbody>
</table>
## Oregon State University

<table>
<thead>
<tr>
<th>Audit Name</th>
<th>Audit Type</th>
<th>Conclusion/Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>FERPA</td>
<td>Scheduled Audit</td>
<td>Satisfactory—Controls are adequate to provide compliance assurance related to confidentiality of student records as required by federal law.</td>
</tr>
<tr>
<td>Student Housing</td>
<td>Special Request</td>
<td>Noted potential cost recovery of excess contractor charges in the amount over $100,000.</td>
</tr>
<tr>
<td>Construction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overhead Charges</td>
<td>Special Request</td>
<td>Noted self supporting operations were not charged required overhead rates. Business Affairs rectified the issue.</td>
</tr>
<tr>
<td>IT Equipment Tracking</td>
<td>Information Technology</td>
<td>Noted strong internal controls over safeguarding minor equipment with stop tag program and efficiency created by management in streamlining minor inventory recordkeeping.</td>
</tr>
<tr>
<td>Application Security</td>
<td>Information Technology</td>
<td>Noted a need to restrict access on FIS security classes, create a security policy, and reduce approval queue limits.</td>
</tr>
<tr>
<td>Dixon Recreation</td>
<td>Audit Follow Up</td>
<td>100% compliance with recommendations—noted improved safeguarding of assets.</td>
</tr>
<tr>
<td>Follow Up</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cashiering Follow Up</td>
<td>Audit Follow Up</td>
<td>45% compliance with recommendations—noted a need to improve safeguards over vault and lack of written procedures.</td>
</tr>
</tbody>
</table>
### Portland State University

<table>
<thead>
<tr>
<th>Audit Name</th>
<th>Audit Type</th>
<th>Conclusion/Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>FERPA</td>
<td>Scheduled Audit</td>
<td>Satisfactory—Controls are adequate to provide compliance assurance related to confidentiality of student records as required by federal law.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Application Security</strong> Noted a need to restrict access on FIS security classes and create a security policy.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Financial Aid Review</strong> Noted unauthorized change of financial aid record and conflict of interest. The existing controls detected inappropriate change prior to disbursement of funds.</td>
</tr>
</tbody>
</table>

### Western Oregon University

<table>
<thead>
<tr>
<th>Audit Name</th>
<th>Audit Type</th>
<th>Conclusion/Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>President’s Residence</td>
<td>Special Request</td>
<td>Noted cost overruns due to inadequate project management.</td>
</tr>
<tr>
<td>Faculty Travel Irregularity</td>
<td>Special Request</td>
<td>Noted university incurred $1,526 of travel expenses for conferences the professor did not attend.</td>
</tr>
<tr>
<td>Bookstore Review</td>
<td>Special Request</td>
<td>Noted misappropriation of assets of $81,721. Unsatisfactory internal control structure noted. Improvements are being made.</td>
</tr>
<tr>
<td>IT Equipment Tracking</td>
<td>Information Technology</td>
<td>Noted controls deemed appropriate to safeguard assets.</td>
</tr>
</tbody>
</table>
## Southern Oregon University

<table>
<thead>
<tr>
<th>Audit Name</th>
<th>Audit Type</th>
<th>Conclusion/Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>FERPA Audit</td>
<td>Scheduled Audit</td>
<td>Satisfactory—Controls are adequate to provide compliance assurance related to confidentiality of student records as required by federal law.</td>
</tr>
<tr>
<td>RVTV Audit</td>
<td>Special Request</td>
<td>Noted a lack of accounting and monitoring controls.</td>
</tr>
<tr>
<td>Physical Plant Follow Up</td>
<td>Audit Follow Up</td>
<td>100% compliance with recommendations—noted improved safeguarding of assets.</td>
</tr>
<tr>
<td>Athletic Cash Receipts Follow Up</td>
<td>Audit Follow Up</td>
<td>100% compliance with recommendations—noted improved safeguarding of assets.</td>
</tr>
</tbody>
</table>

## Oregon Institute of Technology

<table>
<thead>
<tr>
<th>Audit Name</th>
<th>Audit Type</th>
<th>Conclusion/Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASOIT Follow Up</td>
<td>Audit Follow Up</td>
<td>100% compliance with recommendations—noted improved safeguarding of assets.</td>
</tr>
<tr>
<td>CITS General Controls Follow Up</td>
<td>Audit Follow Up</td>
<td>60% compliance—noted incomplete disaster recovery and security policy, password controls, and untimely removal of terminated employee access.</td>
</tr>
</tbody>
</table>
### Chancellor’s Office

<table>
<thead>
<tr>
<th>Audit Name</th>
<th>Audit Type</th>
<th>Conclusion/Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application Security</td>
<td>Information Technology</td>
<td>Noted a need to restrict access on FIS security classes, create a security policy, and reduce approval queue limits.</td>
</tr>
<tr>
<td>Chancellor Change Review</td>
<td>Special Request</td>
<td>Noted effective transition and no issues with Chancellor Cox’s fiscal transactions.</td>
</tr>
<tr>
<td>ETIC Follow Up</td>
<td>Audit Follow Up</td>
<td>75% compliance with recommendations—consistency and accuracy of fiscal and progress reporting.</td>
</tr>
</tbody>
</table>

### Draft Reports

<table>
<thead>
<tr>
<th>Audit Name</th>
<th>Audit Type</th>
<th>Campus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing Follow Up</td>
<td>Audit Follow Up</td>
<td>Seven Universities and Chancellor’s Office</td>
</tr>
<tr>
<td>Budget Monitoring</td>
<td>Scheduled Audit</td>
<td>UO, OSU, PSU, WOU</td>
</tr>
<tr>
<td>Athletics Travel</td>
<td>Special Request</td>
<td>WOU</td>
</tr>
<tr>
<td>Animal Sciences</td>
<td>Special Request</td>
<td>OSU</td>
</tr>
</tbody>
</table>

### III. Audit Plans for July 2003 to December 2003

The completed 2003 IAD risk assessment identified 230 auditable units, with a total of 45 high-risk units. The unit’s risk score is not a reflection of management. The score is based upon past audit coverage and the nature of operations.

