# APPENDIX A

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### Special Meeting of the Board, #745, Minutes, February 18, 2005 .......................................... 112
1. **CALL TO ORDER/ROLL CALL/WELCOME**

Chair Don Blair called the meeting of the Finance/Budget/Audit/Personnel/Real Estate Committee ("FBAPRE") of the State Board of Higher Education to order at 8:08 a.m. Chair Blair participated by telephone. Director Lorenzen held the gavel, but Chair Blair chaired the Committee meeting.

**On roll call, the following Committee members were present:** Don Blair (by telephone), Henry Lorenzen, and John von Schlegell.

**Other Board members present included:** Kirby Dyess, Adriana Mendoza (arrived at 8:26 a.m.), Tim Nesbitt (arrived at 8:10 a.m.), Geri Richmond, Gretchen Schuette, Howard Sohn, and Tony Van Vliet (arrived at 8:38 a.m.).

**OUS staff present included:** George Pernsteiner, Michael Green, Ryan Hagemann, Nancy Heiligman, and Ben Rawlins.

**Others present included:** Presidents Dan Bernstine, Philip Conn, Martha Ann Dow, Khosrow Fatemi, Ed Ray, and Elisabeth Zinser. OHSU Provost Lesley Hallick and UO Provost John Moseley were also present.

Meeting attendees also included other institution representatives, members of the OUS staff, the press, and other interested observers.

2. **APPROVAL OF MINUTES**
   - FBAPRE Committee Meeting, November 5, 2004

Director Lorenzen called for a motion to approve the minutes for the November 5, 2004, FBAPRE Committee meeting. Chair Blair moved approval of the minutes and Director von Schlegell seconded the motion. All in favor: Blair, Lorenzen, and Von Schlegell. Opposed: none. Motion passed.

After roll call and approval of the minutes, Chair Blair asked Secretary Hagemann to state the other Board members present.
3. **ACTION ITEMS**


**Docket:**

**Summary:**
The report titled *2004 Annual Financial Report* (see supplemental materials) was prepared by the Chancellor’s Office and the financial statements included within were audited by Moss-Adams, LLP under contract to the Secretary of State, Audits Division. The audit opinion issued by Moss-Adams, LLP is an unqualified opinion, which means that their opinion as to the fair presentation of the financial statements was issued without qualification.

The *2004 Annual Financial Report* is the third year implementation of Governmental Accounting Standards Board (GASB) statement number 35. These new accounting principles provide for greater comparability between the financial statements of public and private higher education institutions and are more similar to financial statements of private industry.

The *2004 Annual Financial Report* is the first year implementation of Governmental Accounting Standards Board (GASB) statement number 39. For financial reporting purposes, GASB 39 recognizes university foundations as component units of the OUS annual financial statements. As a result, the *2004 Annual Financial Report* includes summarized financial activity of the university foundations’ audited financial statements. We wish to thank the universities and foundations for having provided copies of their audited financial statements in a timely manner.

As stated above, Moss-Adams, LLP has audited the financial statements of OUS and, in conjunction with that audit, has issued a letter to OUS Management (see supplemental materials) communicating observations and recommendations relating to OUS internal controls and compliance with Federal grants and contracts. OUS Management has issued a letter in response to these observations and recommendations (see supplemental materials) that includes general agreement with the observations and planned actions in response. None of the observations made by Moss-Adams, LLP represent significant deficiencies in the design or operation of internal control for 2004 but could have an impact in future years, especially due to the transition in changes to the role of the Chancellor’s Office.

As part of the financial statement audit, Moss-Adams, LLP is required to communicate certain matters related to the conduct of the audit to those who have responsibility for oversight of the financial reporting process.

*Review Procedures Subsequent to Fiscal Year End—PSU Transfer of E&G Funds:*
As a part of the fiscal review procedures performed subsequent to the June 30, 2004 fiscal year end, the Chancellor’s Office reviewed material transfers affecting the
Education and General funds of OUS institutions. One such transfer at PSU warranted highlighting to the Board.

In October 2003, the Board approved the PSU purchase of the Lincoln Street Doubletree Inn for the purpose of converting it to student housing and conference center space. The purchase price of $22.3 million, along with funds for minor renovation and redevelopment planning, was financed through the issuance of $25 million of Article XI-F bonds. The debt service on those bonds was to be funded through revenues generated by the facility.

In the original board docket seeking approval for this transaction, the Board was advised that two financial pro-forma calculations of the revenues and costs were reviewed and, in both scenarios, the results indicated a break even or better operation. Additionally, the docket included the following statement of PSU management: “to the extent that the facility does not produce break-even results, the University would utilize other financial reserves available to cover any excess of expenses over revenues. At the end of 2002-03, unrestricted net assets were in excess of $20 million and with other changes being made in auxiliary operations we anticipate added financial capacity (up to $750,000/year) in the future.”

At last fiscal year end, the Doubletree facility, now named University Place, needed to transfer approximately $1.25 million into its bond sinking funds for funding its related debt service payments. University Place did not have available funds to make the transfer. Therefore, PSU utilized $1.25 million of E&G funds to make the required sinking fund transfer.

PSU Management Response:
Initially, it was planned that the [Doubletree] purchase would occur in January and that Boykin Lodging (the then owner) would lease back the space through May or June 2004. They would have paid rents equal to debt service payments and paid all operating costs. Instead the purchase of the Doubletree property occurred in March 2004. Boykin vacated the property the day of closing. PSU had very limited access to the property prior to closing. PSU then spent the next two months replacing systems (phone, software, internet, cable television), hiring staff, and contracting for food service. In addition, deep cleaning and repair and maintenance issues need to be addressed throughout the facility because this had not been done for some time.

Because the facility could not open for business until May 4th, there was a limited time to bring in any conference revenue for FY 2004 to be used to pay debt service. The first major educational conference was held on May 13th, which was a two-day event with catering, conference rooms, and overnight events. Additionally, May is not the time of the year to be offering new housing to students.

It was and is PSU’s intent that this facility be self-supporting. Due to the limited time frame for operations in FY 04 but the need to pay full debt service, we utilized these
financial reserves to cover the debt service. At this time, we do not intend to use E&G funds to cover debt service for UPL for FY 05.

Chancellor’s Office Analysis:
The Chancellor’s Office has asked PSU Management for updated financial statements and projections relative to the University Place operations for further review and analysis. The Chancellor’s Office will provide a status report on this review to the Board.

Staff Recommendation to the Board:
Subject to the report of Moss-Adams, LLP staff recommends that the Board accept the 2004 Annual Financial Report (Board action required.) For Review Procedures Subsequent to Fiscal Year End—PSU Transfer of E&G Funds, no Board action required.
2004 Audit Results
Report to the Oregon State Board of Higher Education
February 4, 2005

MOSS ADAMS LLP
September 30, 2004

Oregon Secretary of State Audits Division
Salem, Oregon

Oregon State Board of Higher Education
Eugene, Oregon

We are pleased to present the results of our audit of Oregon University System ("System") June 30, 2004, financial statements.

This report to the Oregon Secretary of State Audits Division and the Oregon State Board of Higher Education summarizes our audit, the scope of our engagement, and various analyses and observations related to Oregon University System's financial reporting. It also contains the audit committee communications required by our professional standards.

Our audit was designed to express an opinion on the 2004 financial statements and address current statutory and regulatory requirements. We considered the System's current business needs, along with an assessment of risks that could materially affect the financial statements, and we aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that you, the Oregon Secretary of State Audits Division and the Oregon State Board of Higher Education expect.

We received the full support and assistance of Oregon University System personnel. This report is intended solely for the information and use of the Oregon Secretary of State Audits Division, the Oregon State Board of Higher Education, and management, and it is not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

Mary Case
For Moss Adams LLP
September 30, 2004

Oregon Secretary of State Audits Division
Salem, Oregon

Oregon State Board of Higher Education
Eugene, Oregon

Auditor independence, in fact and appearance, is essential so that the public may justifiably perceive the audit process as an unbiased review of management’s presentation of financial information.

At least annually, we will disclose to the Oregon Secretary of State Audits Division the nature of all relationships between Moss Adams and Oregon University System that, in our professional judgment, may reasonably be thought to bear on our independence.

We are not aware of any relationships between our Firm and Oregon University System for the year ended June 30, 2004, and through the date of this letter, that may reasonably be thought to impact our independence. Accordingly, relating to our audit of the financial statements of Oregon University System as of and for the year ended June 30, 2004, we confirm we are independent with respect to the System within the meaning of Rule 101 of the American Institute of Certified Public Accountants’ Code of Professional Conduct, its interpretations and rulings.

This report is intended solely for the information and use of the Oregon Secretary of State Audits Division, Oregon State Board of Higher Education, management, and others within the System and should not be used for any other purpose.

Moss Adams LLP
Eugene, OR
# Moss Adams Team

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<thead>
<tr>
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<th>Contact Information</th>
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Required Communications to the Audit Committee

Statement on Auditing Standards No. 61, No. 90 and other professional standards require the auditor to provide the Audit Committee, or equivalent with additional information regarding the scope and results of the audit that may assist the Committee in overseeing management’s financial reporting and disclosure process. Below, we summarize these required communications.

<table>
<thead>
<tr>
<th>Required Communications</th>
<th>Findings</th>
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<tr>
<td>Auditor’s Responsibility Under Auditing Standards</td>
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<td>Generally Accepted in the United States of America,</td>
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<tr>
<td>the Single Audit Act, and Office of Management and</td>
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<tr>
<td>Budget Circular A-133</td>
<td></td>
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<tr>
<td>Our responsibility, as described by professional standards, is to plan and perform our</td>
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<tr>
<td>audit to obtain reasonable, but not absolute, assurance that the financial statements</td>
<td></td>
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<tr>
<td>are free of material misstatement.</td>
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<td>Because of the concept of reasonable assurance and</td>
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<td>because we did not perform a detailed examination of all</td>
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<td>transactions, there is a risk that material errors,</td>
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<td>fraud, or other illegal acts may exist and not be</td>
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<tr>
<td>detected by us.</td>
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</table>

In planning and performing our audit, we considered the System’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the System’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the System’s compliance with the types of compliance requirements described in the “U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement” applicable to each of its major federal programs for the purpose of expressing an opinion on the System’s compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the System’s compliance with those requirements.
## Required Communications (continued)

<table>
<thead>
<tr>
<th>Required Communications</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsibilities Under Generally Accepted Auditing Standards (GAAS)</td>
<td>We issued an unqualified opinion on the System’s financial statements for the year ended June 30, 2004.</td>
</tr>
</tbody>
</table>

  The financial statements are the responsibility of management. Our audits were designed in accordance with GAAS, which provides for reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. As a part of our audit, we obtained an understanding of internal control sufficient to plan our audits and to determine the nature, timing, and extent of testing performed.

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### Significant Accounting Policies and Appropriateness of Accounting Policies

The initial selection of and changes in significant accounting policies or their application, as well as any new accounting and reporting standards adopted during the year must be reported.

Management has the responsibility for selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in Note 1 to the financial statements. Throughout the course of an audit, we review changes, if any, to significant accounting policies or their application, and the initial selection and implementation of new policies. As described in Note 1, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units* as of June 30, 2004. This resulted in a change in the format and content of the basic financial statements by showing component units of the System in a discrete presentation.
Required Communications (continued)

Management Judgments and Accounting Estimates

The preparation of financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management’s expectations.

Management’s judgments and accounting estimates are based on knowledge and experience about past and current events and assumptions about future events. We apply audit procedures to management's estimates to ascertain whether the estimates are reasonable under the circumstances and do not materially misstate the financial statements. We believe management has selected and applied significant accounting policies appropriately and consistently with those of the prior year.

Significant management estimates impacting the financial statements include the following:

- The amount of the accumulated depreciation at June 30, 2004.
- The amount of compensated absence accrual at June 30, 2004.
- The allowance for doubtful accounts and notes receivable at June 30, 2004.

Significant Audit Adjustments

For the purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected expect through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the System’s financial reporting process (that is, cause future financial statements to be materially misstated).

We proposed no adjustments that, whether recorded or unrecorded by the System, either individually or in the aggregate, indicate matters that could have a significant effect on the System’s financial reporting process. In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Moss Adams concurs with management’s conclusion.

Disagreements with Management on Financial Accounting and Reporting Matters

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.
## Required Communications (continued)

<table>
<thead>
<tr>
<th>Required Communications</th>
<th>Findings</th>
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</thead>
<tbody>
<tr>
<td>Major Issues Discussed with Management Prior to our Retention</td>
<td>There were no major issues, including the application of accounting principles, auditing standards or financial reporting, that were discussed with management in connection with our retention as the System's independent accountants.</td>
</tr>
<tr>
<td>Consultation by Management with Other Accountants</td>
<td>None of which we are aware.</td>
</tr>
<tr>
<td>Serious Difficulties Encountered in Performing the Audit</td>
<td>No significant audit difficulties were encountered.</td>
</tr>
<tr>
<td>Material Errors or Fraud or Possible Material Illegal Acts</td>
<td>We are not aware of such matters.</td>
</tr>
<tr>
<td>GAAS requires us, within the inherent limitations of the auditing process, to plan our audit to search for errors or irregularities that would have a material effect on the financial statements.</td>
<td></td>
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<tr>
<td>Material Weaknesses in Internal Control</td>
<td>No material weaknesses were noted.</td>
</tr>
<tr>
<td>In planning and performing our audit, we considered the System’s internal control for the purposes of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control would not necessarily disclose all matters that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control element does not reduce, to a relatively low level, the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.</td>
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</table>
## CORRECTING ENTRIES

<table>
<thead>
<tr>
<th>Description (Nature) of Audit Difference</th>
<th>Statement of Net Assets</th>
<th>Statement of Revenues, Expenses &amp; Change in Net Assets</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Total Assets Dr (Cr)</td>
<td>Total Liabilities Dr (Cr)</td>
</tr>
<tr>
<td>Summer term deferred revenue</td>
<td>2,669,210</td>
<td>2,930,217</td>
</tr>
<tr>
<td>Understatement of unamortized bond discount</td>
<td>1,000,000</td>
<td>1,200,000</td>
</tr>
<tr>
<td><strong>Total Current Year Differences</strong></td>
<td><strong>3,669,210</strong></td>
<td><strong>4,130,217</strong></td>
</tr>
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</table>
2004 Audit Results
Report to the Oregon State
Board of Higher Education
February 4, 2005

Management Letter

MOSS ADAMS LLP
February 4, 2005

Oregon Secretary of State Audits Division
Salem, Oregon

Oregon State Board of Higher Education
Eugene, Oregon

In planning and performing our audit of the financial statements of Oregon University System for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. The attachment that accompanies this letter summarizes our comments and suggestions regarding those matters. We would like to mention that though these matters are not materially significant to the financial statements, they may be significant to the public and should be considered accordingly. This letter does not affect our report dated September 30, 2004, on the financial statements of Oregon University System.

We have discussed these comments with Oregon University System personnel, and would be pleased to discuss them in greater detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

This report is intended solely for the use of the Oregon Secretary of State Audits Division, the Oregon State Board of Higher Education, management and others within the System and is not intended and should not be used by anyone other than these specified parties.

Very truly yours,

Mary Case
For Moss Adams LLP
# Moss Adams Team

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Audit Findings and Recommendations

<table>
<thead>
<tr>
<th>Finding</th>
<th>Recommendation</th>
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<tbody>
<tr>
<td>System Wide</td>
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</table>

Optional Retirement Plan Structure

In the course of our audit, we noted a condition giving rise to potential conflicting interests. The Optional Retirement Plan has a Retirement Committee which consists of four members who are responsible for administration of the Plan and two trustees who have been designated to hold and maintain the assets of the Plan. The Controller of the Oregon University System is a trustee of the Plan. He is also the direct supervisor of the other trustee of the Plan. Furthermore, another employee, who is a member of the Retirement Committee, responsible for administering plan assets, reports to both trustees of the Plan. Due to his position as their supervisor, the Controller has the potential ability to influence the decisions of the other two employees engaged in managing the Plan. The second plan trustee also has the potential ability to influence the decisions of the third employee who is a member of the Retirement Committee.

Accounting Personnel Infrastructure

During our audit, it came to our attention that certain financial functions, have been transitioned from the Controller's Division to the individual institutions. It is also our understanding that an examination has been initiated that could result in a greater number of financial responsibilities being transitioned to the institutions. An infrastructure of appropriate financial personnel, in terms of education and experience, as well as staff size, is essential to a strong control environment.

We recommend OUS make a comprehensive review of staffing for the performance of central business functions at the institutions and at the Chancellor's Office. The purpose of this review would be to ensure that expertise is in place and that staff size is appropriate. This is particularly important as additional financial responsibilities are transitioned from the Chancellor's Office to the institutions.
Audit Findings and Recommendations

System Wide Cont.

Transition of Bank Reconciliation Functions

During our audit, we noted that the bank reconciliation functions for Portland State University and the University of Oregon were transitioned from the Controller's Division to the individual universities. We also noted from review of recent Board Minutes that the focus of the Chancellor's Office, including the Controller's Division, is intended to move away from a processing function (such as preparation of bank reconciliations) and towards an analytical function. The bank reconciliation functions and other processing functions currently being performed by the Controller's Division are critical controls that impact the accuracy of the OUS accounting records and its financial statements.

We found that the transition of bank reconciliation functions to PSU and UO was accompanied by:

- a comprehensive training program to ensure appropriate knowledge and understanding of bank reconciliations,
- consideration of proper segregation of duties, and
- a review function in place to ensure the bank reconciliations are reviewed and approved by a suitably skilled employee.

Internal Audit Staffing

Over the past few years, we have noticed the staffing levels within the Internal Audit Department have been declining. In addition, we have noted the number and scope of internal audits conducted has been reduced commensurate with the staffing levels.

We recommend the System, in coordination with the State Board of Higher Education, review the staffing levels within the Internal Audit Department to ensure they meet the needs of the System. A strong internal audit department can play a significant role in maintaining a proper internal control environment.
Audit Findings and Recommendations

<table>
<thead>
<tr>
<th>Finding</th>
<th>Recommendation</th>
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<tbody>
<tr>
<td>System Wide Cont.</td>
<td></td>
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<tr>
<td>Upgrading Accounting Software</td>
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<td>The Chancellor's Office uses Hyperion Enterprise accounting software to summarize the financial data of all seven institutions and the Chancellor's Office. The software is critical to preparing the annual financial statements, management reports to the Board, cash management, debt management, and other cost studies such as the &quot;cost per student&quot; study currently underway. OUS implemented the Hyperion Enterprise software in 1996. Although we commend OUS for its installation and use of Hyperion Enterprise software, there appear to be some shortcomings with the software on a go-forward basis. The software is limited to two dimensions, thereby requiring multiple databases to accommodate differing reporting needs. This results in database capacity issues and the need to continually reconcile the databases to each other. In addition, the Hyperion Enterprise databases are limited in access to the Chancellor's Office Controller's Division and are not accessible by university administrators. The Hyperion Enterprise databases are critical to providing the Board, Chancellor's Office and university administrators with consistent and accurate information. However, they are not ideal for transparent reporting because the information in the databases is not readily available to persons outside the Controller's Division.</td>
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<td>We recommend OUS consider the cost-benefit of making improvements to its existing Hyperion Enterprise installation by upgrading to Hyperion Financial Management (HFM) software. HFM provides for multiple dimensions, which could allow for one, rather than multiple, databases. Additionally, it is web-based, which would provide others with ready access to the System's financial data. As a result, the use of HFM could more easily facilitate communication and thereby further improve the transparency of OUS financial information.</td>
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Audit Findings and Recommendations

<table>
<thead>
<tr>
<th>Finding</th>
<th>Recommendation</th>
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<td>Portland State University</td>
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<td>Fixed Asset Reconciliation</td>
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<td>During our audit, the fixed asset records at Portland State University</td>
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<td>were not complete and fully reconciled when we started our audit</td>
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<td>fieldwork. The Controller’s Division spent significant time and</td>
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<td>resources to help Portland State University complete and reconcile</td>
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<td>its fixed asset records to the Banner general ledger balances.</td>
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<td>If it our understanding Portland State University had recently lost</td>
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<td>several accounting positions which impacted this situation.</td>
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<td>We recommend the University ensure that a periodic reconciliation is</td>
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<td>made between the fixed asset records and the general ledger. This</td>
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<td>will help reduce level of effort and consumption of resources in the</td>
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<td>future should a similar situation arise. It will also help augment</td>
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<td>the University’s existing control activities.</td>
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Unofficial withdrawals

In relation to unofficial withdrawals the Code of Federal Regulations (CFR) states that the school must determine the withdrawal date within 30 calendar days from the earlier of 1) the end of the payment period or period of enrollment, 2) the end of the academic year; or 3) the end of the student’s educational program. It was noted at Portland State University that once grades are posted, they are reviewed and letters are sent out to students who withdrew unofficially, asking them to prove attendance. The students are given 30 days to respond. If there is no response, 100% of the student’s financial aid received is then returned to the US Department of Education. The timing of return of these funds may exceed the 30 day requirement of the US Department of Education.

While there is a policy in place to evaluate unofficial withdrawals, we recommend the timeframe on the letters to the students be shortened to ensure that the return of Title IV funds is done in a timely manner.
Audit Findings and Recommendations

Oregon State University

Unofficial withdrawals

In relation to unofficial withdrawals, the Code of Federal Regulations (CFR) states that the school must determine the withdrawal date within 30 calendar days from the earlier of 1) the end of the payment period or period of enrollment, 2) the end of the academic year, or 3) the end of the student’s educational program. It was noted at Oregon State University that once grades are posted they are reviewed and letters are sent out to students who withdrew unofficially, asking them to prove attendance. Students are given 30 days to respond. After that 30 day window the University continues to track the student and tries other methods of contacting the student but will hold off on calculating the return of Title IV funds until they have communicated with the student and the withdrawal date is determined. The timing of return of these funds may exceed the 30 day requirement of the US Department of Education.

While there is a policy in place to evaluate unofficial withdrawals, we recommend the timeframe on the letters to the students be shortened to ensure that the return of Title IV funds is done in a timely manner.

Official withdrawals

When a student officially withdraws from an institution, that institution then has 30 days to perform a return of Title IV fund calculation and transmit funds back to the Department of Education. Typically the student withdraws in the Registrar’s office and the return of Title IV funds is calculated in the Financial Aid office. There were two instances noted during the audit, wherein a student officially withdrew, but the return of Title IV calculation and return of funds was done after the 30 day window.

While there is a policy in place to review official withdrawals within the Financial Aid department, we recommend increased communication between the Financial Aid and Registrar’s offices. Increased communication, or revision to current policy, would reduce the possibility of federal funds not being returned timely for students who officially withdraw from the University.
Subject: Management Letter Resulting From FY 2004 Financial Statement and OMB Circular A-133 Audit

Thank you for the observations and recommendations in the management letter that resulted from the FY 2004 financial statements and OMB Circular A-133 audit. We recognize that the observations and recommendations are all part of the ongoing effort to continually improve the accounting and financial reporting of the Oregon University System and to ensure that our administration of Federal grants and contracts is in compliance with applicable OMB Circulars. The following responses are to the observations and recommendations noted in the management letter.

Systemwide Observations and Recommendations
Chancellor’s Office – Controller’s Division

Optional Retirement Plan Structure
Management concurs with the observation and recommendation. Before close of fiscal year 2005 we will compare the composition of the ORP Retirement Committee to the OUS organization structure for any real or perceived conflicts of interest. As a result of that review, we will make recommendations to the State Board of Higher Education.

Accounting Personnel Infrastructure
Management concurs with the observation and recommendation. Significant cuts have occurred within the Chancellor’s Office without corresponding increases in the administrative resources at the institutions. The role of the Controller’s Division has changed and its staff been reduced. We do not have the assurance that all the institutions have sufficient...
administrative resources to be able to absorb accounting functions currently performed by the Controller’s Division. In addition, some of the accounting and monitoring functions, by their nature, must be performed by some form of a centralized office. The Chancellor’s Office is in the process of recruiting for a new Vice Chancellor for Finance and Administration and reviewing its financial and administrative functions, including those performed by the Controller’s Division and the Budget Division. The review should be completed by June 30, 2005. Recommendations for resource adjustments will be made to the State Board of Higher Education, if warranted and if resources are available.

Transition of Bank Reconciliation Functions

Management concurs with the observation and recommendation. The Controller’s Division has taken steps and has been very careful in the plans for transitioning functions from the Controller’s Division to the institutions. We recognize that the transitioning of any functions still requires that critical controls be designed within those processes, and that the critical controls be performed and monitored on an ongoing basis.

Internal Audit Staffing

Management concurs with the observation and recommendation. An updated OUS Internal Audit Charter was reviewed and approved by the Board in September 2004. A review of Internal Audit staffing will be included in the Board Docket for 2005.

Upgrading Accounting Software

Management concurs with the observation and recommendation. We agree that upgrading to Hyperion Financial Management (HFM) would allow us to provide for one database instead of multiple databases, and increase the transparency of OUS financial data. With the Chancellor’s Office support, the Controller’s Division will, by June 30, 2005, prepare a cost-proposal for making improvements to the existing Hyperion Enterprise installation. This will be presented to presidents, the chancellor, and, if appropriate, the State Board of Higher Education.

University-Specific Observations and Recommendations

OUS management concurs with the observations and recommendations pertaining to specific OUS universities. Responses from the individual universities follow:

Portland State University:

Fixed Asset Reconciliation

We concur with this observation. Accounting for real property was transferred from the Chancellor’s Office to PSU in late April of 2004. The two key staff responsible for fixed assets terminated employment in the Business Office shortly after the conversion. Although replacement staff were hired prior to year-end, there was insufficient time to train them to
ensure a full reconciliation prior to the year-end closing deadline. Both the institution and the Chancellor’s Office were aware that fixed assets at PSU would not be fully reconciled prior to year-end closing, and that subsequent adjusting entries would be necessary. Completion of these entries did not occur until late August/early September due to availability of Chancellor’s Office staff.

PSU worked closely with Chancellor’s Office staff to ensure this was an isolated event. Following year-end closing fixed assets were fully reconciled, key personnel were trained, and procedures for fixed asset administration were developed and implemented. The new procedures required that fixed assets be reconciled on a monthly basis, and reconciliations for fiscal year 2004-05 are current.

Unofficial withdrawals

Response: We concur with this observation. Portland State University is in the process of reviewing business processes related to the administration of Federal Title IV assistance. This review includes the procedure used to determine unofficial withdrawals and subsequent required follow up and resolution. The university will take into consideration the above recommendation when revising procedures as a result of this review.

Oregon State University:

Unofficial withdrawals

We agree with the recommendation and note that the timeline for student and faculty responses regarding last date of attendance was shortened for winter and spring terms in 2003-04 to ensure timely return of Title IV funds. This practice is in place for 2004-05 as well. Additionally, if a student does not respond by the requested date, the 50% point of the term is used for calculating the return of Title IV funds.

Official withdrawals

We agree with the recommendation and are receiving a report from the Registrar’s Office which has increased the frequency and timeliness of communication between the Registrar’s Office and the Office of Financial Aid and Scholarships.

Thanks again for the opportunity to respond to the observations and recommendations. Should you have any questions or concerns regarding the above management responses, please let me know.

Sincerely,

George Pernsteiner
Acting Chancellor
BOARD DISCUSSION AND ACTION:

Director Lorenzen turned to OUS Controller Michael Green to discuss the 2004 Annual Financial Report. Before turning the discussion over to the Secretary of State Audits Division, Green mentioned that he would briefly review four items within the financial statements: major changes to the financial statements, comparative financial analysis, key ratio analysis, and review procedures subsequent to the end of the fiscal year.

Green noted the major change in the financial statement was the implementation of Governmental Accounting Standards Board (GASB) Standard 39. It required the inclusion of the university foundation financial information as a separate component unit of financial statements. Although Green reminded the Committee that foundations are legally separate, Chair Blair asked what the Board's reporting responsibility was considering it did not control the foundations. Chair Blair reiterated his questions and asked OUS General Counsel Ben Rawlins for comment. Rawlins noted the relationship between the foundations and the OUS institutions and acknowledged the scope of the reporting relationship was not clear. He noted the responsibility was to report the foundation's financial information. Director von Schlegell echoed Chair Blair's question and Chair Blair asked Rawlins to report back on his interpretation of the standard.

Green observed the financial analysis of the report and turned the Committee's attention to the financial highlights sheet of the report. Chair Blair asked Green if the numbers were consistent with the summary report from the fall and Green replied, with audit adjustments, they were. Green turned to the statement of net assets and observed increased cash balances, accounts payable, deposits, and deferred revenue. He continued with the increase in securities lending, noting the state, and not OUS, controls that activity. Director von Schlegell asked for clarification and Green noted the Oregon State Treasury makes the decisions for the short-term investment pool. Director von Schlegell asked how much money was in the fund and Green continued by noting OUS did receive some interest on some funds, but there were significant cash balances, perhaps $50 million, on which OUS did not receive interest.

Green turned to the statement of revenues, expenses, and changes in net assets, observing expenses remained relatively flat and that the resulting operating loss was expected due to the GASB requirement to classify state appropriations as non-operating. He continued with cash flow statements, noting gifts and private contracts increased and revenues decreased due to deferral of revenue. Chair Blair asked if Green was concerned about the decline in net assets from OIT, SOU, and WOU. Green replied it was due primarily to construction spend-down. Chair Blair clarified his question and Green replied he would look into it.

Green turned next to the ratio analysis. He observed many other entities were exploring how to do ratio analysis in the higher education context and noted four essential ratios: primary reserve ratio, return on net assets ratio, net operating revenues ratio, and viability ratio. Green started with the primary reserve ratio and noted it attempted to answer the question whether there were resources sufficient to support the mission. It is
calculated, he observed, by figuring expendable net assets over total expenses. Director von Schlegell asked if it was similar to a current ratio and Green noted it was more like a fund balance ratio. Green observed the three-year average indicated adequate reserves and Director von Schlegell asked Green when he would have campus-by-campus numbers. Director Lorenzen observed the relationship between this ratio and the fund balance policy and Green noted the ratio was a broader measure. Director von Schlegell reiterated that the measure would be more valuable at the campus level and Chair Blair questioned if the Systemwide application of the ratio was useful. Green mentioned the need to add narrative.

Green continued with an explanation of the second ratio: the return on net assets ratio. He observed the ratio was intended to answer whether financial asset performance supported strategic direction, calculated with change in net assets over total net assets. Green noted the three-year average return on net assets indicated return better than inflation and growth of the asset base in real dollars and that averages over time will be more important. Director von Schlegell asked Green the extent to which OUS is responsible for the investment return and Chair Blair clarified that investment return was a misnomer because the ratio simply measured growth of assets as a percent of the base.

Green proceeded with the third ratio—net operating revenue—and described it as net operating revenues over total revenues with the objective of measuring whether the institution is living within available resources. Green noted the three-year average showed improvement primarily due to expense reductions resulting from budget uncertainties. Chair Blair asked why the denominator of the ratio was total revenues as opposed to total expenditures and Green replied it was an attempt to recognize the volatility of the revenue stream. Chair Blair asked questions about the percentage calculations and Green explained adjustments, including recognition that some non-operating revenues are actually operating revenues. Chair Blair asked for additional information and education on this ratio and Director von Schlegell echoed the sentiment and noted the need for more discussion on how ratios are presented.

Green concluded with the fourth ratio of viability. He noted it measured whether debt is managed strategically to manage the mission, calculated with expendable net assets over long-term debt. Green observed a relatively low level of leverage because the increase in long-term debt was outpacing the growth in expendable net assets. Director Lorenzen asked for clarification on the definition of expendable net assets and long-term debt. Director Lorenzen asked what the ratio told the Committee and Green summarized it told how much debt could be paid off if operations stopped. He also observed the reason long-term debt was outpacing expendable net assets was because the System does 100 percent financing. Green asked the Committee if further work was necessary on the ratios based on comments during the meeting. Chair Blair added that another approach that might be useful is to define metrics with a more granular approach that would only surface exceptions. Green echoed his intention to get the ratios down to the campus level and Director von Schlegell noted it would be useful.
Director Lorenzen turned attention to Portland State University's purchase of the Doubletree. He noted the purchase was made under a set of assumptions and the assumptions did not come to fruition. Director Lorenzen added, when matters are approved by the Board with underlying assumptions, it is important to update the Board when the assumptions do not come to fruition. President Bernstine apologized and offered continued work with campus officers. Chair Blair asked President Bernstine how much of the shortfall was due to lower income and how much was due to higher expenses from renovation and refurbishment. Interim Vice President Cathy Dyck offered the year of debt service was the primary problem. Chair Blair asked if the cash requirements to refurbish the facility were consistent with expectations. Vice President Dyck reiterated the primary problem was the debt service obligation, noting the OUS policy to put a year's worth of debt service away. Director Lorenzen asked the variance between what it cost to refurbish the facility and the anticipated cost to do so. Vice President Dyck noted the estimated cost of refurbishment was $250,000 to $300,000 and that, at this point, the refurbishment has cost approximately $750,000. Director Lorenzen inquired about the financial impact of restructuring the deal and, in light of Vice President Dyck's discussion of the debt service, clarified he was asking about the income side. Vice President Dyck replied PSU received approximately $1.2 million less due to lost rent and the assumption of operation expenses.

Green added that the OUS received a gold star certification for excellence in financial reporting for the fiscal year ending June 30, 2004. Director Lorenzen commended the Controller's Division. Green turned the floor over to the Secretary of State's Audits Division and the external auditors from Moss Adams.

Nancy Young of the Secretary of State's Office (SOS) explained the SOS was the constitutional auditor of public accounts and it had contracted with Moss Adams to conduct the OUS financial audit. She introduced partner Mary Case and senior audit manager Scott Simpson.

Ms. Case started with a review of the GASB Standard 39 discussion, noting GASB can compel reporting standards, but could not dictate legal responsibility. She acknowledged the positive efforts to coordinate reporting and information for the financial statement audit. Case observed more interpretation on GASB Standard 39 would come and that OUS Controller Green should be commended for bringing ratio analysis to the table. Director Lorenzen asked if there was a national database to compare ratio results and Case replied that it was not well developed at this point. Case outlined that the SOS contracted with Moss Adams to conduct the financial statement audit and two major compliance audits. She noted the compliance audits of student financial aid and research and development are conducted every other year. Case and Young both explained the process and legwork completed in order to move forward with the audits. Case specifically observed the consideration of fraud in a financial statement audit, explaining the brainstorming sessions and process used to comply with Statement on Auditing Standards #99. After all process and fieldwork, Case noted that Moss Adams issued two reports: an opinion on the fairness of financial statements and a report on the internal control and compliance under government auditing standards.
She noted if there were reportable conditions or material weaknesses, they would be addressed in the report. Case offered there were no material weaknesses. Chair Blair asked if there were any significant deficiencies and Case replied there were none, although there were a few issues included as management letter comments. Chair Blair asked about the standard for significant deficiency in a material weakness and the comparison between governmental and private entities. Case mentioned that standards for governmental entities might be stricter than private entities because of accountability. Chair Blair observed the letter regarding internal controls, but nothing in the bound version regarding internal controls. Young noted that there was nothing that rose to the level of being included in the statewide report "Internal Control and Compliance."

Ms. Case turned next to the required communications. She noted the cover letter outlining the audit process and the letter outlining their independence from OUS. Case reviewed the required communications, including discussion of who is responsible for what in the audit, outline of management’s responsibilities, accounting estimates, significant accounting adjustments, and disagreements on financial accounting and reporting matters, of which there were none. Case also noted that no issues were discussed with management prior to retention and that no other accountants were consulted by management over the course of the audit. Case concluded the required communications by noting there were no material errors, fraud, material illegal acts, or material weaknesses in internal control.

Case proceeded with a review of the management letter. She started with the Systemwide observations, first observing a potential conflict of interest regarding the administration of the Optional Retirement Plan. Chair Blair asked for clarification regarding the potential exposure and Case explained it was mostly a perception regarding the reporting structure among those responsible for administering the Optional Retirement Plan. Chair Blair asked why it took four months to develop a recommendation to fix the segregation of duties issue and Green replied OUS needed to understand the rules and where it could turn to identify a resource to fix the problem. Chair Blair stressed the need to move on the request with all possible speed. Young added that the SOS felt the OUS response time and questions were appropriate. Case noted the OUS response and continued with her discussion of accounting personnel infrastructure and transition of bank reconciliations. She stressed the importance of strong accounting skills and policies in an environment of increasing decentralization. Chair Blair replied that even in the environment of decentralization, it was never the intention to create seven separate systems of procedures or infrastructure. He stressed that the move to increased accountability would be undermined without strong internal controls. Chair Blair stated that he felt the Chancellor’s Office should not lose the ability to ensure a strong system of internal control. Young noted that the scope of the audit would change if there were indeed seven separate procedural systems. Director Lorenzen added it might be necessary to get some of the Chancellor’s Office reorganization savings back in order to augment these efforts.
Case continued with internal audit staffing and observed the importance of strong financial support and adequate size. Case concluded with observations on accounting software. She suggested an upgrade to enhance System efficiency and effectiveness, and made specific comments regarding individual institutions, including fixed asset records at Portland State University and unofficial withdrawals at Portland State University and Oregon State University.

Case ended with additional information regarding new accounting standards. She noted GASB Standard 40 that relates to disclosures about investment risk, credit risk, concentrations of credit risk, interest rate risk, and foreign currency risk. Young added that the OUS Financial Statements are rolled into the Consolidated Annual Financial Report. Young clarified discussions of the federal program review and commended OUS Controller Green for the work created by GASB Standard 39. Chair Blair and Director Lorenzen commended the auditors for their work.

Director Lorenzen called for motion to accept the annual financial report and audit report. Director von Schlegell moved acceptance of the annual financial report and audit report and Chair Blair seconded the motion. All in favor: Lorenzen, Von Schlegell, and Blair. Opposed: none. Motion passed.

b. Real Property, Facility, and Campus Planning: Amendment to OAR 580-050-0001; Temporary Adoption of Rules related to Contract Administration (Roll call vote)

DOCKET:

Staff Report to the Board:
Oregon Administrative Rules 580-050-001 through 580-050-0100 contain the governing rules implementing OUS authority for competitively procuring construction contracts and related services. These rules were last amended in 1996. In June 2004, staff proposed extensive revision and the Board approved temporary rules. Subsequent analysis by staff, university attorneys and questions from the Board led to a decision to permit the temporary rules to lapse and to initiate a more thorough examination of construction processes. That examination is underway.

The current rules represent minimal, but crucial changes deemed essential for the administration of construction until the more extensive examination is complete. These temporary rules will also add the new ability to consider facsimile and electronic offers and to authorize a campus to negotiate when offers exceed cost estimates.

Changes to Current Rules:
580-050-0000 – Provides definition of terms used throughout Division 50.
580-050-0020(2) – Extends renewal of retainer agreements from one to two years.
580-050-0020(3) – Increases from $25,000 to $75,000 authority for the vice chancellor for finance and administration (VCFA) or designee to award contracts to consultants on
retainer list; allows VCFA to award contracts between $75,000 and $200,000 to consultants pursuant to specified procedure; and for contracts over $200,000, permits award after competitive bidding.

580-050-0032 – Increases maximum amount under retainer agreement to $500,000.

**New Sections:**
580-050-0350 – Permits negotiation when offer exceeds cost estimates.
580-050-0360 – Permits offers by facsimile and electronic means.

**Recommendation to the Board:**
Staff recommends the Board approve amendments to OAR 580-050-0001 through 580-050-0100 as described above and approve 580-050-0350 and 580-050-360 (as cited above), all as temporary rules.

**(Board action required.)**

580-050-0000

**Definitions**
All capitalized terms in chapter 580, division 50 have the meanings set forth below, unless otherwise defined in the chapter 580, division 50 rules.

(1) **Construction Trade Services:** Construction services that are not personal services on projects that are not Public Improvements.
(2) **Consultants:** Architects, engineers, planners, land surveyors, appraisers, managers and related professional consultants.
(3) **Electronic Offer:** An Offer made by an Offeror in response to an Institution’s Solicitation Document posted on its procurement website.
(4) **Emergency:** Circumstances that were not foreseen that create a substantial risk of loss, damage, interruption of services or threat to the public health or safety that require prompt execution of a Contract to remedy the condition.
(5) **Entity:** A natural person capable of being legally bound, sole proprietorship, corporation, partnership, limited liability company or partnership, limited partnership, profit or nonprofit unincorporated association, business trust, two or more persons having a joint or common economic interest, or any other person with legal capacity to contract, or a government or governmental subdivision.
(6) **Institution:** One of the universities that is part of the Oregon University System, including the Board’s Chancellor’s Office.
(7) **Institution Facilities Planning Official:** The Vice Chancellor or, pursuant to OAR 580-050-0032(1) and (2), designee at an Institution with the authority to enter into Contracts.
(8) **Invitation to Bid or ITB:** A Solicitation Document calling for Bids.
(9) **Offer:** A Bid or Proposal as applicable.
(10) **Offeror:** A Bidder or Proposer as applicable.
(11) **Proposal:** A competitive Offer submitted in response to a Request for Proposals or a request from an Institution Facilities Planning Official to respond to a proposed assignment under OAR 580-050-0020(3)(b) or (c).
(12) Public Improvement: Projects for construction, reconstruction or major renovation on real property by or for an Institution where the Contract Price exceeds $25,000, other than projects for which no funds of a public agency are directly or indirectly used except for participation that is incidental or related primarily to project design or inspection. "Public Improvement" does not include Emergency work, minor alteration, ordinary repair or maintenance necessary in order to preserve a Public Improvement or projects where the total Contract Price is less than $25,000.

(13) Request for Proposals or RFP: A Solicitation Document calling for Proposals.

(14) Request for Qualification or RFQ: A Written document that: (a) Provides a general description of a proposed project; (b) Indicates the type of Consultant services needed, including, if deemed necessary or appropriate, a description of the particular services needed for part or all of a proposed project or projects; and (c) Requests each prospective Offeror to provide a Written response setting forth the Offeror's specific experience and qualifications of performing the type of services required.

(15) Signed, Sign, or Signature: Any mark, word or symbol executed or adopted by a person on behalf of an Entity evidencing an intent to be bound.