IAD is scheduled to perform audits on 13 high-risk units over the next six months. See section IV for the table listing the units. The areas of coverage scheduled for July to December 2003 are highlighted in gray. This coverage is likely to be reduced to eight to ten units based upon past history of immediate needs such as financial irregularity reviews or other high-risk special requests deemed of greater importance by the Board or executive management.
Other IAD activities over this period will include the following:

1. Internal Control Assessment Committee—Campus self-assessment of controls over high-risk transactions, which will evolve into sharing practices and defining baseline controls.
2. Recruitment and Retention
3. Campus and Chancellor Office Involvement—Committee and training

### IV. Risk Assessment Model and Approach

On an annual basis, the Oregon University System Internal Audit Division (IAD) performs a risk assessment in accordance with the International Institute of Internal Auditors (IIA) Auditing Standards 2010 and 2020. The goals of this assessment are to:

- Provide a basis for Internal Audit resource allocation among campuses - individual, Systemwide unit audits, and isolated risk audits.
- Provide management with a tool to summarize risk as it relates to their department.

There are a total of seven steps taken as part of this risk assessment:

I. Identify available hours for scheduled and unscheduled activity;
II. Identify auditable units and potential emerging cross-sectional issues and benchmark with peers;
III. Schedule meetings with management;
IV. Conduct surveys with management;
V. Perform financial analysis;
VI. Complete risk model; and
VII. Allocate resources based upon available hours and risk assessment.

**STEP 1 - Hours Allocation**

Typically 40 percent of the hours are spent on direct audits resulting from the risk assessment, 30 percent is spent on special requests (immediate audit needs), 10 percent on information technology, 5 percent on training and recruiting, and 15 percent are considered indirect, (which include administrative time, vacation, and sick leave). This percentage is an efficient use of resources based upon the IIA benchmarking study.

**STEP 2 - Determining the Audit Universe**

Based upon the IAD risk analysis charts, there are approximately 230 units in the System. Given the available hours for each campus auditor, this equates to 12 to 20 reviews on an annual basis. In addition, special request audits are conducted throughout the year. The average annual coverage of the University System is approximately 10 percent.
**STEPS 3 to 5 - Gather Data on Auditable Units**

1. IAD meets with the management at each campus and determines the relative risks associated with their operations.
2. Reputation—Recruitment and retention of staff, students, donors, as well as taxpayer interests.
3. Operational—Ongoing management.
4. Compliance—Ability to comply with rules and regulations.
5. Reputation—Recruitment and retention of staff, students, donors, as well as taxpayer interests.

*NOTE: Items 3, 4, and 5 were inadvertently omitted from the original docket pages.*

**STEP 6 - Complete risk matrix**

The risk assessment calculations are performed after IAD meets with management, reviews with other peer systems, and performs a financial analysis on the assets, revenues, and expenditures of each unit.

The risk model includes seven categories:

1. Compliance - regulatory compliance issues
2. Financial - amount and types of assets and revenue
3. Strategic - impact of unit on university mission and vision
4. Operational - impact of unit on other university activities
5. Reputation - level of attention unit receives from constituents
6. Known or perceived control concerns - new operations or recent turnover
7. Audit history

**STEP 7 - Allocate IAD Resources and Distribute Information to Management**

Units are selected based upon top combined risk scores. The audit objectives of the individual audit will include a more detailed risk analysis on the unit to determine the audit scope of project.

When preparing the annual plans, IAD ensures that three concepts are taken into consideration in order to ensure compliance with IIA standards:

1. Risk based assessments that take into consideration organizational goals;
2. Management input; and
3. Communication of limited resources.
Risk Assessment Model and Approach (Continued)

AD 2003 Risk Assessment - High Level Operating Units and Scheduled Audits

<table>
<thead>
<tr>
<th>OSU</th>
<th>PSU</th>
<th>UO</th>
<th>EOU</th>
<th>WOU</th>
<th>SOU</th>
<th>OIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>College of Engineering</td>
<td>College of Liberal Arts and Sciences</td>
<td>College of Arts and Sciences</td>
<td>School of Distance Education</td>
<td>Academic Directors Division</td>
<td>School of Social Sciences</td>
<td>Engineering, Technology, and Mgmt.</td>
</tr>
<tr>
<td>College of Health and Human Sciences</td>
<td>Extended Studies</td>
<td>Sponsored Awards – Research</td>
<td>School of Arts and Sciences</td>
<td>Library</td>
<td>School of Arts and Letters</td>
<td>Health, Arts, and Science</td>
</tr>
<tr>
<td>Agricultural Experiment Stations</td>
<td>College of Engineering and Computer Sciences</td>
<td>Library System</td>
<td>Information Technology/Telecom</td>
<td>Athletics</td>
<td>School of Sciences</td>
<td>Executive management</td>
</tr>
<tr>
<td>School of Education</td>
<td>Graduate School of Social Work</td>
<td>Sponsored Awards - Public Service</td>
<td>Financial Aid</td>
<td></td>
<td>Library</td>
<td>Physical Plant/ EHS/ Const. /Motor pool</td>
</tr>
<tr>
<td>College of Agricultural Sciences</td>
<td>Facilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>College of Forestry and Research Laboratory</td>
<td>College of Urban &amp; Public Affairs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cascades Campus</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>College of Science</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University Centers and Institutes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extension Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>College of Veterinary Medicine</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distance and Continuing Education</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>College of Pharmacy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computing Center</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research Programs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student Health Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Legend**

| Scheduled Audits |
V. Organizational Changes and Resource Allocation

In April 2003, IAD reorganized. The reasoning for the reorganization was to provide IAD maximum audit coverage for the regional campuses. Based upon audit history for the past 18 months and the number of special requests made by regional campuses, IAD has been unable to provide regularly scheduled reviews at OIT and EOU. As a result of this lack of coverage, IAD eliminated the Audit Manager position and reassigned these duties to create two supervising auditor positions. A staff auditor will be added to assist the Supervising System Auditor in providing coverage to the regional campuses. An intern program was established by the department in June 2003 to further expand coverage and accommodate special requests made by OUS management.

COMMITTEE DISCUSSION AND ACTION:

Vice President Lehmann began the meeting by stating that there was one item for discussion, the presentation and review of audit findings from the OUS Internal Audit Division.

Patricia Snopkowski, OUS director of Internal Audit, stated that this was the second report since the passage of the Board charter in November 2002. Internal Audit is required to provide the Executive Committee with a progress report every six months.
Audits completed December 2002 to June 2003

She continued by stating that over the last six months, Internal Audit has issued 29 reports. In addition, fieldwork was completed and draft reports were issued to management for 14 other audits. All issued reports contain management’s written response that indicated adequate steps will be taken to address any internal control issues noted.

Ms. Snopkowski then began discussion of the reports of individual campuses.