(16) Solicitation Document: An Invitation to Bid or Request for Proposals or Request for Qualifications including all documents incorporated by reference.

(17) Specification: Any description of the physical or functional characteristics, or of the nature of a supply, service or construction item, including any requirement for inspecting, testing, or preparing a supply, service, or construction item for delivery and the quantities or qualities of materials to be furnished under the Contract. Specifications generally will state the result to be obtained and may, on occasion, describe the method and manner of doing the Work to be performed.

(18) Written or Writing: Conventional paper documents, either manuscript or printed, in contrast to spoken words. It also includes electronic transmissions or Facsimile documents when required by applicable law, or to the extent permitted by the Solicitation Document or Contract.

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Capital Construction
580-050-0020
Appointment of Professional Consultants

The Vice Chancellor for Finance and Administration or designee is authorized to select and employ architects, engineers, planners and related professional consultants (collectively called "[c]Consultants" in this rule) energy management, [construction,] construction management, facilities planning, [improvements, repairs, deferred maintenance,] technical services and related activities in accordance with the following standards and procedures:

(1) General Standards; Selection Factors. The purposes of this rule are to assure that [c]Consultants are considered fairly for professional service [c]Contracts; that those selected will be highly qualified; and to encourage excellence and cost consciousness on the part of [c]Consultants. The following factors shall be considered in evaluating and selecting [c]Consultants:
(a) Experience, design talent and technical competence, including an indication of the planning process expected to be used in the work;
(b) Capacity and capability to perform the work, including any specialized services within the time limitation set for the work;
(c) Past record of performance on contracts with governmental agencies and private owners with respect to such factors as cost control, quality of work, ability to meet schedules and contract administration;
(d) Availability to and familiarity with the area in which the work is located, including knowledge of design and construction techniques peculiar to the area;
(e) Proposed cost management techniques to be employed; and
(f) Ability to communicate effectively.

(2) **Procurement of Consultant Services Under Retainer Agreements.**

(a) At least biennially, in a trade periodical or an Oregon newspaper of general circulation, **or on the Oregon University System's procurement website**, and in at least one trade periodical or newspaper geared towards minority, women and emerging small businesses, the Vice Chancellor for Finance and Administration or designee shall publish a notice stating in substance that copies of this rule may be obtained from the Office of Finance and Administration and that consultants are invited to submit qualifications to the Vice Chancellor for Finance and Administration or designee for consideration. The Vice Chancellor for Finance and Administration or designee shall also provide a copy of the above notice to the Office of Minority, Women and Emerging Small Business. A list of the names and addresses of the institution facilities planning official(s) designated by the institution president shall be provided to any consultant upon request.

[(3) Retainer Agreements:]  

(a) Following the procedures set out in section (2)(a) of this rule, the Vice Chancellor for Finance and Administration or designee will prepare a list of potential consultants. An institution that wishes to enter into retainer agreements may convene a committee as described in paragraph (4)(d)(C) of this rule. Such committee shall review the list prepared by the Vice Chancellor for Finance and Administration or designee and any of the consultants who have expressed an interest and will select consultants who appear to have the qualifications for and interest in performing professional services for the institution. The Institution Facilities Official shall recommend to the Vice Chancellor for Finance and Administration or designee the selected consultants.

(b) Each selected consultant shall be invited to enter into a retainer agreement for a two-year period with the option to extend for an additional two-year term, utilizing a form of agreement approved by the Vice Chancellor for Finance and Administration. Services of the selected consultants shall be available to all institutions requiring such services upon request of any institution. The Office of Finance and Administration, on its own initiative, may enter into interagency agreements to permit other public agencies to utilize the services of consultants selected for retainer agreements pursuant to this subsection.
(d) Each institution facilities planning official will maintain a current roster of all consultants chosen for institutional retainer agreements by all institutions as well as a roster of retainer agreements entered into by the Office of Finance and Administration.

(e) The names of interested consultants not selected under subsection (b) of this rule shall be maintained on a current roster and provided to the institution facilities planning official at each institution.

(3) Contracting for General Procurement of Consultant Services: The procedures to be followed when contracting for professional consulting services will depend upon a combination of factors including the total anticipated fee and whether or not the consultant has entered into a retainer agreement pursuant to section (2) of this rule.

(a) For professional services contracts where the anticipated professional fee, including consultant fees and reimbursable expenses and all amendments and supplements, is $75,000 or less, the Vice Chancellor for Finance and Administration or designee may authorize an appropriate institution facilities planning official to contract for such professional services with any consultant selected in subsection (a) or (b) of this rule or such other consultant as the institution facilities planning official may choose who appears to have the qualifications for and interest in the proposed assignment.

(b) For professional service contracts involving an anticipated professional fee, including consultant fees and reimbursable expenses and including amendments and supplements, between $75,001 and $200,000 or in an emergency situation the Vice Chancellor for Finance and Administration or designee may authorize the institution facilities planning official to select a consultant to perform the needed services using the following procedure:

(A) select a consultant:

(1) from those on retainer who appear to have the qualifications for and interest in the assignment; or

(2) select at least three consultants not on a retainer agreement who appear to have the qualifications for and interest in the proposed assignment and invite each consultant to submit a written proposal;

(B) The institution facilities planning official shall negotiate a contract with the selected consultant, and if a mutually satisfactory contract cannot be agreed to, the institution facilities planning official may select another consultant from the recommended consultants and enter into contract negotiations.

(c) For professional service contracts with an anticipated professional fee, including consultant fees and reimbursable expenses over $200,001, except in emergency situations, the institution facilities planning official shall select consultants for consideration using the following procedure:

(A) Announcement: The institution facilities planning official will give notice of intent to contract for professional services in a trade periodical, or newspaper of general circulation, or on the institution's procurement website and in at least one trade periodical or newspaper geared towards minority, women and emerging small businesses. The notice shall include a description of the proposed project, the scope of services, and the qualifications desired for the consultant.

(B) Response: Consultants will submit proposals in response to the announcement. The institution facilities planning official will evaluate the proposals and select the consultant or consultants to be invited to participate in the negotiations.

(C) Negotiations: The institution facilities planning official will negotiate a contract with the selected consultant. If a mutually satisfactory contract cannot be agreed to, the institution facilities planning official may select another consultant from the recommended consultants and enter into contract negotiations.
the services required, and a description of special requirements, if any. The notice will invite qualified prospective [c]Consultants to apply. The notice will specify where the [s]Solicitation [d]Document may be obtained and the [c]Closing [date]. The [i]Institution [f]Facilities [p]Planning [o]Official shall also provide a copy of the above notice of intent to the Office of Minority, Women and Emerging Small Business.
(B) Application: The application or [c]Consultant's qualification must include a statement that describes the prospective [c]Consultant's credentials, performance data and other information sufficient to establish the [c]Consultant's qualification for the project, as well as any other information requested in the announcement.
(C) Initial Screening: The [i]Institution [f]Facilities [p]Planning [o]Official shall appoint a [c]Consultant screening committee consisting of no fewer than two individuals to review, score, and rank the [c]Consultants according to the solicitation criteria. The [c]Consultant screening committee will evaluate the qualifications of all applicants and select [no fewer than five] prospective [c]Consultants whose applications demonstrate that the selected [c]Consultants can best fulfill the provisions of section (1) of this rule.
(D) The Final Selection Procedure:
(i) Interviews: Following screening and evaluation, the [i]Institution [f]Facilities [p]Planning [o]Official and [c]Consultant screening committee will invite to interview, in person, [a minimum of five] finalists selected from the initial screening.
(ii) Award of Contracts: The [i]Institution [f]Facilities [p]Planning [o]Official will make the final selection based on such factors as applicant capability, experience, project approach and references; recommend the [c]Consultant to the president or designee; and notify the selected [c]Consultant of such selection.
((54) Following selection of a consultant, a report of all appointments under subsections (4)(a), (4)(b), and (4)(d) of this rule shall be made to the Board through the Vice Chancellor for Finance and Administration.
((65) The president or designee of the[i]Institution may execute amendments, modifications or supplements to executed professional service [c]Contracts within the scope of the original [c]Contract and the limits prescribed in this rule.
((76) Any [c]Consultant who has submitted a [p]Proposal as outlined in subsections ((3)2)(a)(b), ((4)3)(a), ((4)3)(d)(c) of this rule and claims to have been adversely affected or aggrieved by the selection of a competing [c]Consultant, and unless a different deadline is specified in the notice of intent to contract for professional services, shall:
(a) Have seven (7) calendar days after receiving notice of selection to submit a [w]Written protest of the selection to the [i]Institution [f]Facilities [p]Planning [o]Official. The [i]Institution [f]Facilities [p]Planning [o]Official shall not consider a selection protest submitted after the time period provided in this subsection, unless a different deadline is provided in the notice of intent to contract.
(b) The [i]Institution [f]Facilities [p]Planning [o]Official, in consultation with the Vice Chancellor for Finance and Administration or designee, shall have the authority to settle or resolve a [w]Written protest submitted in accordance with this rule. The [i]Institution
Facilities Planning Official shall respond to the protesting consultant within ten days of receipt of such written protest.

(c) Judicial review of the disposition of a written protest submitted in accordance with subsection (7)(a) of this rule may be available pursuant to the provisions of ORS 183.484.

580-050-0032
Contracts for Repairs and Public Improvements

(1) The Vice Chancellor for Finance and Administration, or designee shall be the contracting officer. All Contracts for the repair of facilities or for Public Improvements shall be awarded and executed by the contracting officer unless delegated by the contracting officer.

(2) The contracting officer may delegate, through the Institution president, to a specific person at each college and university the authority to execute Contracts for the repair and improvement of facilities, provided that all applicable laws and rules are fulfilled. The Institution president may, by written agreement with the president of another Institution, subject to this rule, transfer such delegation to a person at such other Institution. A copy of each such Contract must be filed with the contracting officer or designee who may audit the project and the contracting process.

(3) The contracting officer or designee shall award Contracts valued at $25,000 or more for the repair and improvement of facilities to the lowest bidder or best proposer pursuant to appropriate competitive processes, including competitive bids, design/build competitions and negotiated procurements utilizing Requests for Proposals, including agreement for construction manager/general contractor. Criteria for award shall include price and any other factors as the contracting officer or designee deems appropriate, including, but not limited to, past performance of the Contractor, experience of the Contractor and the Contractor’s management team on projects of similar size and scope, the Contractor’s reputation for quality and timely completion of projects, the Contractor’s business and project management practices, the Contractor’s demonstrated commitment to affirmative action, the Contractor’s willingness to agree to the Contract terms proposed by the contracting officer or designee and the Contractor’s ability to post an appropriate bond. The contracting officer or designee shall maintain appropriate records of the competitive process utilized for each Contract. The president of each college and university shall determine the procedures to be used for the award of Contracts valued at less than $25,000 for the repair and improvement of facilities.

(4) The contracting officer or designee may enter into retainer agreements with Contractors using appropriate competitive procedures that take into account, at a minimum, the qualification and reputation of the Contractors, price structure, ability and willingness to respond to requests from one or more colleges and universities, location and such other factors as the contracting officer or designee shall deem appropriate. The contracting officer or designee may utilize the services of Contractors under retainer agreement for projects whose Contract price is less than the maximum established by the Board of Higher Education in its budget or $500,000, whichever is greater.
(a) Supplements to the retainer agreement, describing the scope of the specific work and price for which it will be performed, must be executed prior to the commencement of work by a [constructor].

(b) Supplements having a [contract price] of $25,000 or less shall not be subject to the provisions of section (6) of this rule. However, projects may not be divided into more than one supplement to avoid the application of section (6).

(c) The contracting officer or designee shall maintain appropriate records of the competitive process used to select a [constructor] from the list of [contractors] with current retainer agreements in force at the time the selection is made and the supplement is issued.

(d) The contracting officer or designee should solicit prices from at least two [contractors] under the retainer agreement, or document in the contracting file the reason for not doing so.

(5) The [institution president] may declare an [emergency] when he or she deems such a declaration appropriate. The reasons for the declaration shall be filed with the Vice Chancellor for Finance and Administration or designee and shall include justification for the use of any sole source or negotiated procurements for repairs and improvements within the scope of the [emergency] declaration. Upon the declaration, the contracting officer or designee may negotiate a [contract] with any qualified [constructor] for repairs or improvements included in the scope of the declaration. The contracting officer or designee shall maintain appropriate records of negotiations carried out as part of the contracting process.

(6) All [public improvement] contracts shall require [contractors] to pay and [contractors] shall pay, at least the rate of wage for labor determined by the Bureau of Labor and Industries to be the rate of wage for an hour's work in the same trade or occupation in the locality where such labor is performed for work performed under the [contract]. A public improvement contract is defined as any contract in excess of $25,000 for the construction or improvement of facilities. The $25,000 amount may be adjusted annually by the Vice Chancellor for Finance and Administration based upon the change in the building index for Portland, Oregon published in the Engineering News Record or successor publication. The contracting officer or designee may require any [constructor] to pay an amount to the Bureau of Labor and Industries to help defray costs of determining and administering prevailing wages. The method of determining any such charge shall be described in the [solicitation] for the project.

(7) No [contract] shall be awarded to any [constructor] who is not licensed to do business in the State of Oregon.

(8) The contracting officer or designee may require [bidders] and [contractors] to post and maintain such bonds as the contracting officer or designee decides is appropriate. Requirements related to the posting, form, maintenance and return shall be included in solicitations and requests for bids and proposals.

(9) All [contractors] shall maintain in force at all times during the period of the [contract] such insurance as may be required by the contracting officer or designee.

(10) The contracting officer or designee shall ensure that retainage equal to five percent of the [contract amount] is withheld from payments to any [constructor]. Such retainage shall be invested by the Vice Chancellor for Finance and Administration or designee in accordance with the provisions of OAR 580-040-0007. The principal
amount of such retainage and all interest or other earnings from the date of the establishment of a retainage account through the date of completion established in the [c]Contract, less reasonable administrative costs, shall be paid to the [c]Contractor or the [c]Contractor's designee upon notification in writing by the contracting officer or designee that the work contemplated by the [c]Contract has been completed satisfactorily.

(11) The contracting officer or designee shall perform all the duties of the owner on behalf of the Oregon State Board of Higher Education.

(12) The contracting officer or designee may execute change orders to [c]Contracts as long as the scope of the contract is not altered materially by such change orders. Exceptions to this provision may be granted by the Vice Chancellor for Finance and Administration or designee.

(13) The Board of Higher Education [and/]or the Director of the Internal Audit Division may audit or investigate any [c]Contract or retainer agreement executed under authority of this rule.

(14) The following procedures shall be used in soliciting, evaluating and rejecting or accepting [b]Bids or [p]Proposals for [c]Contracts for repairs or [p]Public Improvements:

(a) The provisions of sections (3), (4), (6), (7), (8), (10), (11), (13), (14), [(20),] (22), (23), (24), and (27) of OAR 137-30-000; sections (2) and (5) of OAR 137-30-010; OAR 137-30-012; [sections (1) and (3) of OAR 137-30-013; section s (1) an d(4) of OAR 137-30-014;] sections (2) and (3) of OAR 137-30-030; sections (1), (2), and (4) of OAR 137-30-040; OAR 137-30-050 through OAR 137-30-085; OAR 137-30-100 through OAR 137-30-104; OAR 137-30-110; OAR 137-30-115(1); OAR 137-30-120; OAR 137-30-150; OAR 137-30-130; OAR 137-40-020; OAR 137-40-030; OAR 137-40-035; OAR 137-40-040; and OAR 137-40-045 effective January 1, 1995, shall be applicable to the bidding, awarding and administration of public contracts of the State System of Higher Education. (These may be found in the Oregon Attorney General's Model Public Contracting Rules Manual, January 1995);

(b) The State System of Higher Education reserves the right to reject any bid or proposal not in compliance with the [s]olicitation [d]ocuments, or with these rules, and to reject any or all [b]Bids or [p]Proposals upon a finding that it is in the public interest to do so;

(c) Low tie [b]Bids are [b]Bids that are responsive to all requirements and are identical in price, fitness, availability, and quality. Preference shall be given to the [b]Bidder whose principal offices or headquarters are located in Oregon. If no [b]Bidder is eligible for this preference, or if more than one [b]Bidder is eligible for this preference, the [c]Contract shall be awarded by drawing lots first among tied Oregon [b]Bidders or, if there are no such Oregon [b]Bidders, shall be awarded by drawing lots among all tied [b]Bidders;

(d) Unless a [r]equest for [p]roposals is used, the contracting officer or designee shall not negotiate with any [b]Bidder prior to award of a [c]Contract. This prohibition may be waived by the Vice Chancellor for Finance and Administration or designee upon a finding that it is in the public interest to do so. Documents supporting such a finding shall be maintained by the contracting officer or designee.]
Publications: The publication(s) referred to or incorporated by reference in this rule are available from the agency.

580-050-0350
Negotiation When Offers Exceed Cost Estimate
(1) If all Responsive Offers from Responsible Offerors on a competitively bid Project, including Offers received under OAR 580-050-0032(3) and (4), exceed the Institution's Cost Estimate, prior to Contract award the Institution may negotiate Value Engineering and Other Options with the Responsible Offeror submitting the lowest Responsive Bid or the best Responsive Proposal in an attempt to bring the Project within the Institution's Cost Estimate.
(2) The following definitions apply to this administrative rule:
(a) Cost Estimate: The Institution's most recent pre-Offer, good faith assessment of anticipated Contract costs, consisting either of an estimate of an architect, engineer or other qualified professional, or confidential cost calculation worksheets, where available, and otherwise consisting of formal planning or budgetary documents.
(b) Other Options: Those items generally considered appropriate for negotiation in the RFP process, relating to the details of Contract performance, but excluding any material requirements previously announced in the Solicitation Document that would likely affect the field of competition.
(c) Project: A Public Improvement or Construction Trade Services.
(d) Value Engineering: Those proposed changes to the plans, Specifications, or other Contract requirements which may be made, consistent with industry practice, under the original Contract by mutual agreement in order to take advantage of potential cost savings without impairing the essential functions or characteristics of the Public Improvement or Construction Trade Services. Cost savings include those resulting from life cycle costing, which may either increase or decrease absolute costs over varying time periods.
(3) In determining whether all Responsive Offers from Responsible Offerors exceed the Cost Estimate, only those Offers that have been formally rejected, or Offers from Offerors who have been formally Disqualified by the Institution, shall be excluded from consideration.
(4) Institutions shall not proceed with Contract award if the scope of the Project is significantly changed from the original Offer. The scope is considered to have been significantly changed if the pool of competition would likely have been affected by the change; that is, if other Offerors would have been expected by the Institution to participate in the solicitation process had the change been made during the solicitation process rather than during negotiation. This rule shall not be construed to prohibit resolicitation of trade subcontracts.
(5) Negotiations shall be initially undertaken with the lowest Responsive, Responsible Bidder or the best Responsive, Responsible Proposer. If the lowest Responsive, Responsible Bidder or the best Responsive, Responsible Proposer is not negotiating in good faith, the Institution may, at its sole discretion, negotiate Value Engineering and Other Options with the second lowest Responsive, Responsible Bidder or second best Responsive, Responsible
Proposer. If that Offeror is not negotiating in good faith, the Institution may, at its sole discretion, negotiate Value Engineering and Other Options with the next lowest Responsive, Responsible Bidders (Each in order of their Bid) or the next best Responsive, Responsible Proposers (Each in order of their Proposal). Records of an Offeror used in Contract negotiations do not become public records unless they are also submitted to the Institution.

580-050-0360
Facsimile and Electronic Offers
(1) Institution Authorization. An Institution may authorize Offerors to submit Facsimile or Electronic Offers when the Institution has the resources available and adequate procedures in place to handle the Offers, preserve the "sealed" requirement of competitive procurement, deliver them timely to the Opening and, if Bid or Proposal security is or will be required, provide an alternative method for receipt of the security.
(2) Provisions To Be Included in Solicitation Document. In addition to all other requirements, if the Institution authorizes a Facsimile or Electronic Offer, the Institution will include in the Solicitation Document provisions substantially similar to the following:
(a) A Facsimile or Electronic Offer, as used in this solicitation, means an Offer, modification of an Offer, or withdrawal of an Offer that is transmitted to and received by the Institution via a Facsimile machine or the worldwide web.
(b) Offerors may submit Facsimile or Electronic Offers in response to this solicitation. The entire response must arrive at the place and by the time specified in this Solicitation Document.
(c) Offerors must Sign their Facsimile or Electronic Offers.
(d) The Institution reserves the right to award the Contract solely on the Facsimile or Electronic Offer. However, upon the Institution's request the apparently successful Offeror shall promptly submit its complete original Signed Offer.
(e) If Facsimile Offers are authorized, the data and compatibility characteristics of the Institution's receiving Facsimile machine as follows:
(A) Telephone number;
(B) Compatibility characteristics, e.g. make and model number, receiving speed, and communications protocol.
(a) If Electronic Offers are authorized, the e-mail address of the Institution to be used to receive Electronic Offers.
(b) The Institution is not responsible for any failure attributable to the transmission or receipt of the Facsimile or Electronic Offer including, but not limited to the following:
(A) Receipt of garbled or incomplete documents.
(B) Availability of condition of the receiving Facsimile machine, computer or computer system.
(C) Incompatibility between the sending and receiving Facsimile machine or between the sending and receiving computers.
(E) Delay in transmission or receipt of documents.
(F) Failure of the Offeror to properly identify the Offer documents.
(G) Illegibility of Offer documents.
(H) Security and confidentiality of data.