University of Oregon
FERPA (Family Educational Rights and Privacy Act) audit. This was a compliance audit that was completed across the System. The purpose is to assure that the institutions are complying with the law and privacy rights of students. IAD found the controls to be very satisfactory and issued a positive review.

IAD conducted an asbestos abatement procurement review. This was a special request from management. Some vendor complaints had occurred, stating that there were conflicts of interest and a lack of competitive bidding. There was a predominant vendor, but that vendor was consistently the low-cost bid. IAD made recommendations for improvement of segregation and documentation of bids.

The application security review was a routine review typically of financial systems. At the University of Oregon, as well as the other campuses, IAD recommended some more restricted access over certain employee classes and documentation of the current security procedures or granting and removing access.

There were no open issues in the PARS and intoCareers follow-ups. Some good controls were put into place preventing similar instances from occurring.

The last review at the University of Oregon was an athletics follow-up to a prior financial irregularity involving coaches and distribution of per diem monies (breakfast, lunch, and dinner money that they receive). There were inconsistencies between sports in the rate used.

Ms. Pilliod asked if there was any inconsistency with different values depending on gender. Ms. Snopkowski indicated that it was haphazard inconsistency across-the-board.

Ms. Wustenberg asked how much time the UO has for correction. Ms. Snopkowski stated that it depends. “We like to get in there within six months, but given our schedule, sometimes it takes a year or longer.” She continued, “With this, we went back and actually looked at the University of Oregon. They have implemented some really good policies over this. And the director of athletics asked us to go in and look at all of the sports as a result of instances that were noted in just one sport. As part of our review, one of the things that was noted was there were some instances of travel where the assistant directors did not sign off. There was a compliance, budgetary approval, but the
program’s actual signature wasn’t there. Not really a major issue. We did note, however, even though they had good procedures in place, there were some instances of non-compliance with those procedures and staff weren’t informing management when non-compliance occurred. As a result of this, the director of athletics implemented some policies immediately, effective July 1st. So, we don’t feel that is an issue going forward at the University of Oregon. However, one of the things I did want to point out is we have had similar problems with varying per diem rates and inconsistency at other campuses across the System. As a result, in order to correct this issue, the Controller and Senior Vice Chancellor Anderes have identified and clarified what the FASOM policies are to all of the campuses in System meetings.”

In addition, Internal Audit has shared with other campuses some of the University of Oregon’s best practices that they have developed with policies and procedures such as: established a standard rate that is to be applied across-the-board; student evaluation on an annual basis; client surveys; and inquiring of students verifying the per diem for which they signed.

Just recently, the director of athletics at the University of Oregon implemented a sanctions policy in the event there are any further infractions.

Vice President Lehmann inquired if Internal Audit is doing the same audit at the other campuses.

Ms. Snopkowski stated that all four regional campuses were examined and it was noted that the rates varied across-the-board between sports and between the students and coaches and that is going to be corrected. PSU actually didn’t have a problem because they have a standard rate. At OSU, IAD hasn’t had an opportunity to examine these issues.

**Oregon State University**
The first audit, already discussed, was the FERPA audit. The second audit was of student housing construction. This was a special request where the facilities management asked Internal Audit to examine the vendors’ or contractors’ records. Internal Audit has a “right to audit” clause in all construction contracts, as well as many other contracts. In this case, OSU thought there were overcharges from the contractor. After analyzing the books, it was found that this was the case with regard to personnel and benefit charges. OSU is using this to negotiate the final billings with that contractor.

The overhead charges were an issue that related to the amounts that were charged to self-supporting and designated operations. IAD requires a charge of 8 percent overhead in accordance with state regulations.

Regarding information technology equipment tracking, Ms. Snopkowski mentioned that about a year and a half ago, the Department of Administrative Services Risk Management Unit issued a report to one of the news agencies on all of the losses of equipment across-the-board for state agencies. All of the directors of Internal Audit
Executive Committee Meeting–Minutes

July 18, 2003

across the state were asked to look at some of the policies and procedures with regard to safeguarding these types of equipment. Internal Audit looked at two campuses: OSU and Western Oregon University. It was noted that there were some good controls in place and some new programs that were put in place at Oregon State. One was a “stop tag” program, which is essentially like a permanent tattoo placed on fixed assets that provides an inventory accounting for assets (even if it’s under the $5,000 capital threshold). It also deters theft and provides a record with authorities (the state police) in the event that the item is recovered. It’s a program that will be shared with the rest of the campuses.

Also, OSU has implemented some new procedures with regard to minor equipment. These are items under $5,000. IAD has to account for these for insurance purposes in the event the whole building is lost. Previously, Internal Audit was doing detailed inventories of pens and pencils - not doing that level of detail for every pen but getting a general idea of office supplies. The inventories were behind because of administrative overload. OSU worked with the Controller’s Office and Internal Audit to look at ways to streamline the procedures. They developed one that is acceptable to the state, taking percentages of buildings. The high-risk items are tracked with the stop tag and the rest through percentages of building value.

The application security review, as previously discussed, was very similar. The Dixon Recreation Center was similar to the PARS and intoCareers at the UO. Again, there has been improvement and all of the corrections have been made with regard to follow-up.

There was a relatively low compliance rate with the cashiering problem. There were still some issues open with safeguarding of the vault and the lack of written procedures. The Vice President for Finance and Administration requested an audit. IAD found that there was a transition in the bursar position (the bursar is basically the head cashier). As a result of that transition, compliance with these recommendations had not occurred. OSU has requested another bursar review in January.

To Mr. Barnett’s question if it had worked, Ms. Snopkowksi replied that it had – all monies were accounted for.

Ms. Wustenberg inquired if this was an area that would be fraught with the opportunity to commit fraud.

Ms. Snopkowski stated that it was. “Many times what happens with vaults is people think they need to have three or four people having access to the vault for segregation. Actually, that’s not the appropriate way to do it. You want to have accountability and have at least one person and another person for back up. What’s happening in a lot of these circumstances is that it’s too widespread and monies are taken and it can’t be determined who took it. We’re hopefully moving forward with that at OSU and all of the other campuses.”
Portland State University

The financial aid review concerned an employee who made an unauthorized change to a family member’s account and increased the amount of grants that the individual was eligible for, when in reality the person wasn’t eligible for it. PSU detected this before disbursement, which was really critical. And, as a result of that, Internal Audit analyzed the controls to make sure they were in good shape. This is the largest federal award that the Oregon University System receives. As a result, external auditors come here every two years and look at this program in detail. If our controls weren’t in place, we could have been subject to a Department of Education program review.

Ms. Lehmann asked if it was PSU that detected this inconsistency. Ms. Snopkowski replied that, “PSU detected it before the disbursement.”

Western Oregon University

Internal Audit had three special requests, as well as the information technology audit that was talked about previously. The first review received a lot of discussion in the press. This was the president’s residence complaint that came in from the Secretary of State’s Audit Division. The complaint was three-fold: one was that there was excess and profligate remodels done to the president’s house; second, that there was personal use of a vehicle; and third, that the house was remodeled to accommodate a home business. Internal Audit found that all three of those comments were unfounded. It was noted that there were some cost overruns with regard to labor charges, specifically the student labor. There was a lack of supervision with the students over the summer period and, as a result, work had to be redone. There was a high level of facilities workers’ overcharges, too. The facilities director has implemented new standards over utilizing student workers and has discussed the issues of lack supervision with the supervisors. Overall the allegations that were made were not substantiated.

The second review was the faculty travel review. In this case, a faculty member did not attend a conference. He went to a conference on behalf of Western Oregon University and never attended that conference. As a result, he owes the University $1,526. The University is currently working through Human Resources in seeking recovery.

The next report was the bookstore review. This is really the only fraud of any significance in this report and is primarily a misappropriation. Internal Audit was able to ascertain that there was approximately $81,721 of misappropriation. This may be higher but there are no records so there is no way to go back and get all of that information. This primarily stemmed from a lack of segregation over cash deposits as well as accounts receivable. One person was responsible for all aspects, including collection, totaling the deposits, storing the deposits, making out the deposit slips, and sending those over to the cashier’s office. No one was monitoring to ensure the completeness of the daily deposits. As a result, a lapping scheme was occurring. This is a scheme that auditors see quite often, taking one day’s cash receipts for personal benefit and then using the next day’s cash receipts to put into the previous day’s deposits. This underscores why daily completeness is a very important control and there needs to be segregation over that.
This situation continued for a little over a year. IAD noted changes in several areas of the operation, including an improved inventory system and expansion of the inventory system.

Mr. Barnett asked whether charges were brought against any employees. Ms. Snopkowski replied, "Right now the case has been referred to the district attorney’s office, as well as the Department of Administrative Services. Our last conversations with the district attorney was that records had been requested, personal bank records had been requested, and they are anticipating taking this to the grand jury this summer."

President Conn stated, “All of this occurred before I arrived and was duly noted by the business office. The employee who is responsible for the missing monies was dismissed before I arrived. Since that time, in recent months, the bookstore manager has been discontinued, and we’ll have a new bookstore manager. There is no suggestion that the bookstore manager was involved in this, but she was managerially responsible when this took place. We have dealt with this, I think, very properly in terms of personnel actions. The other thing I would mention is that I’m amazed at how slowly the prosecutorial system works because we have shared this with the state prosecutor long ago. I have personally talked twice expressing our eagerness to have this resolved and, for whatever reason, there continues to be a delay in the prosecution going forward. You can imagine why we want this to take place. This has been hanging for two years and when it comes out in the papers, it’s going to be as if it happened yesterday, and that we have ‘not been forthright in dealing with it’. I shouldn’t be commenting on the court system - I’m sure they have a lot of work to do, but when this does come out in the paper, and surely it will and should, all of you should at least know that this has been dealt with long ago and we’re eager for the courts to deal with it properly."

Ms. Snopkowski mentioned that an Internal Audit report was issued late last fall or early winter, and IAD went back into the bookstore operations about three months ago to take a look at improvements that have been made. There are still controls that need to be put in place and, as President Conn stated, there is a new bookstore manager being hired. “We think that the needed controls have been put in place to prevent this type of lapping scheme from reoccurring and we’ll do a full-fledged follow-up review later on after the new bookstore manager has been in the position several months.”

Ms. Snopkowski went on to state that the IT equipment tracking was similar to the OSU report performed.

Southern Oregon University
The FERPA report is similar to what has been discussed before. Regarding RVTV (Rogue Valley Television), this was a special request by the senior management at Southern Oregon University, and was proactive in nature. They called Internal Audit to examine improvements that could be made in the operation.
Ms. Snopkowski continued by stating that the operation has experienced a lot of growth. They have a new fiscal manager, the operation is moving into a new building and incurring new debt. Internal Audit noted that some improvements and cost accounting standards needed to be improved and worked with management to identify that for future billings. Also, there was some improved monitoring that could take place over accounts receivable that they have with the various constituents across the county. Again, this was a special request and the noted improvements and internal controls are all being taken in consideration. Asking Internal Audit to come in this regard is something that should be commended.

The last two reviews were physical plant and athletic cash receipts follow-ups. The physical plant was a billing recommendation. The athletics cash receipt follow-up was a prior financial irregularity, but in both of those cases, all of the recommendations had been put into place.

Oregon Institute of Technology
Internal Audit did two quick follow-ups over the past six months. There was a prior procurement card fraud with ASOIT and a lack of segregation over the procurement card and monitoring. The department has restructured the way that they deal with procurement cards and all of the recommendations have been implemented.

The CITS general controls was an IT audit. When IAD went back to do the follow-up, it was noted that there needed to be more specific recommendations. IAD is working with the ITS unit on some password controls and implementing the last parts of the disaster recovery plan.

Ms. Snopkowski continued, “You may note that there wasn’t any listing for Eastern Oregon University throughout the report. [W]e didn’t get an opportunity to get to Eastern over the past six months. It’s very important that Internal Audit actually gets coverage of all of the campuses on a routine basis. Every time the universities undergo an accreditation review, the team looking at fiscal standards wants to meet with the director of Internal Audit and look at the independence, look at the routine coverage. We realize this is an issue, so what we have done is reorganized our department . . . to provide more coverage to the regional campuses.”

Director Richmond asked how it was decided what kind of audit on each campus. Ms. Snopkowski replied that Internal Audit has an audit plan with scheduled audits. “We also leave a portion of time open for special requests. And then we have a portion of FTE for information technology.”

Vice President Lehmann asked, “If the campuses request you to do a special audit, do you then alter your schedule to do that immediately? Respond to that request immediately?”