BOARD DISCUSSION AND ACTION:

Because the proposed temporary rules were also on the full Board's docket, Director Lorenzen deferred their consideration to the full Board.

4. REPORT ITEMS

a. Fund Balance Policies—Other Funds

DOCKET:

In October 2004, the Board asked the Chancellor's Office to report on fund balance policies pertaining to the other operating funds on OUS campuses. This report pertains to the fund balance policies covering Service Departments and Designated Operations.

Service Department Fund Balance Policy

Background:
Service Departments are activities established to provide services to departments of the institution and are expected to be self-sustaining. Examples are motor pool, computer services, printing, and telecommunications systems. Service Department activity is accounted for within the “Other Funds Nonlimited” portion of the OUS legislative budget.

In the early 1990s, the Department of Health and Human Services audited the Service Department activities of OUS and recommended certain guidelines with respect to Service Department fund balances. In response to that audit, both Oregon State University (OSU) and the University of Oregon (UO) implemented fund balance policies for their Service Department activities. The University System did not adopt such a policy to govern fund balances of Service Departments Systemwide. Recent federal auditing advisories indicate that Service Departments will, once again, be an area of interest for federal government auditors. In light of this alert, our review and implementation of a Systemwide policy is timely.

Over the past several months, the Controller's Division, working through various inter-institutional committees, has drafted a Service Department fund balance policy that will govern these activities throughout the University System. This draft policy was derived from both the OSU and UO policies and, we believe, is in compliance with applicable federal costing requirements.

Policy Summary:
Fund balances will be monitored and analyzed on an annual basis at fiscal year end.

- **Upper Limit**: Fund balance (excluding capital assets net of any related debt) should not exceed 60 days of operating expenses, excluding capital items and
non-cash expenses such as depreciation. The 60-day upper limit is calculated as the average operating expenses for the last three years of operations multiplied by .1667 (60 days divided by 360 days).

- **Lower Limit**: If fund balance is in a deficit position equal to 5 percent or less of total annual expenses, the loss will be carried forward to the new year as an increase in rates.

If fund balance is in a deficit position greater than 5 percent of total annual expenses, the loss will be carried forward to the new year and eliminated in one (or both) of the following ways:

- A rate increase
- A transfer of adequate funding to the service center approved by the president or vice president for finance and administration

- **Exceptions**: Any exceptions will be approved by the institution’s vice president for finance and administration or designee and documentation justifying the exception will be retained for audit.

*Implementation Plan:*

The Controller’s Division has begun an analysis of the various Service Departments within OUS institutions with respect to compliance with this policy and will be working with each institution to coordinate the measurement of policy compliance, as well as plan for full implementation of this policy by July 1, 2005.

*Designated Operations Fund Balance Policy*

*Background:*

Designated Operating Funds are used to account for self-sustaining student activities related to instruction, public service, and student aid. Examples are continuing education (non-credit), field trips, international education, non-credit workshops and seminars, testing and consulting services, camps, and financial aid funds generated from fund raising activities accounted for in Designated Operations. Designated Operating fund activity is accounted for within the “Other Funds Nonlimited” portion of the OUS legislative budget.

The fund balance policy covering Designated Operating funds (see below) was last updated in April 2004 as a result of the Accountability Framework Project.
Policy Statement:
Upper Limit:
- Carry Forwards - A limited amount of fund balances may be carried forward from one year to the next for continuation of the program or for student scholarships. Fund balances carried forward may not exceed $25,000 or 20 percent of the annual revenue credited to the fund, whichever is greater. (Note: This limitation only applies at June 30th at the end of each biennium and is optional in mid-biennium.) Any exceptions will be approved by the institution’s vice president for finance and administration or designee and documentation justifying the exception will be maintained for audit.
- Excess Fund Balances – Excess fund balances at year-end and funds designated for departmental operating expenditures are transferred to the Education and General Fund and expended from a related Educational and General expense account if within the expenditure limitation, or to an Auxiliary Enterprise fund, if appropriate. Excess fund balances transferred to Education and General Funds (fund type 11) may be returned to the source designated operating fund if approved by the institutional vice president for finance and administration or designee, as well as the vice chancellor for finance and administration or designee. Documentation justifying the transaction will be maintained for audit.

Lower Limit: Any negative fund balance as of June 30 will be eliminated through a transfer of adequate funding to the designated operating fund by the responsible department or other Education and General Funds.

Implementation:
The measurement point for the fund balances of Designated Operating funds is at the end of a biennium. We will be reviewing the ending fund balances after the current year-end close for conformance with the policy in order to provide information to campuses.

BOARD DISCUSSION:
Director Lorenzen turned for a report on the Fund Balance Policies for Other Funds. OUS Controller Michael Green noted service departments were highly regulated because of the interest of the federal government. He observed there was no Systemwide policy, but that Oregon State University and the University of Oregon had policies with the upper limit 60 days of operating expenses and the lower limit zero. Green stated that because it was a new policy, he would request the campuses submit an end-of-the-year report listing all service departments. He also recommended a report listing service departments reconciled to the general ledger. With no questions, he turned to the designated operating fund policy, and recommended a similar report to the Chancellor's Office. Director Lorenzen cautioned about moving funds with designated purposes and Green clarified the definition of restricted.
b. Interinstitutional Loan Policy Clarification

DOCKET:

In October 2004, the Board asked the Chancellor’s Office to clarify the OUS policy surrounding inter-fund and interinstitutional loans. In response, the Chancellor’s Office worked with institutional representatives to review and update the existing loan policy, which is summarized below. This updated policy will be implemented immediately following Board review. All new inter-fund and inter-institutional loans that meet the policy definition will follow this new protocol.

Policy Statement:
It is the policy of OUS that any movement of funds between institutions or between funds that meets the definition of a loan (defined below) be accomplished by the use of a formal loan agreement, which shall be governed by the provisions herein. Inter-institutional and inter-fund borrowing should be considered only after all other sources of funds have been considered and when the loan is required to meet a pressing need or to take advantage of a special opportunity.

Loan:
For the purposes of this policy, a loan is defined as a movement of funds between institutions or between funds or fund types within an institution with a definite plan to repay the money within a specified period of time. Transfers among funds within an institution that will be repaid within 30 days are not considered loans unless the recipient fund received such transfers in successive months.

Institution:
For purposes of this policy, the term institution includes EOU, OIT, OSU, OSU-CC, each OSU SWPS, PSU, SOU, UO, WOU, and CO.

Terms:
Inter-Institutional and Inter-Fund Loans will be repaid over a specified period, generally not to exceed five years. Institutions must consult with the Chancellor’s Budget Office when considering loans from or to legislative budget categories, including Education and General Limited, and Other Funds Limited. The approval of the Chancellor is required for loans to and from Capital Projects under expenditure limitation.

Each loan agreement should be accompanied by a debt service schedule, which shows fiscal year payments for the loan and all other outstanding loans, including bonded debt (if any). This schedule must indicate a source of revenue that is of sufficient certainty to reasonably assure repayment over time and that the source of repayment is forecasted to generate sufficient revenue to cover the debt service payments as scheduled.
**Loan Agreement:**
A written agreement detailing the terms of the loan is required for each loan between institutions or between funds or fund types. A copy of each loan agreement is to be provided to the Controller's Division within 30 days of the transfer of funds.

**Approval Authority:**
For inter-fund loans within a particular OUS institution, the approval of the institution's vice president for finance and administration is required. For loans between OUS institutions, the approval of each institution's president and the Chancellor or vice chancellor for finance and administration is required. Loans of Chancellor's Office resources in amounts exceeding the expenditure authority of the Chancellor require the additional approvals delineated in applicable Board Policy. All inter-institutional loans will be reported to the Board.

**Interest:**
Interest is required to be assessed when the source of loan proceeds is from an interest-bearing fund. In this specific case, the rate of interest to be assessed must be equal to the rate that would be earned on the lending fund. Where loan proceeds are from non-interest bearing funds, the rate of interest assessed is subject to negotiation between the borrower and lender, but should not be greater than two percentage points above the rate paid by the State Treasurer's Short Term Investment Pool at the time of or, in the case of an adjustable rate loan, during the term of the loan.

**BOARD DISCUSSION:**
OUS Controller Green addressed the loan policy clarification. He noted that staff worked with campus representatives to update the policy. He outlined various elements of the policy, including that the loans are to be repaid within a specific period of time and to be memorialized by written agreement. Green noted the policy would be implemented under the authority of the vice chancellor through an administrative rule. Chair Blair asked questions regarding interest assessments. He queried whether the interest rate should be fixed rather than negotiated. He asked if the policy permitted a zero interest charge for a loan. Green replied it did and Chair Blair asked why not peg the interest rate to a published rate. Acting Chancellor Pernsteiner suggested changes to the written proposal and Chair Blair reiterated his interest in keeping the policy simple and straightforward.

5. **ADJOURNMENT**

Director Lorenzen adjourned the meeting at 9:40 a.m.

Donald W. Blair  
Chair, FBAPRE Committee

Ryan J. Hagemann  
Secretary of the Board
1. **CALL TO ORDER/ROLL CALL/WELCOME**

Chair Henry Lorenzen called the meeting of the State Board of Higher Education to order at 9:54 a.m. Chair Lorenzen thanked Director Schuette for the accommodations at the Chemeketa Eola Viticulture Center.

**The following Board members were present:** Henry Lorenzen, Kirby Dyess, Adriana Mendoza, Tim Nesbitt, Geri Richmond, Gretchen Schuette, Howard Sohn, John von Schlegell, and Tony Van Vliet.

**Board members absent:** Don Blair and Bridget Burns were absent due to conflicts.

**The following OUS staff members were present:** George Pernsteiner, Ryan Hagemann, Nancy Heiligman, Benjamin Rawlins, and Susan Weeks.

**Others present included:** Presidents Dan Bernstine, Philip Conn, Martha Anne Dow, Dave Frohnmayer, Khosrow Fatemi, Ed Ray, and Elisabeth Zinser. OHSU Provost Lesley Hallick was also present.

Meeting attendees also included OUS staff, faculty, institution representatives, the press, and interested observers.

2. **APPROVAL OF MINUTES**

- Regular Board Meeting, November 5, 2004
- Regular Board Meeting, December 10, 2004
- Board Retreat, January 6-7, 2005

Chair Lorenzen called for a motion to approve all outstanding meeting minutes, including the regular meetings on November 5, 2004, and December 10, 2004, and the Board Retreat on January 6-7, 2005. Director Van Vliet moved approval of all outstanding minutes and Director Mendoza seconded the motion. All in favor: Lorenzen, Dyess, Mendoza, Nesbitt, Richmond, Schuette, Sohn, von Schlegell, and Van Vliet. Opposed: none. Motion passed.
3. **Reports**

a. **Chancellor’s Report**

Chair Lorenzen called on Acting Chancellor George Pernsteiner for a report. Pernsteiner shared that OUS had its Ways and Means schedule and would be approaching Board members and presidents for assistance with the presentations. Pernsteiner also acknowledged the upcoming reports from the Access and Affordability and Excellence in Delivery and Productivity Working Groups and their remarkable achievements. Pernsteiner turned to Neil Bryant for a legislative update.

Bryant described the different three-phase Ways and Means process and shared the names of the members of the Education subcommittee. Bryant continued with the schedule and a description of the strategy to include institution presidents, Board members, students, and faculty in the presentation. He also outlined the tentative substance of each of the days and asked Board members if they would be available to make various presentations. Bryant stressed the importance of making the presentations as campus-specific and faculty/student-specific as possible. He noted the budget situation and the strategy of attempting to keep what OUS achieved in the Governor's Recommended Budget. As for general thoughts, Bryant shared various comments about branch campuses, privatization, and the shift in receptivity regarding faculty salaries. Director Nesbitt asked whether the Oregon Student Assistance Commission would report on the same day and Bryant mentioned it would report to Ways and Means before OUS. Director Nesbitt suggested OUS be present for OSAC's presentation. Chair Lorenzen asked about when the committee would ask about the Chancellor's Office reorganization. Director Sohn asked for any information on how the increase to the Oregon Opportunity Grant was received and Bryant observed most legislators are positive, but some recognized it might be too much of an increase for this budget. Chair Lorenzen turned to the president's reports, observing that at the retreat, the Board explored the possibility of starting each meeting with a "big picture" discussion.

b. **Presidents’ Reports**

President Fatemi reported on the condition of Vice President Marv Wigle and shared the loss of Sgt. Mark Warren with the Board. Chair Lorenzen acknowledged EOU's work in bringing programs to other parts of eastern Oregon.

President Zinser commented on SOU's work on its three-year enrollment plan, including work in California and program changes. She also noted the death of former SOU president Jim Sours and various opportunities to host auditions and prestigious conferences. President Zinser concluded with comments about tsunami research conducted by faculty.

Provost Hallick discussed OHSU's work with its budget, including the construction of reduction scenarios. She observed in these discussions nursing was the highest priority,
sharing that OHSU was protecting funding to the regional campuses that would necessitate a tuition increase. Provost Hallick offered the second priority would be the Area Health Education Centers, followed by the child development and rehabilitation center. Chair Lorenzen commented on the irony of having the need for nursing with no commitment of resources to create nurses and Hallick commented on the tremendous efforts of the regional campuses. Director Van Vliet asked about federal funds.

President Conn commented on the recent sexual harassment cases at Western Oregon University and assured the Board it had two sound policies in place. He discussed investigations and noted that an outstanding lawsuit had been settled.

President Frohnmayer noted the completion of the Many Nations Longhouse, the rededication of the Jordan Schnitzer Museum of Art, the reopening of the Museum of Natural and Cultural History, and the groundbreaking of the new living-learning center. He also observed that UO was close to completing the acquisition of the Williams Bakery property. President Frohnmayer mentioned the upcoming hiring season for faculty and commented on recent news reports regarding yellow ribbons and state vehicles.

President Ray discussed tuition plateau policy at Oregon State University, recent reports regarding the climate survey on campus, and the substantial faculty efforts and research regarding the recent tsunami. Director Dyess complimented President Ray on his forthrightness with regard to the diversity report.

President Dow discussed OIT's entrepreneurial approach to healthcare industry needs and OIT's extensive compensation review. She also recognized OIT's men's basketball coach, who was honored at the Oregon Sports Awards.

President Bernstine introduced Angela Wykoff as the head of PSU's advocacy program, acknowledged PSU's agreement with Smithsonian Education Research, and recognized PSU faculty member Rouff who was honored with the Jiro Osaragi Prize for Commentary.

Chair Lorenzen turned to the OSA report in order to permit the student representative to return to class.

c. Oregon Student Association (OSA) Chair

Chair Lorenzen recognized Dan McCarthy, ASOSU Vice President. McCarthy discussed the positive step regarding the proposed increase in the Oregon Opportunity Grant and thanked members of the Access and Affordability Working Group for their work. McCarthy also noted that changes in the tuition plateau appeared to have impacted students and resulted in drops in credit loads. McCarthy recognized President Ray's efforts and Director Mendoza commented that she had personally observed the impact in plateau changes.
d. Provosts' Council (Lorraine Davis, Chair)

Chair Lorraine Davis advised the Board on the Provosts' Council's participation in responding to legislative inquiries and its work with the EDP Working Group regarding the Oregon Transfer Module. She also observed the Council's work with the Oregon Link Degree Audit System and its regular business of program review, name changes and new locations.

e. Interinstitutional Faculty Senate (IFS) President

President Bob Turner began his report to the Board by echoing Director Mendoza's observations regarding the tuition plateau. He reviewed three items of concern to faculty. First, he noted faculty compensation and observed that other groups were working on this issue. Second, Turner discussed educational quality and that faculty members were sensitive to unintended consequences inherent in adopting simple solutions to resolve complicated problems. Turner also reviewed faculty concerns regarding the process by which minimizing barriers to student progress have been accomplished. He described the collaborative and eye-opening process of shepherding the Oregon Transfer Module through faculty consideration. He discussed this in order to demonstrate the possibility of decreasing student barriers in a discipline-by-discipline manner.

4. Action Items

a. Tuition and Fee Recommendations, Residence Hall and Food Service Charges, Amendment to OAR 580-040-0035, 2005 Summer Session Fee Book (Roll call vote)

Docket:

Tuition and Fee Background:

The tuition and fees, housing rates, and policies submitted here for consideration relate to the 2005 Summer Session. There are separate tuition and fee structures for the regular academic year and continuing education programs. This fee book addresses mandatory enrollment fees including tuition, building, resource, incidental, and health fees. The housing section reflects contract policies and rates for dormitory housing.

Summer Session tuition revenue is projected to total approximately $26 million in 2005, or slightly less than 6 percent of tuition revenues projected for the 2005-06 fiscal year. Institutions have the authority to assess tuition on the current per credit hour basis or to align to the structure of the preceding academic year. Tuition for Summer Session has generally been assessed on a per-credit hour basis, without tuition plateaus for full-time students.

Definitions:

Tuition: Tuition supports the direct instruction and administrative costs of each institution's summer session program. To determine the recommended tuition rates, institutions must
balance the fiscal requirements of their summer session programs with market considerations, including tuition rates of competing education providers. Institutions are not required to make a residency determination for summer term but may choose to do so.

**Building Fee:** The building fee is the same for all institutions. Historically, the building fee charge for summer session has been approximately 75 percent of the academic year rate. For summer 2005, the rate will be $34 per student. ORS 351.170 allows OUS to assess up to $45 per student per term to finance debt service for construction associated with student centers, health centers, and recreational facilities constructed through the issuance of Article XI-F(1) bonds. A pro rata fee is assessed on part-time students.

**Resource Fee:** Resource fees have three forms: universal fees, assessed to all students; program fees, assessed to students admitted to particular academic programs; and, one-time fees for first-term students. Students enrolled under the part-time student fee policy are subject to the resource fees appropriate to specific courses taken. Institutions may propose resource fees for approval by the Board. Institutions have the option of assessing resource fees during the summer session at rates comparable to those assessed in the preceding academic year.

**Incidental Fee:** Student committees generally recommend incidental fees in accordance with a Board-approved incidental fee policy (OAR 580-010-0090) on each campus. In some instances, the student committee recommendations are supported by general campus student referenda. The funds generated by this fee are to be used for “student union activities; educational, cultural, and student government activities; and athletic activities.” The president of each institution reviews the student committee recommendations. Once satisfied with each proposal, presidents submit recommendations to the Chancellor, who, after review, submits proposals to the Board. There are fewer incidental fee supported activities during the summer term, resulting in significantly lower rates than those assessed during the academic year.

**Health Services Fee:** This fee is used to support each institution’s student health services, which are operated similarly to auxiliary services. Generally, rate increases reflect the institutions’ efforts to maintain the self-support nature of these services. Optional health insurance policies are also made available by some institutions. During summer sessions, student health services operations function at reduced levels or are not provided at all. The recommended rates reflect these lower levels of activity.

**Fee Setting Process:**
The summer session tuition and fees proposed in this staff recommendation are the results of institutional decision-making processes. These include, institution administration and student committee deliberations or student referendum/initiative. Each institution president recommends summer session tuition and fees for approval by the Board. The various fee proposals submitted by each institution undergo a review by the Chancellor's staff for compliance with state statutes, legislative direction, and Board policy.
Summary of Changes and Recommendations:
Table A compares the proposed tuition and fee rates with the 2005 Summer Session rates for full-time undergraduate students enrolled for 12 credit hours.

The following table compares the proposed tuition rates for resident undergraduates with Spring 2005 rates.

<table>
<thead>
<tr>
<th>Tuition</th>
<th>EOU</th>
<th>OIT</th>
<th>OSU</th>
<th>PSU</th>
<th>SOU</th>
<th>UO</th>
<th>WOU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spring 2005</td>
<td>$1,135</td>
<td>$1,152</td>
<td>$1,296</td>
<td>$1,080</td>
<td>$1,205</td>
<td>$1,236</td>
<td>$1,080</td>
</tr>
<tr>
<td>Summer 2005</td>
<td>$1,273</td>
<td>$1,152</td>
<td>$1,126</td>
<td>$1,080</td>
<td>$1,135</td>
<td>$1,262</td>
<td>$1,080</td>
</tr>
<tr>
<td>Difference</td>
<td>$138</td>
<td>$0</td>
<td>($170)</td>
<td>$0</td>
<td>($70)</td>
<td>$26</td>
<td>$0</td>
</tr>
</tbody>
</table>

Table B below compares the proposed tuition and fee rates with the 2005 Summer Session rates for full-time graduate students enrolled for nine credit hours.

In addition to the tuition and fees listed, programmatic resource fees may be assessed to specific student groups during summer session (see Table C). These fees are at the academic year 2004-05 rates:

Room and Board Rates:
Summer Session room and board accommodations on each campus vary according to the need and demand. They may include rates by day, week, multi-week or term. A combined room and board rate is usually offered, as well as rates for room only, board only, and conference activities. Rates are generally comparable to those for individual terms of academic year. Student housing facilities operate as auxiliary enterprises and are to be wholly self-supporting.