Ms. Snopkowski replied that it depends. “I do have a file of audits that have been requested that we didn’t deem necessary. I consult with Senior Vice Chancellor
Anderes on shifting priorities. Before we would shift a scheduled audit, we would determine whether or not that was necessary. If it is something that is a potential fraud, we will shift our schedule. But we do have an allotment of hours for those types of things, so we don’t book 100 percent of our time on scheduled audits. If we did, there’d be too much and we’d be off-base all of the time.”

Director Lehmann asked if there were any problems that are cropping up that the seven institutions have in common or where patterns are emerging. Ms Snopkowski answered that the only thing that was noticed was with team travel with athletics.

Ms. Snopkowski reported on the Chancellor’s Office reviews. This is a review the Secretary of State requires when there is a change in administrator of a state agency. Senior Vice Chancellor Anderes requested that Internal Audit do a review to make sure there were no risks or open issues before the review occurred. No issues were noted with the fiscal transactions of Emeritus Chancellor Cox, although some recommendations on policy clarification within the Chancellor’s Office were made. As a result of that report, the Secretary of State has deemed the report “adequate” and doesn’t plan on doing that review. (A copy of that report went to the president of the Board.)

Ms. Snopkowski continued with the ETIC follow up review. Internal Audit noted in the review that there were still some inconsistencies in the information on the scorecards (the performance information) that the Board receives. The Board receives fiscal as well as academic performance information in the way of performance scorecards. Each campus was doing a good job of pulling together information, but they were using different standards, criteria, and cut offs. Internal Audit recommended that the Chancellor’s Office develop some standards in conjunction with the campuses to apply consistency. The Chancellor’s budget function, as well as Institutional Research, is assisting in this effort, and this should be corrected by the September reporting period. Otherwise, the current structure at ETIC, with reporting to Academic Affairs, appears to be operating effectively. Internal Audit issued a number of draft reports that will be presented at the next meeting.

Director Richmond asked, “When you’re doing the audits, do you primarily look at state funds that are used? Or, for example, athletics, I assume that there’s some foundation money in addition to state money, and there is also grant money, and things like that. Do you mainly focus on the state’s, or how broadly do you look?”

Ms. Snopkowski replied, “We look at all funds. We don’t go into the foundation transactions, but we do look at all types of funds. We will look at grant funds and at various restricted funds, as well as the state funds. It depends upon what the focus of that review would be, based upon a risk assessment.”

Ms. Lehmann asked if foundations conduct their own audits to which Ms. Snopkowski answered that they undergo an external financial audit “similar to what we get with Moss-Adams. They don’t have Internal Audit functions. The president at OSU asked me
Executive Committee Meeting–Minutes

July 18, 2003

to go in and look at a review a couple years ago with the ServiceMaster agreement so we do have an opportunity, but it’s not a routine function of Internal Audit. That’s actually something that has been raised by legal counsel and myself to take a look at and make some recommendations.”

Director Wustenberg stated that this came up some years ago and the Board was told that foundations were separate entities. “But it was as a result, I guess, of questions asked about activities at foundations and their relationship to the university. And, while there may be an area where they feel they are independent of the University System, everything they do reflects on the University System and the university itself. So, I sense there’s kind of a gray area. Legally, my question is, do we, as the Board, have a responsibility to track those transactions between the foundation and the university, which is their sole purpose of being the foundation: to benefit the university.”

Ben Rawlins, OUS General Counsel, replied, “Currently, perhaps, the easiest way to look at the lines is that once the money comes into the university, then our responsibility for Internal Audit is complete. We do not, at the current time, go into the foundations, recognizing their separate legal status, but instead rely on their own auditing functions to show that the monies that they have disbursed are consistent with their receipts. Many of them are designated, so yes, that is where the lines are currently drawn. There are some other national auditing principles that will change that in the near future, but right now those are the lines. So far they work well.”

Audit Plans for July 2003 to December 2003

Ms Snopkowski continued her report by stating that over the next six months, Internal Audit is going to be concentrating primarily on the scheduled audits. The other main project will be taking a look at an internal control assessment project that came out of the accountability project that was a report that Arthur Andersen presented to the full Board about a year ago. This is a proactive review. All of the campuses and the Chancellor’s Office are doing an internal control self-assessment project in the survey. The controls over really high-risk transactions, including cash, procurement card, fixed assets, and some purchasing of minor equipment will be examined. The goal of this project is to share best practices and create some synergy among the campuses through sharing manuals, and sharing centralized procedures and analyticals.

Risk Assessment Model Approach

Ms. Snopkowski discussed the risk assessment process, which is basically a seven-step process that Internal Audit goes through on an annual basis. She stated, “We take a look at where our resources are going to be focused over the next year. Our scheduled audits are approximately 40 percent of our time. When we looked at our risk assessment, there are a total of 230 units within OUS that we can audit. And, of those 230 units, there are 45 high-risk units. The model is new this year and we implemented this as a result of our peer review and some of the new internal auditing standards. We ranked all of these 230 units to determine which are the highest risk units and where we should be spending our efforts. The overall scores are a combination of subjective
matters, but it’s mainly quantitative in nature and really shouldn’t be used as an overall ranking of management’s performance.”

An example is OSU, which is a higher risk because of the large amount of research funds that they receive, which yield a higher financial and compliance score across many of the units, as well as the strong land-grant mission focus on agriculture, and their recent focus on engineering. And OIT’s executive management is high because there are a lot of program funds running through the executive management organization codes when we look at the fiscal systems. It’s not, again, necessarily a reflection of management.”

Ms. Snopkowski stated that there aren’t any units listed from the Chancellor’s Office. One reason for that is Internal Audit covered a lot of the high-risk units over the past year, including ETIC, purchasing, budget operations, human resources, and personnel. Some of those will be on Internal Audit’s next calendar year assessment, including, perhaps, cash and bond management. Academic Affairs has taken on a number of high dollar grants.

Internal Audit’s goal is to cover 13 of these units in the next six months. Four have begun and another four will be started in the fall, with planning for the remainder beginning in the November/December time frame. The 2004 calendar assessment will be done in the November time frame and the new plan will be presented to the Board in January 2004. During this time period, IAD will send out an email to the Board members asking if there was anything they’d like to focus on or consider as part of our risk scoring.

Dr. Richmond asked, “What do you actually look for? You’ve identified the areas that either have high volume, high budgets, and so what do you look for? Is it similar to the other audits you’ve just talked about?”