Comparison of Basic Residence Hall Rates, Summer 2004 to 2005:
The following are comparative samples of board and room rates for a basic dorm room with double occupancy. Each institution offers a variety of room and meal options at rates above and below these listed. The rates shown exclude Portland State University, where College Housing Northwest, Inc., operates the residence halls and establishes the rates as specified in a service contract. The rates require preliminary review and approval by Portland State University officials before becoming effective.

<table>
<thead>
<tr>
<th>Summer Housing Rates</th>
<th>2005</th>
<th>2004</th>
<th>Change from Summer 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOU Per Week</td>
<td>95.00</td>
<td>85.00</td>
<td>12%</td>
</tr>
<tr>
<td>OIT Eight Week - Double (room only)</td>
<td>510.00</td>
<td>510.00</td>
<td>0%</td>
</tr>
<tr>
<td>OSU Eight Week - Double</td>
<td>1,097.60</td>
<td>1,504.00</td>
<td>-27%</td>
</tr>
<tr>
<td>PSU Per Month - rates vary by location</td>
<td>260.00-600.00</td>
<td>206.00-630.00</td>
<td>*</td>
</tr>
<tr>
<td>SOU Eight Week - Multiple</td>
<td>1,374.00</td>
<td>1,304.00</td>
<td>5%</td>
</tr>
<tr>
<td>UO Eight Week - Multiple</td>
<td>1,624.00</td>
<td>1,500.15</td>
<td>8%</td>
</tr>
<tr>
<td>WOU Eight Week - Multiple</td>
<td>1,100.00</td>
<td>1,045.20</td>
<td>5%</td>
</tr>
</tbody>
</table>

*Varies by location
Public Hearing:
A public hearing was conducted on December 2, 2004, at 10:00 a.m. in Room 358 of Susan Campbell Hall on the University of Oregon campus concerning the 2005 Summer Session Fee Book. Adam Petkun, President of the Associated Students of the University of Oregon and the Oregon Student Association Board Chair presented testimony, summarized as follows:

Mr. Petkun urged the OUS to keep Summer Session tuition affordable because lower summer rates benefit students trying to graduate in four years. The removal of the tuition plateau and increased tuition costs are forcing students to take fewer classes during the academic year and attend Summer Session to complete their education more quickly.

Staff Recommendation to the Committee:
The staff recommends that the Board approve the proposed 2005 summer session tuition and fees and related policies. Specifically, staff recommends that the Board amend OAR 580-040-0035 as follows:

Summer Session Fee Book OAR 580-040-0035
The document entitled "Summer Session Fee Book 2005" dated February 04, 2005, is hereby amended by reference as a permanent rule. All prior adoptions of summer session fee documents are hereby repealed except as to rights and obligations previously acquired or incurred thereunder.

Through the OAR amendment, the Board adopts the document entitled Summer Session Fee Book 2005. The Acting Chancellor will be permitted to authorize minor clerical adjustments to the final document, if necessary.
Table A

| Summer Term 2005 Tuition and Fees |  
|----------------------------------|---|
|                                 | EOU | OIT | OSU | PSU | SOU | UO | WOU |
| **Tuition**                      |     |     |     |     |     |    |     |
| Residents                        | $1,273 | $1,152 | $1,126 | $1,080 | $1,135 | $1,262 | $1,080 |
| Nonresidents                     | $1,273 | $1,152 | $1,126 | $4,212 | $1,135 | $1,802 | $1,080 |
| **Fees**                         |     |     |     |     |     |    |     |
| Technology                       | 50  | 48  | 60  | 60  | 50  | 40  | 60  |
| Building                         | 34  | 34  | 34  | 34  | 34  | 34  | 34  |
| Incidental                       | 32  | 40  | 99  | 100 | 46  | 38  | 39  |
| Health                           | 5   | 95  | 80  | 62  | 46  | 73  | 34  |
| Other                            | 5   |     | 10  |     |     |     |     |
| Total Fees                       | $116 | $127 | $288 | $279 | $192 | $195 | $167 |
| **Total Tuition and Fees**       |     |     |     |     |     |    |     |
| Residents                        | $1,389 | $1,279 | $1,414 | $1,359 | $1,327 | $1,457 | $1,247 |
| Nonresidents                     | $1,389 | $1,279 | $1,414 | $4,491 | $1,327 | $1,997 | $1,247 |
| **Percentage Increase over the Prior Year** |     |     |     |     |     |    |     |
| **Tuition**                      |     |     |     |     |     |    |     |
| Residents                        | 0%   | 1%   | 10%  | 0%   | 1%   | 11% | 5%  |
| Nonresidents                     | 0%   | 1%   | 10%  | 0%   | 1%   | 7%  | 5%  |
| **Fees**                         |     |     |     |     |     |    |     |
| Technology                       | 0%   | 0%   | 0%   | 0%   | 0%   | 0%  | 0%  |
| Building                         | 0%   | 0%   | 0%   | 0%   | 0%   | 0%  | 0%  |
| Incidental                       | 0%   | 0%   | 0%   | 0%   | 10%  | 6%  | 0%  |
| Health                           | 3%   | 0%   | 11%  |       | 6%   | 3%  |     |
| Other                            | 0%   |     |     |     |     |     |     |
| **Total Tuition and Fees**       |     |     |     |     |     |    |     |
| Residents                        | 0%   | 1%   | 8%   | 0%   | 2%   | 9%  | 4%  |
| Nonresidents                     | 0%   | 1%   | 8%   | 0%   | 2%   | 7%  | 4%  |

* Excludes Resource Fees. Amounts are rounded to nearest dollar.
### Table B

#### Summer Term 2005 Tuition and Fees
Full-Time Graduate - 9 Credit Hours

<table>
<thead>
<tr>
<th></th>
<th>EOU</th>
<th>OIT</th>
<th>OSU</th>
<th>PSU</th>
<th>SOU</th>
<th>UO</th>
<th>WOU</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tuition</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residents</td>
<td>$1,719</td>
<td>$1,899</td>
<td>$1,528</td>
<td>$2,016</td>
<td>$2,038</td>
<td>$1,651</td>
<td>$1,953</td>
</tr>
<tr>
<td>Nonresidents</td>
<td>$1,719</td>
<td>$1,899</td>
<td>$1,528</td>
<td>$3,600</td>
<td>$2,038</td>
<td>$2,056</td>
<td>$1,953</td>
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<td><strong>Fees</strong></td>
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<td></td>
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</tr>
<tr>
<td>Technology</td>
<td>38</td>
<td>48</td>
<td>45</td>
<td>63</td>
<td>44</td>
<td>40</td>
<td>45</td>
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<td>Building</td>
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<td>34</td>
<td>34</td>
<td>34</td>
<td>34</td>
<td>34</td>
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<td>Incidental</td>
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<td>40</td>
<td>94</td>
<td>100</td>
<td>46</td>
<td>38</td>
<td>39</td>
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<td>Health</td>
<td>5</td>
<td>95</td>
<td>80</td>
<td>62</td>
<td>73</td>
<td>34</td>
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<tr>
<td>Other</td>
<td>5</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Total Fees</td>
<td>$104</td>
<td>$127</td>
<td>$268</td>
<td>$282</td>
<td>$186</td>
<td>$195</td>
<td>$152</td>
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</table>

#### Total Tuition and Fees*

<table>
<thead>
<tr>
<th></th>
<th>EOU</th>
<th>OIT</th>
<th>OSU</th>
<th>PSU</th>
<th>SOU</th>
<th>UO</th>
<th>WOU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residents</td>
<td>$1,823</td>
<td>$2,026</td>
<td>$1,796</td>
<td>$2,298</td>
<td>$2,224</td>
<td>$1,846</td>
<td>$2,105</td>
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<tr>
<td>Nonresidents</td>
<td>$1,823</td>
<td>$2,026</td>
<td>$1,796</td>
<td>$3,882</td>
<td>$2,224</td>
<td>$2,251</td>
<td>$2,105</td>
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</table>

#### Percentage Increase over Prior Year

<table>
<thead>
<tr>
<th></th>
<th>EOU</th>
<th>OIT</th>
<th>OSU</th>
<th>PSU</th>
<th>SOU</th>
<th>UO</th>
<th>WOU</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tuition</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residents</td>
<td>9%</td>
<td>2%</td>
<td>10%</td>
<td>-8%</td>
<td>15%</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Nonresidents</td>
<td>9%</td>
<td>2%</td>
<td>10%</td>
<td>-12%</td>
<td>15%</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td><strong>Fees</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Building</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
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<tr>
<td>Incidental</td>
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<td>0%</td>
<td>0%</td>
<td>10%</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td>Health</td>
<td>3%</td>
<td>0%</td>
<td>11%</td>
<td>6%</td>
<td>3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>0%</td>
<td>0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>Total Tuition and Fees*</td>
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<tr>
<td>Residents</td>
<td>8%</td>
<td>2%</td>
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<td>-7%</td>
<td>15%</td>
<td>11%</td>
<td>11%</td>
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<tr>
<td>Nonresidents</td>
<td>8%</td>
<td>2%</td>
<td>9%</td>
<td>-11%</td>
<td>15%</td>
<td>9%</td>
<td>11%</td>
</tr>
</tbody>
</table>

*Excludes Resource Fees. Amounts are rounded to nearest dollar.
Table C

<table>
<thead>
<tr>
<th>Programmatic Resource Fees</th>
<th>Prof</th>
<th>UG</th>
<th>Grad</th>
<th>Change from Summer 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOU Matriculation Fee (one time - all new and transfer students)</td>
<td>100</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OIT Matriculation Fee (one time - all new and transfer students)</td>
<td>100</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OSU Engineering ($43 per credit hour up to $430 per term)</td>
<td>430</td>
<td>430</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-engineering ($19 per credit hour up to $192 per term)</td>
<td>192</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MBA Students ($35 per credit hour up to $350 per term)</td>
<td>350</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Admin ($13 per credit hour up to $130 per term)</td>
<td>130</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Department of Art</td>
<td>100</td>
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<td></td>
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<tr>
<td>Interdisciplinary Studies</td>
<td></td>
<td></td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Pharmacy - PharmD Program only</td>
<td>250</td>
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<tr>
<td>Educational Resources</td>
<td>50</td>
<td>50</td>
<td></td>
<td></td>
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<tr>
<td>Matriculation Fee (one time - all new and transfer students)</td>
<td>300</td>
<td>175</td>
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<td></td>
</tr>
<tr>
<td>PSU MBA Students ($35 per credit hour up to $350 per term)</td>
<td>350</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Business Admin ($10 per credit hour up to $100 per term)</td>
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<td>Engineering ($25 per credit hour up to $250 per term)</td>
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<tr>
<td>Computer Science ($25 per credit hour up to $250 per term)</td>
<td>250</td>
<td>250</td>
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<tr>
<td>Fine &amp; Performing Arts ($5 per credit hour up to $50 per term)</td>
<td>50</td>
<td>50</td>
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<td></td>
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<tr>
<td>Speech &amp; Hearing Sciences</td>
<td>250</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Matriculation Fee (one time - all new and transfer students)</td>
<td>150</td>
<td>150</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SOU Resident MBA ($11 per cr hr up to $100 per term)</td>
<td>150</td>
<td>150</td>
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<tr>
<td>Non Resident MBA($17 per cr hr up to $150 per term)</td>
<td>160</td>
<td>160</td>
<td></td>
<td></td>
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<tr>
<td>Master of Management ($20 per cr hr up to $160 per term)</td>
<td>20</td>
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<tr>
<td>School of Science</td>
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<tr>
<td>School of Business</td>
<td>15</td>
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<tr>
<td>MA in Teaching ($15 per cr hr up to $120 per term)</td>
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<tr>
<td>Master of Applied Psychology:</td>
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<tr>
<td>Mental Health Counseling ($37 per cr hr up to $333/term)</td>
<td>0</td>
<td>0</td>
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<td>No Charge Summer Term</td>
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<td>Group Facilitation &amp; Training($33/cr hr up to $300/term)</td>
<td>0</td>
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</tr>
<tr>
<td>Matriculation Fee (one time - all new and transfer students)</td>
<td>125</td>
<td>125</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UO Law School ($206 per credit hour)</td>
<td>1,854</td>
<td>1,854</td>
<td>- $1/hr $4/term</td>
<td></td>
</tr>
<tr>
<td>Matriculation Fee (one time - all new and transfer students)</td>
<td>250</td>
<td>150</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WOU Matriculation Fee (one time - new and transfer students)</td>
<td>90</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**BOARD DISCUSSION AND ACTION:**

Chair Lorenzen recognized Associate Vice Chancellor Nancy Heiligman for a review of the proposed summer session fee book. She noted the various proposals were submitted by the campuses and reviewed by staff. Heiligman observed the trend to move summer rates more in line with academic year tuition rates and that there were no rate increases to resource fees in this proposal. Heiligman noted that staff held a public hearing and six students attended. She mentioned staff is requesting approval of the 2005 summer session tuition and fees policies, which was an amendment to OAR 580-040-0035. Chair Lorenzen called for a motion to approve the 2005 summer session fee book as proposed by staff. Director Dyess moved approval of the 2005 summer session fee book and Director Van Vliet seconded the motion. On roll call vote, all in favor:

b. Real Property, Facility, and Campus Planning: Amendment to OAR 580-050-0100; Temporary Adoption of New Rules Related to Contract Administration

DOCKET:

Staff Report to the Board:
Oregon Administrative Rules 580-050-001 through 580-050-0100 contain the governing rules implementing OUS authority for competitively procuring construction contracts and related services. These rules were last amended in 1996. In June 2004, staff proposed extensive revision and the Board approved temporary rules. Subsequent analysis by staff, university attorneys and questions from the Board led to a decision to permit the temporary rules to lapse and to initiate a more thorough examination of construction processes. That examination is underway.

The current rules represent minimal, but crucial changes deemed essential for the administration of construction until the more extensive examination is complete. These temporary rules will also add the new ability to consider facsimile and electronic offers and to authorize a campus to negotiate when offers exceed cost estimates.

Changes to Current Rules:
580-050-0000 – Provides definition of terms used throughout Division 50.
580-050-0020(2) – Extends renewal of retainer agreements from one to two years.
580-050-0020(3) – Increases from $25,000 to $75,000 authority for the vice chancellor for finance and administration (VCFA) or designee to award contracts to consultants on retainer list; allows VCFA to award contracts between $75,000 and $200,000 to consultants pursuant to specified procedure; and for contracts over $200,000, permits award after competitive bidding.
580-050-0032 – Increases maximum amount under retainer agreement to $500,000.

New Sections:
580-050-0350 – Permits negotiation when offer exceeds cost estimates.
580-050-0360 – Permits offers by facsimile and electronic means.

Recommendation to the Board:
Staff recommends the Board approve amendments to OAR 580-050-0001 through 580-050-0100 as described above and approve 580-050-0350 and 580-050-360 (as cited above), all as temporary rules.

580-050-0000
Definitions
All capitalized terms in chapter 580, division 50 have the meanings set forth below, unless otherwise defined in the chapter 580, division 50 rules.
(1) Construction Trade Services: Construction services that are not personal services on projects that are not Public Improvements.
(2) Consultants: Architects, engineers, planners, land surveyors, appraisers, managers and related professional consultants.
(4) Emergency: Circumstances that were not foreseen that create a substantial risk of loss, damage, interruption of services or threat to the public health or safety that require prompt execution of a Contract to remedy the condition.
(5) Entity: A natural person capable of being legally bound, sole proprietorship, corporation, partnership, limited liability company or partnership, limited partnership, profit or nonprofit unincorporated association, business trust, two or more persons having a joint or common economic interest, or any other person with legal capacity to contract, or a government or governmental subdivision.
(6) Institution: One of the universities that is part of the Oregon University System, including the Board's Chancellor's Office.
(7) Institution Facilities Planning Official: The Vice Chancellor or, pursuant to OAR 580-050-0032(1) and (2), designee at an Institution with the authority to enter into Contracts. (8)
(8) Invitation to Bid or ITB: A Solicitation Document calling for Bids.
(9) Offer: A Bid or Proposal as applicable.
(10) Offeror: A Bidder or Proposer as applicable.
(11) Proposal: A competitive Offer submitted in response to a Request for Proposals or a request from an Institution Facilities Planning Official to respond to a proposed assignment under OAR 580-050-0020(3)(b) or (c).
(12) Public Improvement: Projects for construction, reconstruction or major renovation on real property by or for an Institution where the Contract Price exceeds $25,000, other than projects for which no funds of a public agency are directly or indirectly used except for participation that is incidental or related primarily to project design or inspection. "Public Improvement" does not include Emergency work, minor alteration, ordinary repair or maintenance necessary in order to preserve a Public Improvement or projects where the total Contract Price is less than $25,000.
(13) Request for Proposals or RFP: A Solicitation Document calling for Proposals.
(14) Request for Qualification or RFQ: A Written document that: (a) Provides a general description of a proposed project; (b) Indicates the type of Consultant services needed, including, if deemed necessary or appropriate, a description of the particular services needed for part or all of a proposed project or projects; and (c) Requests each prospective Offeror to provide a Written response setting forth the Offeror's specific experience and qualifications of performing the type of services required.
(15) Signed, Sign, or Signature: Any mark, word or symbol executed or adopted by a person on behalf of an Entity evidencing an intent to be bound.
(16) Solicitation Document: An Invitation to Bid or Request for Proposals or Request for Qualifications including all documents incorporated by reference.
(17) Specification: Any description of the physical or functional characteristics, or of the nature of a supply, service or construction item, including any requirement for inspecting, testing, or preparing a supply, service, or construction item for delivery and the quantities or qualities of materials to be furnished under the Contract. Specifications generally will state the result to be obtained and may, on occasion, describe the method and manner of doing the Work to be performed.

(18) Written or Writing: Conventional paper documents, either manuscript or printed, in contrast to spoken words. It also includes electronic transmissions or Facsimile documents when required by applicable law, or to the extent permitted by the Solicitation Document or Contract.

Capital Construction
580-050-0020
Appointment of Professional Consultants

The Vice Chancellor for Finance and Administration or designee is authorized to select and employ architects, engineers, planners and related professional consultants (collectively called "[c]onsultants" in this rule) energy management, [construction,] construction management, facilities planning, [improvements, repairs, deferred maintenance,] technical services and related activities in accordance with the following standards and procedures:

(1) General Standards; Selection Factors. The purposes of this rule are to assure that [c]onsultants are considered fairly for professional service [c]ontracts; that those selected will be highly qualified; and to encourage excellence and cost consciousness on the part of [c]onsultants. The following factors shall be considered in evaluating and selecting [c]onsultants:
(a) Experience, design talent and technical competence, including an indication of the planning process expected to be used in the work;
(b) Capacity and capability to perform the work, including any specialized services within the time limitation set for the work;
(c) Past record of performance on contracts with governmental agencies and private owners with respect to such factors as cost control, quality of work, ability to meet schedules and contract administration;
(d) Availability to and familiarity with the area in which the work is located, including knowledge of design and construction techniques peculiar to the area;
(e) Proposed cost management techniques to be employed; and
(f) Ability to communicate effectively.

(2) Procurement of Consultant Services Under Retainer Agreements. (a) At least biennially, in a trade periodical or an Oregon newspaper of general circulation, or on the Oregon University System's procurement website, and in at least one trade periodical or newspaper geared towards minority, women and emerging small businesses, the Vice Chancellor for Finance and Administration or designee shall publish a notice stating in substance that copies of this rule may be obtained from the Office of Finance and Administration and that consultants are invited to submit qualifications to the Vice Chancellor for Finance and Administration or designee for consideration. The Vice Chancellor for Finance and Administration or designee shall
also provide a copy of the above notice to the Office of Minority, Women and Emerging Small Business. A list of the names and addresses of the institution facilities planning official(s) designated by the institution president shall be provided to any consultant upon request.

[(3) Retainer Agreements:]

(a) Following the procedures set out in section (2)(a) of this rule, the Vice Chancellor for Finance and Administration or designee will prepare a list of potential [c]Consultants. An [i]Institution that wishes to enter into retainer agreements may convene a committee as described in paragraph [(4)](d)(c)(C) of this rule. Such committee shall review the list prepared by the Vice Chancellor for Finance and Administration or designee and any of the [c]Consultants who have expressed an interest and will select [c]Consultants who appear to have the qualifications for and interest in performing professional services for the [i]Institutions. The [i]Institution [p]lanning [o]fficial shall recommend to the Vice Chancellor for Finance and Administration or designee the selected [c]Consultants.

(b) Each selected [c]Consultant shall be invited to enter into a retainer agreement for a two-year period with the option to extend for an additional two-year term, utilizing a form of agreement approved by the Vice Chancellor for Finance and Administration. Such services of the selected [c]Consultants shall be available to all [i]Institutions requiring such services upon request of any [i]Institution [p]lanning [o]fficial. The Office of Finance and Administration, on its own initiative, selects consultants for retainer agreements. The Vice Chancellor for Finance and Administration or designee may enter into interagency agreements to permit other public agencies to utilize the services of [c]Consultants selected for retainer agreements pursuant to this subsection.

(c) Each institution facilities planning official will maintain a current roster of all consultants chosen for institutional retainer agreements by all institutions as well as a roster of retainer agreements entered into by the Office of Finance and Administration. The names of interested [c]Consultants not selected under subsection [(3) b] of this rule shall be maintained on a current roster and provided to the [i]Institution [p]lanning [o]fficial at each [i]Institution.

(d) [(4)3] [Contracting for General Procurement of Consultant Services: The procedures to be followed when contracting for professional consulting services will depend upon a combination of factors including the total anticipated fee and whether or not the [c]Consultant has entered into a retainer agreement pursuant to section [(3)2] of this rule.

(a) For professional services contracts where the anticipated professional fee, including [c]Consultant fees and reimbursable expenses and all amendments and supplements, is $275,000 or less, the Vice Chancellor for Finance and Administration or designee may authorize an appropriate [i]Institution [p]lanning [o]fficial to contract for such professional services with any [c]Consultant selected in subsection [(3)2](a) or [(3)2](b) of this rule or such other [c]Consultant as the [i]Institution [p]lanning [o]fficial may choose who appears to have the qualification for and interest in the proposed assignment.

(b) For professional service contracts involving an anticipated professional fee, including [c]Consultant fees and reimbursable expenses and including amendments and
supplements, between $[2]75,001 and $[1]200,000 or in an [e]mergency situation the Vice Chancellor for Finance and Administration or designee may authorize the [i]Institution [f]acilities [p]lanning [o]fficial to select a Consultant to perform the needed services using the following procedure:

- [i] Select a Consultant:
  - From those on retainer who appear to have the qualifications for and interest in the assignment; or
  - Select at least three Consultants not on a retainer agreement who appear to have the qualifications for and interest in the proposed assignment and notify each Consultant selected in reasonable detail of the proposed assignment and invite each Consultant to submit a Written Proposal;

- The [i]Institution [f]acilities [p]lanning [o]fficial shall negotiate a Contract with the selected Consultant, and if a mutually satisfactory contract cannot be agreed to, the [i]Institution [f]acilities [p]lanning [o]fficial may select another Consultant from the recommended consultants and enter into contract negotiations.

- For professional service contracts with an anticipated professional fee, including Consultant fees and reimbursable expenses over $[1]200,000, except in [e]mergency situations, the [i]Institution [f]acilities [p]lanning [o]fficial shall select Consultants for consideration[no fewer than five consultants] using the following procedure:
  - Announcement: The [i]Institution [f]acilities [p]lanning [o]fficial will give notice of intent to contract for professional services in a trade periodical, or newspaper of general circulation, or on the Institution's procurement website and in at least one trade periodical or newspaper geared towards minority, women and emerging small businesses. The notice shall include a description of the proposed project, the scope of the services required, and a description of special requirements, if any. The notice will invite qualified prospective Consultants to apply. The notice will specify where the Solicitation Document may be obtained and the Closing date. The [i]Institution [f]acilities [p]lanning [o]fficial shall also provide a copy of the above notice of intent to the Office of Minority, Women and Emerging Small Business.
  - Application: The application or Consultant's qualification must include a statement that describes the prospective Consultant's credentials, performance data and other information sufficient to establish the Consultant's qualification for the project, as well as any other information requested in the announcement.
  - Initial Screening: The [i]Institution [f]acilities [p]lanning [o]fficial shall appoint a Consultant screening committee consisting of no fewer than two individuals to review, score, and rank the Consultants according to the solicitation criteria. The Consultant screening committee will evaluate the qualifications of all applicants and select [no fewer than five] prospective Consultants whose applications demonstrate that the selected Consultants can best fulfill the provisions of section (1) of this rule.
  - The Final Selection Procedure:
    - Interviews: Following screening and evaluation, the [i]Institution [f]acilities [p]lanning [o]fficial and Consultant screening committee may invite to interview, in person, [a minimum of five] finalists selected from the initial screening.
    - Award of Contracts: The [i]Institution [f]acilities [p]lanning [o]fficial will make the final selection based on such factors as applicant capability, experience, project
approach and references; recommend the [c]Consultant to the president or designee; and notify the selected [c]Consultant of such selection.


(5) Following selection of a consultant, a report of all appointments under subsections (4)(a), (4)(b), and (4)(d) of this rule shall be made to the Board through the Vice Chancellor for Finance and Administration.

(6) The president or designee of the [i]Institution may execute amendments, modifications or supplements to executed professional service [c]Contracts within the scope of the original [c]Contract and the limits prescribed in this rule.

(7) Any [c]Consultant who has submitted a [p]Proposal as outlined in subsections (2)(a), (3)(a), (4)(3)(d) of this rule and claims to have been adversely affected or aggrieved by the selection of a competing [c]Consultant, and unless a different deadline is specified in the notice of intent to contract for professional services, shall:

(a) Have seven (7) calendar days after receiving notice of selection to submit a [w]Written protest of the selection to the [i]Institution [f]Facilities [p]Planning [o]Official. The [i]Institution [f]Facilities [p]Planning [o]Official shall not consider a selection protest submitted after the time period provided in this subsection, unless a different deadline is provided in the notice of intent to contract.


(c) Judicial review of the disposition of a [w]Written protest submitted in accordance with subsection (7)(a) of this rule may be available pursuant to the provisions of ORS 183.484.

580-050-0032
Contracts for Repairs and Public Improvements

(1) The Vice Chancellor for Finance and Administration, or designee shall be the contracting officer. All [c]Contracts for the repair of facilities or for [p]Public [i]Improvements shall be awarded and executed by the contracting officer unless delegated by the contracting officer.

(2) The contracting officer may delegate, through the [i]Institution president, to a specific person at each college and university the authority to execute [c]Contracts for the repair and improvement of facilities, provided that all applicable laws and rules are fulfilled. The [i]Institution president may, by written agreement with the president of another [i]Institution, subject to this rule, transfer such delegation to a person at such other [i]Institution. A copy of each such [c]Contract must be filed with the contracting officer or designee who may audit the project and the contracting process.

(3) The contracting officer or designee shall award [c]Contracts valued at $25,000 or more for the repair and improvement of facilities to the [best]lowest [b]Bidder or best
Proposer pursuant to appropriate competitive processes, including competitive bids, design/build competitions and negotiated procurements utilizing [r]Requests for Proposals, including agreement for construction manager/general contractor. Criteria for award shall include price and any other factors as the contracting officer or designee deems appropriate, including, but not limited to, past performance of the [c]Contractor, experience of the [c]Contractor and the [c]Contractor’s management team on projects of similar size and scope, the [c]Contractor’s reputation for quality and timely completion of projects, the [c]Contractor’s business and project management practices, the [c]Contractor’s demonstrated commitment to affirmative action, the [c]Contractor’s willingness to agree to the [c]Contract terms proposed by the contracting officer or designee and the [c]Contractor’s ability to post an appropriate bond. The contracting officer or designee shall maintain appropriate records of the competitive process utilized for each [c]Contract. The president of each college and university shall determine the procedures to be used for the award of [c]Contracts valued at less than $25,000 for the repair and improvement of facilities.

(4) The contracting officer or designee may enter into retainer agreements with [c]Contractors using appropriate competitive procedures that take into account, at a minimum, the qualification and reputation of the [c]Contractors, price structure, ability and willingness to respond to requests from one or more colleges and universities, location and such other factors as the contracting officer or designee shall deem appropriate. The contracting officer or designee may utilize the services of [c]Contractors under retainer agreement for projects whose [c]Contract price is less than the maximum established by the Board of Higher Education in its budget or $2,500,000, whichever is greater:

(a) Supplements to the retainer agreement, describing the scope of the specific work and price for which it will be performed, must be executed prior to the commencement of any work by a [c]Contractor.

(b) Supplements having a [c]Contract price of $25,000 or less shall not be subject to the provisions of section (6) of this rule. However, projects may not be divided into more than one supplement to avoid the application of section (6).

(c) The contracting officer or designee shall maintain appropriate records of the competitive process used to select a [c]Contractor from the list of [c]Contractors with current retainer agreements in force at the time the selection is made and the supplement is issued.

(d) The contracting officer or designee should solicit prices from at least two [c]Contractors under the retainer agreement, or document in the contracting file the reason for not doing so.

(5) The [c]Institution president may declare an [e]Emergency when he or she deems such a declaration appropriate. The reasons for the declaration shall be filed with the Vice Chancellor for Finance and Administration or designee and shall include justification for the use of any sole source or negotiated procurements for repairs and improvements within the scope of the [e]Emergency declaration. Upon the declaration, the contracting officer or designee may negotiate a [c]Contract with any qualified [c]Contractor for repairs or improvements included in the scope of the declaration. The contracting officer or designee shall maintain appropriate records of negotiations carried out as part of the contracting process.
(6) All public improvement contracts shall require contractors to pay and contractors shall pay, at least the rate of wage for labor determined by the Bureau of Labor and Industries to be the rate of wage for an hour's work in the same trade or occupation in the locality where such labor is performed for work performed under the contract. [A public improvement contract is defined as any contract in excess of $25,000 for the construction or improvement of facilities. The $25,000 amount may be adjusted annually by the Vice Chancellor for Finance and Administration based upon the change in the building index for Portland, Oregon published in the Engineering News Record or successor publication.] The contracting officer or designee may require any contractor to pay an amount to the Bureau of Labor and Industries to help defray costs of determining and administering prevailing wages. The method of determining any such charge shall be described in the solicitation document for the project.

(7) No contract shall be awarded to any contractor who is not licensed to do business in the State of Oregon.

(8) The contracting officer or designee may require bidders and contractors to post and maintain such bonds as the contracting officer or designee decides is appropriate. Requirements related to the posting, form, maintenance and return shall be included in solicitations and requests for bids and proposals.

(9) All contractors shall maintain in force at all times during the period of the contract such insurance as may be required by the contracting officer or designee.

(10) The contracting officer or designee shall ensure that retainage equal to five percent of the contract price is withheld from payments to any contractor. Such retainage shall be invested by the Vice Chancellor for Finance and Administration or designee in accordance with the provisions of OAR 580-040-0007. The principal amount of such retainage and all interest or other earnings from the date of the establishment of a retainage account through the date of completion established in the contract, less reasonable administrative costs, shall be paid to the contractor or the contractor's designee upon notification in writing by the contracting officer or designee that the work contemplated by the contract has been completed satisfactorily.

(11) The contracting officer or designee shall perform all the duties of the owner on behalf of the Oregon State Board of Higher Education.

(12) The contracting officer or designee may execute change orders to contracts as long as the scope of the contract is not altered materially by such change orders. Exceptions to this provision may be granted by the Vice Chancellor for Finance and Administration or designee.

(13) The Board of Higher Education may audit or investigate any contract or retainer agreement executed under authority of this rule.

(14) The following procedures shall be used in soliciting, evaluating and rejecting or accepting bids or proposals for contracts for repairs or public improvements:

(a) The provisions of sections (3), (4), (6), (7), (8), (10), (11), (13), (14), [(20),] (22), (23), (24), and (27) of OAR 137-30-000; sections (2) and (5) of OAR 137-30-010; OAR 137-30-012; [sections (1) and (3) of OAR 137-30-013; sections (1) and (4) of OAR 137-30-014;] sections (2) and (3) of OAR 137-30-030; sections (1), (2), and (4) of OAR 137-30-
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040; OAR 137-30-050 through OAR 137-30-085; OAR 137-30-100 through OAR 137-30-104; OAR 137-30-110; OAR 137-30-115(1); OAR 137-30-120; OAR 137-30-150; OAR 137-30-130; OAR 137-40-020; OAR 137-40-030; OAR 137-40-035; OAR 137-40-040; and OAR 137-40-045 effective January 1, 1995, shall be applicable to the bidding, awarding and administration of public contracts of the State System of Higher Education. (These may be found in the Oregon Attorney General's Model Public Contracting Rules Manual, January 1995);

(b) The State System of Higher Education reserves the right to reject any bid or proposal not in compliance with the solicitation documents, or with these rules, and to reject any or all bids or proposals upon a finding that it is in the public interest to do so;

(c) Low tie bids are bids that are responsive to all requirements and are identical in price, fitness, availability, and quality. Preference shall be given to the bidder whose principal offices or headquarters are located in Oregon. If no bidder is eligible for this preference, or if more than one bidder is eligible for this preference, the contract shall be awarded by drawing lots first among tied Oregon bidders or, if there are no such Oregon bidders, shall be awarded by drawing lots among all tied bidders;

(d) Unless a request for proposals is used, the contracting officer or designee shall not negotiate with any bidder prior to award of a contract. This prohibition may be waived by the Vice Chancellor for Finance and Administration or designee upon a finding that it is in the public interest to do so. Documents supporting such a finding shall be maintained by the contracting officer or designee.

Publications: The publication(s) referred to or incorporated by reference in this rule are available from the agency.

580-050-0350
Negotiation When Offers Exceed Cost Estimate
(1) If all Responsive Offers from Responsible Offerors on a competitively bid Project, including Offers received under OAR 580-050-0032(3) and (4), exceed the Institution's Cost Estimate, prior to Contract award the Institution may negotiate Value Engineering and Other Options with the Responsible Offeror submitting the lowest Responsive Bid or the best Responsive Proposal in an attempt to bring the Project within the Institution's Cost Estimate.

(2) The following definitions apply to this administrative rule:
(a) Cost Estimate: The Institution's most recent pre-Offer, good faith assessment of anticipated Contract costs, consisting either of an estimate of an architect, engineer or other qualified professional, or confidential cost calculation worksheets, where available, and otherwise consisting of formal planning or budgetary documents.
(b) Other Options: Those items generally considered appropriate for negotiation in the RFP process, relating to the details of Contract performance, but excluding any material requirements previously announced in the Solicitation Document that would likely affect the field of competition.
(c) Project: A Public Improvement or Construction Trade Services.
(d) Value Engineering: Those proposed changes to the plans, Specifications, or other Contract requirements which may be made, consistent with industry practice, under the original Contract by mutual agreement in order to take advantage of potential cost savings without impairing the essential functions or characteristics of the Public Improvement or Construction Trade Services. Cost savings include those resulting from life cycle costing, which may either increase or decrease absolute costs over varying time periods.

(3) In determining whether all Responsive Offers from Responsible Offerors exceed the Cost Estimate, only those Offers that have been formally rejected, or Offers from Offerors who have been formally Disqualified by the Institution, shall be excluded from consideration.

(4) Institutions shall not proceed with Contract award if the scope of the Project is significantly changed from the original Offer. The scope is considered to have been significantly changed if the pool of competition would likely have been affected by the change; that is, if other Offerors would have been expected by the Institution to participate in the solicitation process had the change been made during the solicitation process rather than during negotiation. This rule shall not be construed to prohibit resolicitation of trade subcontracts.

(5) Negotiations shall be initially undertaken with the lowest Responsive, Responsible Bidder or the best Responsive, Responsible Proposer. If the lowest Responsive, Responsible Bidder or the best Responsive, Responsible Proposer is not negotiating in good faith, the Institution may, at its sole discretion, negotiate Value Engineering and Other Options with the second lowest Responsive, Responsible Bidder or second best Responsive, Responsible Proposer. If that Offeror is not negotiating in good faith, the Institution may, at its sole discretion, negotiate Value Engineering and Other Options with the next lowest Responsive, Responsible Bidders (Each in order of their Bid) or the next best Responsive, Responsible Proposers (Each in order of their Proposal). Records of an Offeror used in Contract negotiations do not become public records unless they are also submitted to the Institution.

580-050-0360
Facsimile and Electronic Offers

(1) Institution Authorization. An Institution may authorize Offerors to submit Facsimile or Electronic Offers when the Institution has the resources available and adequate procedures in place to handle the Offers, preserve the "sealed" requirement of competitive procurement, deliver them timely to the Opening and, if Bid or Proposal security is or will be required, provide an alternative method for receipt of the security.

(2) Provisions To Be Included in Solicitation Document. In addition to all other requirements, if the Institution authorizes a Facsimile or Electronic Offer, the Institution will include in the Solicitation Document provisions substantially similar to the following:

(a) A Facsimile or Electronic Offer, as used in this solicitation, means an Offer, modification of an Offer, or withdrawal of an Offer that is transmitted to and received by the Institution via a Facsimile machine or the worldwide web.
(b) Offerors may submit Facsimile or Electronic Offers in response to this solicitation. The entire response must arrive at the place and by the time specified in this Solicitation Document.
(c) Offerors must Sign their Facsimile or Electronic Offers.
(d) The Institution reserves the right to award the Contract solely on the Facsimile or Electronic Offer. However, upon the Institution's request the apparently successful Offeror shall promptly submit its complete original Signed Offer.
(e) If Facsimile Offers are authorized, the data and compatibility characteristics of the Institution's receiving Facsimile machine as follows:
   (A) Telephone number;
   (B) Compatibility characteristics, e.g. make and model number, receiving speed, and communications protocol.
(a) If Electronic Offers are authorized, the e-mail address of the Institution to be used to receive Electronic Offers.
(b) The Institution is not responsible for any failure attributable to the transmission or receipt of the Facsimile or Electronic Offer including, but not limited to the following:
   (A) Receipt of garbled or incomplete documents.
   (B) Availability of condition of the receiving Facsimile machine, computer or computer system.
   (C) Incompatibility between the sending and receiving Facsimile machine or between the sending and receiving computers.
   (E) Delay in transmission or receipt of documents.
   (F) Failure of the Offeror to properly identify the Offer documents.
   (G) Illegibility of Offer documents.
   (H) Security and confidentiality of data.

BOARD DISCUSSION AND ACTION:

Chair Lorenzen recognized OUS General Counsel Benjamin Rawlins for discussion of the proposed temporary rules for contract administration. Rawlins acknowledged the previous version of the temporary rules and the review necessitated by various concerns. Rawlins reviewed the basic changes the temporary rules proposed, including definitions and changes in time periods and limits. Director Nesbitt cautioned against changing definition without understanding unintended consequences. Director Nesbitt explained that he wanted to ensure that the changes to the rules did not contradict the clarification underway between the Attorney General and the BOLI Commissioner regarding indirect funds for a public project. Rawlins noted that the changes to the proposed rules were an attempt to be consistent with BOLI rules. Director Nesbitt asked for clarifying language and Rawlins offered a suggestion. Director von Schlegell expressed whether or not the changes were necessary. Chair Lorenzen suggested that Director Nesbitt's concerns be memorialized to note that it was the Board's understanding the rule was consistent with BOLI rules. Rawlins noted the rules were temporary and any discrepancies could be corrected. Chair Lorenzen called for a motion to approve the temporary rules as proposed by staff. Director Van Vliet moved approval of the temporary rules as proposed by staff and Director Sohn seconded the

c. Resolution—Refunding Bond Sale

DOCKET:

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

OUS’ present value savings net of selling expenses are projected to be approximately $2.9 million. Maturity lengths will remain unchanged or be shortened. Under no circumstances will maturities be extended.

The sale date has been tentatively set for March 2005; however, Board action to approve the following bond resolution is required before the State Treasurer can arrange for, and proceed with, the sale.

RESOLUTION FOR THE SALE OF REFUNDING BONDS

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

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

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

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

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

NOW, THEREFORE, be it resolved by the State Board of Higher Education of the State of Oregon as follows:
Section 1. Issue. The State of Oregon is authorized to issue general obligation bonds (the "Bonds") in such series and principal amounts as the State Treasurer, after consultation with the Acting Chancellor of the Department of Higher Education, shall determine are required to refund all or any portion of its General Obligation Building Bonds, 1998 Series A; 1998 Series D; 1998 Series F; 1999 Series B; 2001 Series B; 2004 Series A; and any other series of bonds that meet the requirements established by law and approved by the State Treasurer.

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

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

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

Section 3. Sale of Bonds. The State Treasurer, with the concurrence of the Acting Chancellor, shall sell the Bonds as the State Treasurer deems advantageous.

Section 4. Other Action. The State Treasurer, the Acting Chancellor, or the Controller of the Department of Higher Education is hereby authorized, on behalf of the Board, to take any action that may be required to issue, sell, and deliver the Bonds in accordance with this resolution.

Staff Recommendation to the Board:

Staff recommends the Board adopt the following bond resolution authorizing the issuance of refunding bonds.

BOARD DISCUSSION AND ACTION:

OUS Controller Michael Green explained this action as permitting the Board to refund $70 million in bonds to save $2.9 million. Chair Lorenzen called for a motion to approve the resolution as proposed by staff. Director Dyess moved approval of the resolution and Director Sohn seconded the motion. All in favor: Dyess, Mendoza, Nesbitt,

d. OUS Undergraduate Admission Policy for the 2006-07 Academic Year

DOCKET:

Background:

The Oregon State Board of Higher Education policy calls for approval in February of the preceding calendar year of undergraduate admission requirements for Oregon University System (OUS) institutions for each academic year. This schedule is necessary for institutional planning, program implementation, publication production, and timely notice to prospective students.

Several changes in undergraduate admission requirements for the 2006-07 academic year have been proposed by OUS campuses. The two charts in the Undergraduate Admissions section of the report summarize freshman and transfer admission requirements for 2006-07.

Recommendations and Summary of Revisions to Admission Policy

1. Require submission of scores from a standardized writing examination from either ACT or SAT for freshman admission consideration for students graduating spring 2006 or later.

The national college entrance exams (ACT and SAT) have added writing assessments to their exams. OUS campuses have determined through internal reviews that they will require a standardized writing assessment for admission.

- Effective writing skills are critical to students’ academic success. With the availability of new standardized writing assessments, OUS universities will be better able to assess student preparedness for college-level work and will have new tools for placement in appropriate courses.