Ms. Snopkowski answered that Internal Audit does a risk assessment, “then an analysis of the fiscal information. We take a look at the types of financial transactions that are going through. If the department has a lot fixed assets, for instance, that’s a higher risk. So, we’ll go in and look at fixed assets. If the department has a lot of grants, there’s a compliance risk and a fiscal risk, so we’ll focus on that department with regard to grants. Payroll—if there’s a lot of payroll transactions, we’ll take a look at that. So, a large component is fiscal and we’ll analyze it from that perspective. Another large component is compliance. We will look at the internal control structure over some compliance areas. We’ll do a data detailed environmental health and safety, but what we’ll do is ask some general questions on is the university doing a good job of informing and providing the tools that faculty members need to ensure compliance and that we don’t have any risks to find. So, those are the types of things that we perform. We also will take a look at operations as a whole. If there’s a recharge operation, for instance, where there’s billing, fabrication operation, we’ll take a look at the cost accounting associated with that. We will take a look at the operation, the nature of the operation, and get input from management and determine where the risks are. That’s where we’ll spend our effort.
We want to make sure that those risks are mitigated so that we don't have any problems going forward.”

**Organizational Changes and Resource Allocation**

On a final note, Ms. Snopkowski spoke about the organizational changes that are taking place within IAD. The reason for the changes is that all of the campuses, as well as the Chancellor’s Office, have undergone budget reductions. IAD also will be looking at expanded coverage to the regional campuses. IAD has eliminated the audit manager position and, as a result, has added a staff auditor position, which will primarily work with just the regional campuses. To accommodate key supervision duties over internal auditing standards and planning documents, IAD has promoted two senior auditors and given them more of a senior supervisory role. They will continue to do audits, but 50 percent of their role will consist of some of the duties of the audit manager.

This summer, IAD is hiring a staff auditor. Currently, the IT position is on hold until the budget is a little bit more solidified.

Ms. Wustenberg commented that she noted in the newspaper that our System is one of the three in the state that is being credited with doing the financial audits correctly and meeting the standards. “I want the audit division to know how much I appreciate your efforts. The ultimate responsibility lies with the members of the Board, and it’s quite a responsibility. So I am grateful for your help.”

Director Lehmann added, “I think we were all really gratified to see that . . . public recognition.”

Ms. Snopkowski went on to touch on the fact that Secretary of State’s Audit Division is completing their financial statement audit, as well as their A-133 audit. As part of some of the new auditing standards they have to face, they are required to contact the Chancellor, as well as the Board president and Committee chairs to ask if there are areas of any financial irregularities they would like to speak to. IAD will work with the Board’s Office to make sure that meetings are arranged.

Ms. Lehmann asked if IAD’s working relationships with business staff at the universities were cooperative and if IAD collaborated on these things.

Ms Snopkowski replied that IAD has a very good working relationship with all of the vice presidents as well as the directors of business affairs. “A lot of the times, people are apprehensive when auditors go out there to a different unit, and they have really been advocates for our services in helping the units understand the importance and nature of the work, and that we don’t have a real ‘got you’ approach. It’s been really a good working relationship with the vice presidents and directors of business affairs.”
3. **ADJOURNMENT**
   Meeting adjourned at 9:05 a.m.

Virginia L. Thompson
Secretary of the Board

James T. Lussier
President of the Board
Investment Committee Report Items

Supplemental Materials

September 18, 2003
Oregon State Board of Higher Education
# Oregon University System
## 2002-03 Fourth Quarter Investment Report as of June 30, 2003
### Pooled Endowment Fund

<table>
<thead>
<tr>
<th></th>
<th>Market 4/01/03</th>
<th>Market 4/30/03</th>
<th>Market 5/31/03</th>
<th>Market 6/30/03</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. EQUITY INVESTMENTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BGI Alpha Tilt Fund B</td>
<td>$21,748,156</td>
<td>$23,413,423</td>
<td>$24,637,195</td>
<td>$24,881,438</td>
</tr>
<tr>
<td>Battery March</td>
<td>6,890,768</td>
<td>7,419,944</td>
<td>8,067,159</td>
<td>8,204,172</td>
</tr>
<tr>
<td>Total U. S. Equity Investments</td>
<td>$28,638,924</td>
<td>$30,833,367</td>
<td>$32,704,354</td>
<td>$33,085,610</td>
</tr>
<tr>
<td><strong>FOREIGN EQUITY INVESTMENTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>T. Rowe Price Foreign Equity Fund</td>
<td>$4,647,369</td>
<td>$5,161,051</td>
<td>$5,471,198</td>
<td>$5,572,966</td>
</tr>
<tr>
<td>Total Foreign Equity Investment</td>
<td>$4,647,369</td>
<td>$5,161,051</td>
<td>$5,471,198</td>
<td>$5,572,966</td>
</tr>
<tr>
<td><strong>FIXED INCOME INVESTMENTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Western Asset Core Plus</td>
<td>$12,936,372</td>
<td>$13,110,515</td>
<td>$13,200,730</td>
<td>$13,444,698</td>
</tr>
<tr>
<td><strong>OTHER INVESTMENTS</strong>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment Partners Fund, LP</td>
<td>14,399</td>
<td>14,399</td>
<td>14,399</td>
<td>14,363</td>
</tr>
<tr>
<td>(Expected Liquidation Date-unknown)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment Venture Partners I, LP</td>
<td>43,188</td>
<td>43,188</td>
<td>43,188</td>
<td>41,691</td>
</tr>
<tr>
<td>(Expected Liquidation Date-06/30/04)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Other Investments</td>
<td>$ 57,587</td>
<td>$ 57,587</td>
<td>$ 57,587</td>
<td>$ 56,054</td>
</tr>
<tr>
<td><strong>CASH</strong></td>
<td>$2,445,036</td>
<td>$2,445,649</td>
<td>$2,458,204</td>
<td>$1,310,371</td>
</tr>
<tr>
<td><strong>TOTAL ENDOWMENTS-POOLED</strong></td>
<td>$48,725,288</td>
<td>$51,608,169</td>
<td>$53,892,073</td>
<td>$53,469,699</td>
</tr>
<tr>
<td><strong>TOTAL ENDOWMENTS –SEPARATELY INVESTED</strong></td>
<td>$3,276,945</td>
<td>$3,276,621</td>
<td>$3,276,568</td>
<td>$3,277,572</td>
</tr>
<tr>
<td><strong>TOTAL ENDOWMENTS</strong></td>
<td>$52,002,233</td>
<td>$54,884,790</td>
<td>$57,168,641</td>
<td>$56,747,271</td>
</tr>
</tbody>
</table>