- Beginning in March 2005, all students taking the SAT will complete a standardized writing exam as part of the SAT Reasoning examination (formerly known as the SAT I). ACT will make a writing exam available on an optional basis and students who take the ACT will be required to take the optional writing exam.

- All OUS institutions currently plan to require applicants to submit writing exam scores as part of their SAT or ACT total score. It is recommended that this become a Systemwide requirement to reinforce the Board’s recognition of the importance of writing to student success and to standardize the process across the state’s public universities. Each university will determine how best
to use the exam in admission, advising, and placement processes based on institutional research.

- Changes to College Board examinations require reconsideration of several OUS admission requirements. The combined maximum SAT score will change from 1600 (800 Verbal and 800 Math) to 2400 (800 Critical Reading, 800 Writing, and 800 Math). This has implications for OUS universities that consider SAT and ACT scores as a way of qualifying students for admission. OUS universities will continue to use the Verbal (Critical Reading) and Math scores as they have in the past, while evaluating the predictive validity of the new Writing exam. Institutions will make changes after research is available on the new scores so that each campus is able to determine the best use of this new information in admitting and advising students.

2. **Change alternative requirements for Home Schooled students and nonaccredited high school graduates to reflect elimination of the SAT Subject (formerly SAT II) Writing Exam.**

Home Schooled students are treated for admissions purposes the same way as students who graduate from nonaccredited high schools. The College Board has eliminated the SAT Subject Exam writing assessment that was previously required for Home Schooled and graduates from nonaccredited high schools. Instead these students are expected to meet revised campus minimums on the SAT Reasoning exam that reflect the addition of the writing exam.

- With the addition of one SAT Reasoning exam, the number of required SAT Subject exams will decrease to two. Students will be required to take one SAT Subject exam in mathematics and encouraged to take the second exam in a second language.

3. **Eliminate the specification of the courses required to meet the Social Science course pattern requirement for freshman admission.**

Social science curriculum in Oregon high schools has been significantly changed in the past decade. As a result, the recommended high school course-taking pattern for social sciences has been revised, as follows:

- Social Science (3 units) that shall include analysis of societal issues and events. It is strongly recommended that study include knowledge and use of geographic information, patterns of United States history, patterns of human history, structures and systems of US Government, and analysis of economic systems.
4. Approve changes to transfer admission requirements at Oregon Institute of Technology and Southern Oregon University.

Oregon Institute of Technology and Southern Oregon University are updating their transfer admission policies to better ensure that admitted students are prepared for successful entry into their campuses.

- **OIT**: Research conducted two years ago, along with the professional experience of the Admission Committee, has indicated that a small increase in the minimum GPA requirement for transfer students is warranted in order to better ensure that admitted students are prepared to succeed academically. In addition, it has been observed that some transfer applicants meet the minimum GPA but have taken few “solid” academic classes, so stipulations regarding math and writing preparedness have been added, as well as a statement on the minimum number of transferable credits that must fall into an area of study other than physical education.

- **SOU**: In the spirit of aligning Southern Oregon University with the Oregon State Board of Higher Education’s desire to remove barriers and increase access, SOU would expand its transfer admission requirements. Applicants who have graduated with an AAOT degree from an Oregon community college or an Associate's degree from an approved exchange partner would be admitted with a minimum 2.00 GPA. Currently, a transfer student must possess a 2.25 GPA for admission. However, a student who completes his/her Associate's degree in good standing, but has a final GPA from 2.00-2.24, is not able to continue his/her education. SOU seeks to provide access for the pursuit of a Bachelor's degree to all qualified transfer students.

All appropriate university committees and the OUS Provosts’ Council have positively reviewed the proposed changes to the admission policy. (See Board recommendation listed on page 5 of this document.)

**Brief Update on Aligning Undergraduate Admission with K-12 Student Learning**

Higher education shares responsibility for building a stronger K-16 pipeline by aligning admission standards with K-12 academic standards. Oregon is already seeing positive outcomes as the result of its pioneering work in aligning K-12 standards and assessments with OUS expectations for student admission, as directed by the Joint Boards of Education. As reported to both Boards and the legislature in 2003, *The First Year Study* – based on data from more than 6,000 OUS freshmen and 10,000 community college students – found that students who met benchmarked standards in high school are more likely to attain academic success in their first year of college than those who did not. A second edition of the *First Year Study*, conducted in 2004, confirmed these results with even stronger correlations.

The Board has had a long-standing policy direction of recommending more proficiency information in the student’s admission profile. This is consistent with many other states,
as well as with policy recently urged by the National Governors Association Center for Best Practices.

To implement this policy fully, Oregon’s high schools and postsecondary institutions need improved student data connections. Much progress has been made in the past two years toward the design and implementation of an electronic K-16 Integrated Data-Transfer System. The Oregon Department of Education, the Oregon Department of Community Colleges and Workforce Development, and OUS are collaborating on an initial prototype. In addition, staff from each sector is working on a pilot to transfer data from K-12 to OUS and a community college. The target date for final statewide implementation is fall 2006, pending adequate funding. When the system is in place, student applicants will be able, through their high schools, to send OUS and community colleges a more comprehensive set of information about their performance for use in admission and placement.

If the data-transfer system is completed on schedule, statewide implementation is still unlikely to be complete by fall 2006. Therefore, students are encouraged, but not required, to include evidence of proficiency, if it is available to them, to complement undergraduate admission requirements in 2006. Evidence of PASS\(^1\) proficiency may include scores from state assessments, national assessments, and teacher-verified PASS information.

**Recommendation to the Board:**
The OUS Provosts’ Council recommends that the Board approve the following changes to the 2006-07 Admission Requirements:

1. Require submission of scores from a standardized writing examination from either ACT or SAT for freshman admission consideration for students graduating spring 2006 or later.

2. Change alternative requirements for Home Schooled students and nonaccredited high school graduates to reflect elimination of the SAT Subject (formerly SAT II) Writing Exam.

3. Eliminate the specification of the courses required to meet the Social Science course pattern requirement for freshman admission.

4. Approve changes to transfer admission requirements at Oregon Institute of Technology and Southern Oregon University.

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\(^1\) Proficiency-based Admission Standards System (PASS) was created in response to House Bill 3565 in 1991. Senate Bill 919 (1997) further required OUS to continue implementation of PASS.
## Undergraduate Admissions

The following two charts summarize freshman and transfer admission requirements for 2006-07. Subsequent sections of the report provide more detailed information.

### Undergraduate Freshman Admission Requirements for 2006-07

<table>
<thead>
<tr>
<th></th>
<th>EOU</th>
<th>OIT</th>
<th>OSU</th>
<th>PSU</th>
<th>SOU</th>
<th>UO</th>
<th>WOU</th>
</tr>
</thead>
<tbody>
<tr>
<td>High School Graduation</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Subject Requirements – 14 Units (4-English, 3-Math, 2-Science, 3-Social Studies, 2-Second Language)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>SAT Reasoning/ACT Scores¹</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>High School GPA</td>
<td>3.00²</td>
<td>3.00</td>
<td>3.00³</td>
<td>3.00</td>
<td>2.75</td>
<td>3.00⁴</td>
<td>2.75</td>
</tr>
<tr>
<td>Additional Campus Review Required (Evidence of proficiency, if available, will be considered here.)</td>
<td>Below 3.00 portfolio required</td>
<td>2.50 to 2.99</td>
<td>Below 3.00; or fewer than 14 subject units</td>
<td>2.70 to 2.99</td>
<td>Below 2.75</td>
<td>Below 3.25; or fewer than 16 subject units</td>
<td>Below 2.75</td>
</tr>
</tbody>
</table>

¹ Minimum test scores are not set, but test results must be submitted and may be used during additional campus review processes. Beginning Fall 2006, OUS schools require a standardized writing exam. Students submitting the new SAT II Reasoning exam will be submitting a standardized writing exam. Students submitting the ACT should submit scores from the optional writing examination.

² In courses taken to satisfy the subject requirements.

³ OSU automatically admits applicants who have a 3.00 high school GPA and 14 units of subject requirements. Applicants below the 3.00 high school GPA or lacking subject requirements will receive additional campus review. OSU requires the Insight Resume.

⁴ UO automatically admits applicants who have a 3.25 high school GPA and 16 units of subject requirements including the 14 OUS subject requirements and 2 additional academic units. Applicants below the 3.25 high school GPA or 16 units of subject requirements will receive additional campus review.

NOTE: All OUS institutions conduct more comprehensive reviews of applicants who do not meet the minimum required GPA for admission. Reviews include additional factors such as standardized test results, rigor of courses taken, review of writing sample or personal essays, Proficiency-based Admission Standards System (PASS) performance information, and other indicators that predict success in college.
Undergraduate Transfer Admission Requirements for 2006-07

<table>
<thead>
<tr>
<th></th>
<th>EOU</th>
<th>OIT</th>
<th>OSU</th>
<th>PSU</th>
<th>SOU</th>
<th>UO</th>
<th>WOU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum College Credits Required¹</td>
<td>30</td>
<td>36</td>
<td>36</td>
<td>30</td>
<td>36</td>
<td>36</td>
<td>24</td>
</tr>
<tr>
<td>GPA (Residents)</td>
<td>2.25</td>
<td>2.25²</td>
<td>2.25</td>
<td>2.00</td>
<td>2.25³</td>
<td>2.25</td>
<td>2.00</td>
</tr>
<tr>
<td>GPA (Nonresidents)</td>
<td>2.25</td>
<td>2.25²</td>
<td>2.25</td>
<td>2.25</td>
<td>2.25³</td>
<td>2.50</td>
<td>2.00</td>
</tr>
<tr>
<td>All Applicants Must Meet Specified Course Requirements⁴</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes⁵</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

¹ Students who have completed fewer than 12 transferable quarter credit (or 8 semester hours) must meet freshman admission requirements. Students who have completed from 12 to the minimum college credits required by the school and listed in the chart above.

² Transfer applicants who hold an Associate’s or Bachelor’s degree will be admitted with a 2.00 GPA.

³ Applicants to SOU who graduate with an AAOT degree from an Oregon community college or an Associate’s degree from an approved exchange partner will be admitted with a 2.00 GPA.

⁴ Courses required: OSU and UO require one writing course beginning with WR 121 with a grade of C- or above; and college algebra or above with a grade of C- or above, or the equivalent of Math 105.

EOU requires successful completion of a minimum of two courses in the sciences, social sciences, or humanities. College-level writing and math are strongly recommended.

OIT requires demonstration of readiness for college-level mathematics and writing; for example, by completion of the equivalent of Math 95 Intermediate Algebra (or higher) and WR 115 Introduction to Writing (or higher) with grades of C or above. Applicants who do not have an Associate's or Bachelor's degree must have at least 33 college-level credits that are not in Physical Education and no more than 10 percent of such an applicant’s credits may be in Physical Education.

⁵ OSU requires the Insight Resume.

NOTE: All OUS institutions require two years of same high school-level second language with a grade of C- or above, or two terms of a college-level second language with a grade of C- or above, or acceptable performance on proficiency-assessment options. American Sign Language meets the second language requirement. The second language requirement applies to transfer students graduating from high school in 1997 and thereafter.
Freshman Admission

To be admitted to freshman standing, students must fulfill each of the requirements (or alternatives) as specified in 1. through 4. below. Applicants failing to meet all of these requirements may receive a comprehensive review of their application that may result in an offer of admission.

1. **High School Graduation**

   **Nongraduates** qualify for admission by taking the GED, as follows:

   Meet the minimum score **and** average subtest score on the test of the General Educational Development (GED) as listed below.

<table>
<thead>
<tr>
<th>Campus</th>
<th>Minimum Score on Each Exam*</th>
<th>Minimum Overall Average Score for Five Subtests*</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOU</td>
<td>400</td>
<td>510</td>
</tr>
<tr>
<td>OIT</td>
<td>410</td>
<td>580**</td>
</tr>
<tr>
<td>OSU</td>
<td>410</td>
<td>580</td>
</tr>
<tr>
<td>PSU</td>
<td>410</td>
<td>460</td>
</tr>
<tr>
<td>SOU</td>
<td>410</td>
<td>550</td>
</tr>
<tr>
<td>UO</td>
<td>410</td>
<td>580</td>
</tr>
<tr>
<td>WOU</td>
<td>410</td>
<td>550</td>
</tr>
</tbody>
</table>

* For tests taken before January 1, 2002, scores were reported in a two-digit format. To convert a pre-2002 score to the current three-digit format, add a zero. (For example, a 41 becomes 410.)

** OIT: Applicants with GED composite scores between 550 and 570 (55 and 57) and a minimum of 410 (40) on each subtest must have minimum SAT Reasoning scores of 400 math and 800 combined Math and Critical Reading (formerly Verbal) or ACT scores of 17 math and 17 composite. For scores between 500 and 540 (50 and 54) and a minimum score of 410 (40) on each subtest must have minimum SAT Reasoning scores of 500 math and 1000 combined Math and Critical Reading (formerly Verbal) or ACT scores of 21 math and 21 composite.

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1 Students with any college credit note Transfer Admission, 1.
Graduates of Nonstandard or Unaccredited High Schools

Public high school graduates must have graduated from a standard\(^2\) high school.

Private high school graduates must have graduated from an accredited\(^3\) high school.

Graduates of nonstandard or unaccredited high schools must qualify for admission by meeting institutional SAT Reasoning Exam/ACT requirements and have an average score of 470 or above (940 total) on two College Board SAT Subject Tests (Math level I or IIC and another test of the student’s choice. An examination in a second language is strongly recommended to qualify student for admission by meeting the language proficiency requirements. Students who do not take an SAT Subject test in a second language must prove language proficiency through another approved process.)

Minimum ACT/SAT Reasoning Requirements for Students
Who Did Not Graduate from an Accredited or Standard School for 2006-07
(includes Math, Critical Reading, and Writing beginning March 2005)

<table>
<thead>
<tr>
<th>Campus</th>
<th>ACT* or SAT Reasoning</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOU</td>
<td>Portfolio Required</td>
</tr>
<tr>
<td>OIT</td>
<td>21 or 1470</td>
</tr>
<tr>
<td>OSU</td>
<td>23 or 1540</td>
</tr>
<tr>
<td>PSU</td>
<td>21 or 1470</td>
</tr>
<tr>
<td>SOU</td>
<td>21 or 1480</td>
</tr>
<tr>
<td>UO</td>
<td>22 or 1540</td>
</tr>
<tr>
<td>WOU</td>
<td>21 or 1470</td>
</tr>
</tbody>
</table>

* ACT scores are subject to change with additional information from ACT on integration of the optional writing exam.

2. Admission Tests (ACT and SAT)

Applicants must submit scores on the SAT Reasoning or American College Test (ACT) that include a standardized writing examination.

SAT Subject Tests are required for applicants who are graduates of unaccredited high schools, including home-schooled students.

Test scores are used:
- as an alternate means of meeting the GPA and/or subject requirements;
- to comply with the admission policy for graduates of unaccredited high schools;

\(^2\) Standard high schools are public high schools that are certified as meeting specified levels of resources, services, and quality established by the Oregon Department of Education.

\(^3\) Accredited high schools are those that are reviewed and recognized by a regional entity, such as the Northwest Association of Schools and Colleges, as meeting an appropriate level of academic rigor and support.
• in selectively admitting qualified applicants; and
• for advising, guidance, and research purposes.

3. **OUS Subject Requirements**

Applicants must satisfactorily (grade of C- or above) complete at least 14 units\(^4\) (one year equal to one unit) of college preparatory work in the following areas. Graduates of Oregon high schools may also use the Proficiency-based Admission Standards System (PASS) option to substitute for English, mathematics, science, social science, and second language subject requirements.

**English (4 units).** Shall include the study of the English language, literature, speaking and listening, and writing, with emphasis on and frequent practice in writing expository prose during all four years.

**Mathematics (3 units).** Shall include first-year algebra and two additional years of college preparatory mathematics selected from geometry (deductive or descriptive); advanced topics in algebra, trigonometry, analytical geometry, finite mathematics, advanced applications, calculus, and probability and statistics, or courses that integrate topics from two or more of these areas. One unit is strongly recommended in the senior year. (Algebra and geometry taken prior to ninth grade will be accepted.)

**Science (2 units).** Shall include a year each in two fields of college preparatory science such as biology, chemistry, physics, or earth and physical science. It is strongly recommended that one year be taken as a laboratory science and that a total of three years of science be taken.

**Social Studies (3 units).** Shall include analysis of societal issues and events. It is strongly recommended that study includes knowledge and use of geographic information, patterns of United States history, patterns of human history, structures and systems of US Government, and analysis of economic systems.

**Second Language (2 units).** Shall include two years of the same high school-level second language, or a C- or above in the third year of a high school-level language, or two terms of a college-level second language with a grade of C- or above, or satisfactory performance on an approved assessment of second language proficiency. Demonstrated proficiency in American Sign Language meets the second language requirement. The second language requirement only applies to applicants graduating from high school in 1997 or later. **[Students failing to meet this requirement must complete it with a grade of C or above or with two terms of the same college-level second language.]**

4. **High School Grade Point Average (GPA) and Subject Requirements**

\(^4\)Minimum requirements for admission to UO include these 14 units. For automatic admission, students must complete two additional approved units in any of the five subject requirements.
Eastern Oregon University
- High School Graduate or Portfolio Review
- Admission Test (ACT or SAT Reasoning)
- 3.00 high school GPA in courses that satisfy the OUS Subject Requirements
  - Alternative to GPA Requirement:
    - Review of a submitted portfolio that includes an essay on educational goals, recommendations, grades, coursework, test scores, and any other evidence of academic and community achievement.
- Subject Requirement: 14 units
  - Alternative to Subject Requirement:
    - Students who have below a 3.00 high school GPA in all subject requirement coursework may be selectively admitted based on a review of a submitted portfolio that includes an essay on educational goals, recommendations, grades, coursework, test scores, and any other evidence of academic and community achievement.

Oregon Institute of Technology
- High School Graduate
- Admission Test (ACT or SAT Reasoning)
- 3.00 cumulative high school GPA
  - Alternative to GPA Requirement:
    - High School GPA between 2.75 and 2.99: SAT Reasoning Math 400 or above and SAT Reasoning Math and Critical Reading combined score of 800 or above or ACT math of at least 17 and composite of at least 17.
    - High School GPA between 2.50 and 2.74: SAT Reasoning Math of 500 or above and SAT math and verbal combined score of 1000 or above or ACT math of at least 21 and composite of at least 21.
- Subject Requirement: 14 units
  - Alternative to Subject Requirement:
    - Score an average of 470 or above (940 total) on two College Board SAT Subject Tests (Math Level I or IIC and a second test of the student’s choice. Students who do not take an SAT Subject test in a second language must prove language proficiency through another approved process.)

Oregon State University
- High School Graduate
- Admission Test (ACT or SAT Reasoning)
- 3.00 minimum cumulative high school GPA and 14 academic subject requirements. Applicants with a GPA below 3.00 will be considered based on additional criteria listed below.
  - Strength of Curriculum: OUS Subject Requirement, 14 units, with additional consideration for:
- Math course(s) beyond Algebra II
- Advanced Placement courses
- International Baccalaureate courses
- College-level courses
- Oregon PASS scores

- Insight Resume (written experiential assessment)

**Alternatives to Subject Requirement:**
- Score an average of 470 or above (940 total) on two College Board SAT Subject Tests (Math Level I or IIC and a second test of the student’s choice. An examination in a second language is strongly recommended to qualify student for admission by meeting the language proficiency requirements. Students who do not take an SAT Subject test in a second language must prove language proficiency through another approved process.) OR
- Successfully completing course work (high school or college transfer) for specific subject deficiencies.

- Alternatives should be completed by high school graduation.

**Portland State University**
- High School Graduate
- Admission Test (ACT or SAT Reasoning)
- 3.00 high school cumulative GPA

- Alternative to GPA Requirement:
  - 1000 SAT Critical Reading (formerly Verbal) and Math or 21 ACT

- Subject Requirement: 14 units

- Alternative to Subject Requirement:
  - Score an average of 470 or above (940 total) on two College Board SAT Subject Tests (Math Level I or IIC and a second test of the student’s choice. An examination in a second language is strongly recommended to qualify student for admission by meeting the language proficiency requirements. Students who do not take an SAT Subject test in a second language must prove language proficiency through another approved process.)

**Southern Oregon University**
- High School Graduate
- Admission Test (ACT or SAT Reasoning)
- 2.75 high school cumulative GPA

- Alternative to GPA Requirement:
  - 1010 SAT Critical Reading (formerly Verbal) and Math or 21 ACT

- Subject Requirement: 14 units

- Alternative to Subject Requirement:
  - Score an average of 470 or above (940 total) on a minimum of two College Board SAT Subject Tests (Math Level I or IIC and a second test in the area of deficiency. An examination in a second language is strongly recommended to qualify student for admission by meeting the language proficiency requirements. Students who do
not take an SAT Subject test in a second language must prove language proficiency through another approved process.)

- [If admitted by exception to the second language requirement, the admission deficiency must be made up through two terms of a college-level second language.]