* Other Investments are valued on a quarterly basis.
Oregon University System  
2002-03 Fourth Quarter Asset Allocation by Category  
Pooled Endowment Fund  
As of June 30, 2003

<table>
<thead>
<tr>
<th>Class</th>
<th>Actual Allocation</th>
<th>Target Allocation</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Category</td>
<td>72.3%</td>
<td>70.0%</td>
<td>60%-80%</td>
</tr>
<tr>
<td>Fixed Income Category</td>
<td>25.2%</td>
<td>25.0%</td>
<td>20%-30%</td>
</tr>
<tr>
<td>Cash</td>
<td>2.4%</td>
<td>5.0%</td>
<td>0%-10%</td>
</tr>
<tr>
<td>Alternative Assets</td>
<td>0.1%</td>
<td></td>
<td>0%-10%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

**Equity Category:**

<table>
<thead>
<tr>
<th>Class</th>
<th>Actual Allocation</th>
<th>Target Allocation</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large-Cap Equity</td>
<td>64.0%</td>
<td>65.0%</td>
<td>55%-75%</td>
</tr>
<tr>
<td>Small/Mid-Cap Equity</td>
<td>21.0%</td>
<td>20.0%</td>
<td>15%-25%</td>
</tr>
<tr>
<td>International Equity</td>
<td>15.0%</td>
<td>15.0%</td>
<td>10%-20%</td>
</tr>
</tbody>
</table>

![Pie chart showing asset allocation percentages]
Oregon University System
2002-03 Fourth Quarter Investment Report as of Jun 30, 2003
Pooled Endowment Fund Investment Performance
(Based on Total Return)

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Apr 2003</th>
<th>May 2003</th>
<th>Jun 2003</th>
<th>Fourth Quarter</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL ENDOWMENT OUS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target Allocation Policy Benchmark</td>
<td>6.1%</td>
<td>4.6%</td>
<td>1.7%</td>
<td>13.3%</td>
<td>4.5%</td>
</tr>
<tr>
<td>OUS U.S. Equity Investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russell 3000 Index</td>
<td>7.7%</td>
<td>6.1%</td>
<td>1.5%</td>
<td>16.0%</td>
<td>2.2%</td>
</tr>
<tr>
<td>BGI Alpha Tilt Fund B</td>
<td>8.2%</td>
<td>6.0%</td>
<td>1.4%</td>
<td>16.3%</td>
<td>0.8%</td>
</tr>
<tr>
<td>S &amp; P 500 Stock Index</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Battery March</td>
<td>7.8%</td>
<td>8.8%</td>
<td>1.8%</td>
<td>19.4%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Russell 2500 Index</td>
<td>8.9%</td>
<td>9.8%</td>
<td>1.9%</td>
<td>21.9%</td>
<td>1.4%</td>
</tr>
<tr>
<td>OUS Foreign Equity Investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>T. Rowe Price Foreign Equity Fund</td>
<td>11.1%</td>
<td>6.0%</td>
<td>1.9%</td>
<td>19.9%</td>
<td>-8.0%</td>
</tr>
<tr>
<td>MSCI EAFE Index</td>
<td>9.8%</td>
<td>6.1%</td>
<td>2.4%</td>
<td>19.3%</td>
<td>-6.5%</td>
</tr>
<tr>
<td>FIXED INCOME INVESTMENTS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Western Asset Core Plus</td>
<td>1.7%</td>
<td>1.0%</td>
<td>2.2%</td>
<td>5.0%</td>
<td>14.1%</td>
</tr>
<tr>
<td>Lehman Aggregate Index</td>
<td>0.8%</td>
<td>1.9%</td>
<td>-0.2%</td>
<td>2.5%</td>
<td>10.4%</td>
</tr>
<tr>
<td>OTHER INVESTMENTS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment Partners Fund</td>
<td></td>
<td></td>
<td></td>
<td>-0.3%</td>
<td>-38.8%</td>
</tr>
<tr>
<td>Endowment Venture Partners</td>
<td></td>
<td></td>
<td></td>
<td>11.5%</td>
<td>5.1%</td>
</tr>
</tbody>
</table>

Notes: All amounts are net of investment charges. Items underlined are returns which are less than their benchmarks’ returns.
Total Endowment Fund Historical Comparison
As of June 30, 2003

<table>
<thead>
<tr>
<th>Year</th>
<th>Donated Value</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>$20,256,956</td>
<td>$32,591,931</td>
</tr>
<tr>
<td>1994</td>
<td>23,558,200</td>
<td>35,301,943</td>
</tr>
<tr>
<td>1995</td>
<td>24,107,696</td>
<td>39,379,440</td>
</tr>
<tr>
<td>1996</td>
<td>28,397,045</td>
<td>48,075,605</td>
</tr>
<tr>
<td>1997</td>
<td>29,239,189</td>
<td>54,451,357</td>
</tr>
<tr>
<td>1998</td>
<td>28,416,278</td>
<td>61,333,357</td>
</tr>
<tr>
<td>1999</td>
<td>29,254,078</td>
<td>65,920,823</td>
</tr>
<tr>
<td>2000</td>
<td>29,932,316</td>
<td>70,576,083</td>
</tr>
<tr>
<td>2001</td>
<td>29,758,221</td>
<td>62,846,919</td>
</tr>
<tr>
<td>2002</td>
<td>29,952,306</td>
<td>53,709,802</td>
</tr>
<tr>
<td>2003</td>
<td>30,006,457</td>
<td>56,761,243</td>
</tr>
</tbody>
</table>
1. **CALL TO ORDER/ROLL CALL**
   Chair Wustenberg called the meeting of the Investment Committee to order at 10:00 a.m.

   On roll call, the following Investment Committee members answered present:
   
   - Mr. Kerry Barnett
   - Ms. Leslie Lehmann
   - Ms. Phyllis Wustenberg

   Absent: None.

   **Other Board Members Present:** Rachel Pilliod (arrived at 11:00 a.m.)

   **Chancellor’s Office staff present:** Tom Anderes (arrived at 11:30 a.m.) and Mike Green.

   **Others:** Marcia Beard, RV Kuhns; Mary Gregory, T. Rowe Price (via telephone); Richard Moreland, T. Rowe Price; Kevin Nordhill, State Treasury; Gary Slavin, Western Asset Funds; and Kurt Umbarger, T. Rowe Price (via telephone).

2. **APPROVAL OF MINUTES**
   - **September 19, 2002, Investment Committee Meeting Minutes**

   The Committee dispensed with the reading of the September 19, 2002, Committee meeting minutes. Director Lehmann moved and Director Barnett seconded the motion to approve the minutes as submitted. The following voted in favor: Directors Barnett, Lehmann, and Wustenberg. Those voting no: none. Motion approved unanimously.

3. **REPORT ITEMS**
   a. **Investment Manager Report—T. Rowe Price**

   Richard Moreland, CFA, reviewed his qualifications and experience with T. Rowe Price and introduced, via telephone, Kurt Umbarger and Mary Gregory who, he explained, will serve as the new primary contact for OUS, and briefly discussed their credentials. He presented an overview of T. Rowe Price’s performance over the past year.

   Mr. Moreland explained T. Rowe Price’s investment strategy, which has a growth bias, noting that the objective is to capture a broad universe of non-U. S. stocks, primarily to develop a market. He noted that there is some ‘emerging markets’ exposure but explained that they only invest if there is an opportunistic basis. He stated that the
T. Rowe Price firm remains strong and that the firm remains diversified as a class as well as distribution channel.

Mr. Moreland noted that the portfolio is heavily invested in larger companies. Referring to the international investments, he discussed country and sector weightings noting that regional politics and economics affect the investment approach. He defined growth as average, sustained earnings growth over time.

Kurt Umbarger discussed performance, both long term and recent performance. He noted that recent performance has been challenging, but pointed out that the market has started to turn more positive once again. Emerging markets have been the better place to be over the last 18 months, which has been helpful for the international portfolio. He noted that the U.S. dollar has been unhedged and they will not have hedging in the portfolio.

Director Barnett questioned the practice of non-hedging against declines in U.S. currency and asked if it was a strategic decision to remain unhedged. Mr. Umbarger noted that when the U.S. dollar is weak, it is good for U.S. investors overseas. He explained that they have that ability to hedge in the portfolio, but it is rare since doing so will not consistently add value.

Director Barnett asked what the assumption is regarding the future strength of the dollar. Mr. Umbarger predicted that the Euro will continue to remain stronger relative to the U.S. dollar. He noted that the current account deficit in the U.S. is in excess of 5 percent of GDP (Gross Domestic Product), which historically has signaled a level by which the currency is likely to experience a downward adjustment. Therefore they aren’t contemplating changing their currency assumption or the hedging policy in the portfolio.

Mr. Umbarger noted that growth stocks had been doing poorly relative to value stocks, but are now beginning to recover. He opined that there is greater parody now between value and growth stocks in terms of their outlook and valuations. Leslie Lehmann asked how technology will change the world of investment in terms of U.S. versus international investments and what to expect in the next 10-15 years. Mr. Umbarger explained that the recent spike in technology returns was primarily due to corporate investment expenditures in Information Technology and the Y2K scare. He explained that one of the drivers of equity returns and also higher-end, service-oriented jobs, comes from those companies and countries that are able to generate innovative and new technology related products and services and the U.S. is still the leader in that area of technology. He stated that there has been an expansion of a number of high quality tech companies overseas, especially in Asia. However, the true innovation continues to originate in the U.S. and most of Asia is still primarily manufacturing.

Director Barnett referred to the reduced performance and asked if the change was due to the vagaries of the market or a different strategy. Mr. Umbarger explained the changes in performance between quarters but noted that there has been no change in
T. Rowe Price’s strategy. He explained that, over time, their long-term performance accumulates in the top third against peers.

Director Barnett asked why the industry is doing so poorly against the benchmark. Marcia Beard explained that active management typically pays off and that this current situation is an anomaly. Director Lehmann reiterated her earlier question about future assumptions and asked whether the trend will go back or do whether OUS needs to rethink its strategies.

b. Investment Manager Report—Western Asset

Gary Slavin, Vice President, Client Services Western Asset Funds, presented his report. He noted that the company headquarters will be moving. He provided an updated in the report since May and noted that scandals have forced corporations to get their balance sheets in order and lower debt, which has contributed to the change in the market. He suggested that the current bear market is due to scares and scandals, which explains why they underperformed in first few months and outperformed greatly since. He noted that in September 2001, Western took a different approach, opposing the view of the anticipated trend, and subsequently it was a good investment opportunity.

He discussed the weighting of the portfolio and explained that lower rated bonds are cheap in an improving economy. Responding to concerns, he briefly discussed risk factors and explained that, over time, the standard deviation is good because they are well diversified.

Director Wustenberg noted that the Board is risk averse and asked whether higher returns for higher risk were prudent. Mr. Slavin noted that only a portion of the portfolio is diversified and that 15 percent of the entire fund is the maximum allowed in this prospective, although it is usually 10 to 11 percent. He discussed emerging markets and noted that in the high-risk yields, Western holds many names and are well diversified, thus reducing the risk factor. He stated that the only change Western has taken in its strategy was to move to neutral in mortgages. He expects gradual improvement in the economy.

c. Third Quarter Investment Report for FY 2003

The Committee did not hear a report on the third quarter investments; however, the report was made available for reading.

d. International Equity Manager Search

The Committee discussed their concerns regarding the performance of T. Rowe Price. Ms. Beard noted that, because T. Rowe Price is a growth investor, it is a style issue. She recommended the Board either add a value manager to the portfolio or replace T. Rowe Price with a manager that invests both ways. Mr. Nordhill pointed out that if the economy continues to grow, T. Rowe Price will improve. Mr. Nordhill and Ms. Beard
hesitated to recommend letting T. Rowe Price go, arguing that it is important to keep style neutrality. They suggested that the Board add a relative, not high, value manager. They agreed that the long-term concern is the need for style neutrality. Ms. Beard recommended, however, that ultimately the Board not work solely with T. Rowe Price. Director Wustenberg asked staff to draw up a rationale setting out the options and to have it ready for the next meeting.

e. Asset Allocation Study

Ms. Beard briefly reviewed the preliminary numbers. She noted that, especially given the current economy, the net year-to-date assets are positive. She explained that absolute returns provide equity-like return for bond-like risk thus reducing the volatility of the portfolio. Ms. Beard offered to bring some managers in to provide further education for the Committee.

The Committee agreed to meet again in September.

4. ADJOURNMENT

The meeting adjourned at 12:10 p.m.
Managerial Reporting

Budget and Finance Committee
Supplemental Materials

September 19, 2003
Oregon State Board of Higher Education

Appendix “C”