**University of Oregon**
- High School Graduate
- Admission Test (ACT or SAT Reasoning)
- 3.00 minimum cumulative high school GPA and 14 academic subjects. Automatic admission requires a 3.25 GPA and two additional subject requirements.
  - Applicants below a 3.25 GPA or with less than 16 academic units are considered for admission through a comprehensive review, which includes:
    - Rigor of courses taken in high school;
    - Grade trends throughout high school;
    - Number of senior year academic courses;
    - Quality of admission essay; and
    - SAT Reasoning or ACT scores and other factors provided by the applicant.
- Subject Requirement: 14 units (16 for automatic admission)
  - Subject requirements can also be met alternatively by:
    - Score an average of 470 or above (940 total) on two College Board SAT Subject Tests (Math Level I or IIC and a second test of the student’s choice. An examination in a second language is strongly recommended to qualify student for admission by meeting the language proficiency requirements. Students who do not take an SAT Subject test in a second language must prove language proficiency through another approved process.)

**Western Oregon University**
- High School Graduate
- Admission Test (ACT or SAT Reasoning)
- 2.75 high school GPA
  - Alternative to GPA Requirement:
    - 1000 SAT Critical Reading (formerly Verbal) and Math or 21ACT
- Subject Requirement: 14 units
  - Alternative to Subject Requirement:
    - Score an average of 470 or above (940 total) on two College Board SAT Subject Tests (Math I or IIC and a second test of the student's choice. Students who do not take an SAT Subject test in a second language must prove language proficiency through another approved process.)
Five Percent Special Admission
Institutions are authorized to admit a quota of freshmen totaling no more than five percent of the institution’s first-time freshman class for the previous academic year as exceptions to the stated admission requirements. To qualify for five percent special admission, applicants are considered on a case-by-case basis. [If admitted by exception to the second language requirement, the admission deficiency must be made up by completion of two terms of a college-level second language or by demonstration of proficiency in a second language.]

Selective Admission
Institutions are authorized to manage enrollment to ensure the maintenance of academic quality. Thus, simply qualifying for admissions does not guarantee admission; institutions may use a number of other factors in making a final admissions decision.

Transfer Admission

1. All Transfer Applicants

- Students who have earned between 12 and 36 quarter credit hours of college-level work (Oregon Institute of Technology, Oregon State University, Southern Oregon University, University of Oregon); 30 (Eastern Oregon University, Portland State University); or 24 (Western Oregon University) must meet both freshman and transfer admission requirements. Students who have completed fewer than 12 transferable quarter credits (or 8 semester hours) must meet freshman admission requirements.

- Students who meet the above minimum college credits to be reviewed using transfer admission criteria must meet GPA requirements in acceptable college work: 2.25 (Eastern Oregon University, Oregon Institute of Technology, Oregon State University, Southern Oregon University, University of Oregon) or 2.00 (Portland State University, Western Oregon University).

- Transfer applicants under freshman admission or transfer requirements must have completed two terms of a college-level second language with an average grade of C- or above, or two years of the same high school-level second language with an average grade of C- or above, or satisfactory performance on an approved second language assessment of proficiency. Demonstrated proficiency on American Sign Language meets the second language requirement. The second language requirement applies to transfer applicants graduating from high school in 1997 or after.
2. Applicants Must Meet Institutional Requirements

**Eastern Oregon University**
- A minimum GPA of 2.25 or above in 30 or more quarter credit hours of acceptable college-level work.
- Successful completion of a minimum of two courses in the sciences, social sciences, or humanities. College-level writing and math are strongly recommended.

**Oregon Institute of Technology**
- A minimum GPA of 2.25 or above in 36 or more quarter credit hours of acceptable college-level work. Students who hold an Associate or Bachelor's degree will be admitted with a 2.00 GPA or higher.
- Applicants who do not have an Associate’s or a Bachelor’s degree must have at least 33 college-level credits that are not in Physical Education and no more than 10 percent of such an applicant’s credits may be in Physical Education.
- OIT requires demonstration of readiness for college-level mathematics and writing; for example by completing the equivalent of Math 95 Intermediate Algebra (or higher) and WR 115 Introduction to Writing (or higher) with grades of C or above.

**Oregon State University**
- A minimum GPA of 2.25 or above in 36 or more quarter credit hours of acceptable college-level work;
- One writing course beginning with WR 121 with a grade of C- or above;
- College algebra or above with a grade of C- or above, or the equivalent of Math 105; and
- Insight Resume (written experiential assessment).

**Portland State University**
- A minimum GPA of 2.00 or above in 30 or more quarter credit hours of acceptable college-level work.

**Southern Oregon University**
- A minimum GPA of 2.25 or above in 36 or more quarter credit hours of acceptable college-level work.
- Students who graduate with an AAOT degree from an Oregon Community College or an Associate’s degree from an approved exchange partner will be admitted with a 2.00 GPA.

**University of Oregon**
- A minimum GPA of 2.25 or above in 36 or more quarter credit hours of acceptable college-level work;
- One writing course beginning with WR 121 with a grade of C- or above; and
• College algebra or above with a grade of C- or above, or the equivalent of Math 105.

**Western Oregon University**
• A minimum GPA of 2.00 or above in 24 or more quarter credit hours of acceptable college-level work.

**Special Transfer Admission**
Institutions are authorized to grant special admission to transfer applicants on a case-by-case basis in accordance with each institution’s transfer admission policy. *If admitted by exception to the second language requirement, the admission deficiency must be made up by completion of two terms of a college-level second language or by demonstration of proficiency in a second language.*

**Selective Admission**
Institutions are authorized to manage enrollment to ensure the maintenance of academic quality. Thus, simply qualifying for admissions does not guarantee admission; institutions may use a number of other factors in making a final admissions decision.

**BOARD DISCUSSION AND ACTION:**

Chair Lorenzen turned to Provosts’ Council Chair Lorraine Davis for an explanation of the OUS Undergraduate Admission Policy for the 2006-2007 Academic Year. Davis started with withdrawing proposal number one regarding the foreign language requirement from the docket materials.

The original docket submission contained the following:

1. **Eliminate the current requirement that students admitted with a second language admission deficiency fulfill this requirement prior to university graduation.**

The current policies regarding second language requirements for admission were implemented in 1997. The proposed change is a further refinement that is based upon eight years of experience by campuses. Removing the current stipulation regarding admission of students who have not completed two years of high school second language will standardize admission practices and remove unnecessary barriers for students. This change will:

- Treat second language the same way as the other subject area requirements (English, math, science, and social sciences);
- Eliminate a period of frustration for the small number of affected students who were not able to complete the two terms of college-level second language required to graduate; and
- Increase campus flexibility to admit students who otherwise are qualified for admission.
Provost Davis explained that it created some confusion and that the Provosts’ Council would take the opportunity to study it more. Davis observed that the other changes were primarily technical in nature to reflect the addition of writing assessments to the SAT and ACT. Chair Lorenzen asked about student opinions on the new writing elements to the SAT and ACT. Chair Lorenzen asked for a motion to approve the OUS Undergraduate Admission Policy for the 2006-2007 Academic Year with recommendation number one regarding the foreign language requirement withdrawn. Director Mendoza moved approval of the Undergraduate Admission Policy as described by Chair Lorenzen and Director Richmond seconded the motion. All in favor: Dyess, Mendoza, Nesbitt, Richmond, Schuette, Sohn, von Schlegell, Van Vliet, and Lorenzen. Opposed: none. Motion passed. (Note: the restored second language requirement is contained above within brackets and is in bold/underlined type.)

e. UO, Mackenzie Memorial Fund Transfer to OHSU

DOCKET:

Introduction:
In 1939, the University of Oregon (UO) received a $250,000 bequest from Mrs. Mildred Anna Williams to establish the Kenneth A.J. Mackenzie Memorial Fund, in honor of the Dean of the University of Oregon Medical School from 1912 until his death in 1920. The use of money from the Fund was not restricted by the terms of the bequest. However, since 1941, income from the endowment has been used to fund five scholarships for UO students who attend the medical school and to support the A.J. Mackenzie Professorship in Surgery. Oregon Health & Science University (OHSU) is willing to actively manage the fund, which was valued at $901,544 as of December 31, 2004. Both OHSU and UO would benefit if the fund’s value increases at a greater rate. UO proposes to transfer the Mackenzie Memorial Fund to OHSU. An agreement, to be signed if the Board approves, ensures that UO students receive scholarships at the same level or greater than currently and provides for the fund to revert to UO should OHSU no longer have a Department of Surgery or cease to operate as a public corporation or non-profit entity. UO requests the Board liquidate assets equal to the current value of the fund and transfer those assets to OHSU pursuant to the proposed agreement.

Background:
The Kenneth A.J. Mackenzie Memorial Fund was established through a bequest from Mrs. Mildred Anna Williams. The Fund was created in 1940 from Mrs. Williams’ estate pursuant to the terms of her will without restriction on its uses. In 1941, then UO President Donald Erb and Dean R.B. Dillehunt agreed by letter that the income from the Fund would fund five scholarships for UO students who would be attending UO Medical School and the remaining funds would, on an annual basis, be used to establish and fund the A.J. Mackenzie Professorship in Surgery. The Board approved this use October 28, 1941.
After OHSU was created in 1977, the UO and OHSU agreed to continue the arrangement, using income from the fund to support five scholarships for UO students and using the remainder to fund the endowed surgery chair. The Fund was not affected by OHSU’s change in relationship to OUS in 1995.

During 2003, OHSU contacted UO, asking if UO would consider transferring the Fund to OHSU for management. As a result of negotiations, the parties have reached an agreement. Under the terms of the agreement:

- The Board would transfer the Fund to OHSU.
- Each year, OHSU will transfer funds to be used for five scholarships. The total amount transferred annually will be 0.5 percent of the average value of the principal over the last six years, beginning in 1998–2004.
- If the principal increases by 3 percent or more in any fiscal year, the base amount of the scholarship will increase by at least 3 percent.
- OHSU will provide an annual accounting of the Fund.
- If OHSU ceases to operate either as a public corporation or a non-profit entity under IRS Code Section 501(c)(3) or no longer maintains a medical school or no longer maintains a surgical training department within its medical school, all monies identified with the Fund will revert to the UO.

The University of Oregon believes the transfer is consistent with the terms of the original bequest and with the agreements made at the time of the bequest, subsequently approved by the Board. The UO has conferred with OUS Controller Michael Green related to the requirements for this transfer.

**Staff Recommendation to the Board:**
Chancellor’s Office and UO staff request the Board authorize the Controller to liquidate assets equal to the current value of the fund and transfer those assets to OHSU pursuant to the proposed agreement.

**BOARD DISCUSSION AND ACTION:**

Chair Lorenzen asked OUS Controller Michael Green to explain the UO transfer of remaining trust to OHSU. Green explained UO received a bequest in 1939 and it was used to establish scholarships for UO students to attend OHSU. After OHSU became a public corporation, the arrangement between UO and OHSU continued. Green stated UO and OHSU have agreed to transfer the fund to OHSU and are asking the Board to authorize the Chancellor to liquidate assets equal to the current value of the fund and to transfer those assets to OHSU pursuant to the proposed agreement. Chair Lorenzen called for a motion to authorize the transfer as proposed by staff. Director Schuette moved authorization to the proposed transfer and Director Nesbitt seconded the motion. All in favor: Dyess, Mendoza, Nesbitt, Richmond, Schuette, Sohn, von Schlegell, Van Vliet, and Lorenzen. Opposed: none. Motion passed.
5. COMMITTEE REPORTS

Chair Lorenzen explained that the Board would turn to committee reports before other reports.

a. Standing Committees
   i. Finance/Budget/Audit/Personnel/Real Estate

Chair Lorenzen noted that Board members were present for the FBAPRE Committee meeting and that a duplicative report would not be necessary.

b. Working Groups
   i. Access and Affordability

Chair Lorenzen recognized Director Nesbitt for the Access and Affordability report. Director Nesbitt referred to the one-page handout and provided a brief background of the Working Group's work. He observed the effort to work on redesigning the Oregon Opportunity Grant to reach more students and provide more aid to those students. Director Nesbitt also explained that there was discussion on how to direct more of the assistance to students who choose to enroll in public institutions and the possibility of using ten percent of the redesigned program for new initiatives. Director Nesbitt outlined the principles impacting the Working Group's efforts to redesign the Oregon Opportunity Grant considering the Governor's proposal in his recommended budget. He acknowledged the important interim steps taken to answer concerns and questions from various sectors.

At this juncture, Chair Lorenzen stopped the meeting due to the noise from protesters. He moved to the public input session in order to permit protesters to make comments. Felicia Hagens of SEIU and Rosemary Powers and Gregory Monahan of EOU discussed their dismay with the status of collective bargaining at EOU. Director Nesbitt asked if it was appropriate for President Fatemi to respond and Chair Lorenzen said no. Director Nesbitt mentioned statutory provisions regarding fact-finding and mediation and Chair Lorenzen noted that to have President Fatemi respond at that moment would be inappropriate because of the ongoing bargaining proceedings.

Director Nesbitt returned to his review of the Access and Affordability report. He turned to the proposed changes to the Oregon Opportunity Grant, including the adjustments to grant amounts for different sectors, the independent schools calibration, and the one-time incentive grant for those students that earn the CIM. Director Mendoza asked if the incentive grant was something for the future or was it intended to be just for the next year; Director Nesbitt noted that it was intended to be part of the Oregon Opportunity Grant for every new entering class. He also added that the part-time students were included in the redesign of the Oregon Opportunity Grant. Director Nesbitt noted the redesign would reach 24,700 additional students and represented a new partnership with public and private four-year institutions, community colleges, and OSAC.
ii. Excellence in Delivery and Productivity

Chair Lorenzen turned to Director Schuette for an EDP report. She acknowledged the Joint Boards’ action on the Oregon Transfer Module. Director Schuette observed the work on legislative fronts, including the seamless transfer, acceleration for high schools, and the data transfer proposal. She also mentioned the Oregon Link Degree Audit.

iii. Academic Excellence and Economic Development

Chair Lorenzen recognized Director Dyess for an AEED report. She reported concerning the January meeting and the work of the various sub-teams. Director Dyess discussed some of the present opportunities and noted the momentum of ONAMI and ETIC. Director Dyess also noted the collaborative work regarding the medical personnel shortage and the extensive work on sustainability. Director Dyess offered that a full report would be coming in either April or May. Director Van Vliet asked if the Department of Economic Development were more willing to share money with higher education and Director Dyess acknowledged that they were.

c. Other Board Committees
   i. OHSU

Director Dyess observed Provost Hallick previously discussed OHSU matters.

ii. Oregon College Savings Plan

Director Nesbitt discussed the resumption of advertising for the Oregon College Savings Plan and that the assets had grown in the Plan. He mentioned that the Board was considering many proposals to encourage saving for college.

iii. Joint Boards Working Group

Director Van Vliet made brief comments regarding the Joint Boards Working Group and echoed statements regarding the Joint Boards of Education meeting the previous day.

6. REPORT ITEMS

a. Educational Cost per Student—2003-04

I. Executive Summary

*Background:* OUS established a committee of campus Budget Officers, Business Managers, and Institutional Research staff in April 2004 to develop a common methodology across campuses for determining program costs on a per-student basis. The Committee focused its initial efforts on calculating the Cost per Student for Undergraduate Education at each
campus. The initial study results on educational costs per undergraduate student for 2002-03 were presented to the Board in November 2004.

This report contains further analysis of the OUS cost structure, including costs by program and level, estimates of marginal costs, identification of major cost drivers, and comparisons of administrative costs. The costs estimates in the study are based on 2003-04 audited financial statements and tie directly to System expenses.

The Cost Study continues to be a work in progress. Calculating the total cost per student for the System is relatively straightforward; however, estimating costs by program, excluding costs that are not directly related to the educational programs for students (e.g. research and public service), and allocating indirect charges all require professional judgment and a degree of subjectivity. Areas identified for further refinement and analysis are noted throughout the report.

**Results:**

**Total Educational Cost per Student**
The estimated per-student education cost for all students averaged $9,926 for 2003-04. Cost per student ranged from $8,435 at Western Oregon University to $11,810 at Oregon Institute of Technology. Costs per student vary among OUS institutions primarily due to program offerings. Other factors that influence the cost per student are the size and location of the institution, campus mission, and facilities.

It is important to note that the “cost per student” is in part a function of the level of funding available. For example, if student-faculty ratios were decreased and faculty compensation was increased to the average level of OUS peer institutions, then the cost per student would be substantially higher.

Table 1 shows the estimated Average Annual Educational Costs per Student for the Oregon University System for 2003-04 in total and by funding source. Budgeted Operations include state appropriations that support the Education Program, tuition and education resource fees, and a small amount of miscellaneous income. Restricted Funds include gifts, grants, contracts that support the educational program. Research, Public Service, and Indirect Costs related to those activities are excluded. Only the net cost of operating Auxiliary Services and Inter-Collegiate Athletics are included in the estimates.
### TABLE 1

**Oregon University System**  
**Estimated Cost Per Student**  
**Fiscal Year 2003-2004**

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<th>Total Cost Per Student</th>
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TABLE 2  
Estimated Cost per Student by Campus

Oregon University System
Estimated Cost Per Student

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<th>OIT</th>
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<td>6,115</td>
<td>7,433</td>
<td>5,660</td>
<td>5,699</td>
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</table>

Findings and Conclusions

- Campus mission and the mix of programs and enrollments at each institution are the major drivers of the Educational Cost per Student, influencing a number of inter-related factors that determine costs, including student/faculty ratios, the mix of faculty, compensation levels, and campus size.

- “Cost per student” is in part a function of the level of funding available, and funding per student is relatively low in Oregon compared to other states, at 94 percent of the national average in 2002-03. State funding per student in Oregon was 70 percent of the national average in 2002-03 (ranking 44th).

- With declines in state funding, non-resident tuition has become a critical source of revenue, particularly at OSU and UO.
• Spending per student at OUS institutions reflects the revenue constraints experienced over the past several years: increasing student/faculty ratios, greater reliance on part-time faculty, relatively low faculty compensation levels.

• Federal and state funding to support research does not fully cover the indirect costs of conducting research activities at all campuses.

Recommendations for further study

• Estimate the additional costs per student to bring faculty salaries, student/faculty ratios, and facilities maintenance spending at OUS institutions to the average of comparable institutions.

• Study changes in estimated cost per student over time.

• Refine methods for allocating costs to auxiliaries, research, public service, and other activities.

• Review financial policies regarding Auxiliary Operations to clarify accounting practices and define "self-supporting" operations. For example, the administrative costs charged to auxiliary operations vary widely across the campuses.

• Gain a deeper understanding of fixed and variable costs and the marginal costs of providing additional support for research and auxiliary services.

• Create greater consistency in accounting methods and account code classification across campuses. Although accounting practices are similar across campuses, improving and maintaining comparability of accounting data requires ongoing effort.

II. OUS Cost Drivers

Cost differences among campuses are driven by a number of factors based on the campus missions:

• Program Mix – High, Medium, Low Cost Disciplines

• Student Enrollment Mix
  o Undergraduate - Upper/lower division
  o Graduate – Masters/Doctoral

• Student/Faculty Ratios

• Faculty Mix and Compensation Levels
  o Professors, Associate Professors, Assistant Professors, Instructors
  o Full-time and part-time faculty
  o Average Faculty Compensation
• Campus Mission, Location, and Size
• Over/under enrollment compared to capacity
• Aging Facilities

Providing educational services is heavily labor intensive and understanding the costs and components of employee compensation is key to identifying major cost drivers. In OUS, Instruction and Student Services comprise nearly 70 percent of the educational budget. Costs are driven by:

**Student/Faculty Ratios:**
Student/faculty ratios are based on a number of factors, including the mix of programs and enrollments, facilities limitations, and funding levels. OUS student/faculty ratios are high compared to peers and have increased rapidly over the past five years as shown in the following chart. The changes in the ratio of students to full-time faculty are based on two factors: increases in overall student/faculty ratios and in the percentage of part-time faculty.

![Changes in Ratio of Students to Full-time Faculty](chart)

**Faculty compensation:** OUS average faculty compensation is relatively low. OUS also surveyed total faculty compensation for 2002-03, adjusted for differences in cost of living, among large OUS institutions and doctoral degree-granting institutions across the nation. OUS large universities ranked in the lowest 30th percentile, ranking from #105 to #131 of 147 institutions.

A separate survey found that OUS faculty compensation lags the average compensation of peer institutions. The following table shows total compensation at OUS institutions as a percentage of the peer group averages. It also shows the ranking of each institution within the peer groups. Note: Faculty distribution for each university is standardized to 35 percent professors, 30 percent associate professors, 30 percent assistant professors, and 5 percent instructors for purposes of comparison with peer institutions.
TABLE 3

<table>
<thead>
<tr>
<th>2003-04 OUS Faculty Total Compensation Compared with Peers</th>
<th>Percent of Peer Average</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oregon State University</td>
<td>93.2%</td>
<td>15 of 19</td>
</tr>
<tr>
<td>Portland State University</td>
<td>87.5%</td>
<td>19 of 19</td>
</tr>
<tr>
<td>University of Oregon</td>
<td>92.6%</td>
<td>17 of 19</td>
</tr>
<tr>
<td>Eastern Oregon University</td>
<td>87.4%</td>
<td>13 of 13</td>
</tr>
<tr>
<td>Southern Oregon University</td>
<td>94.0%</td>
<td>10 of 13</td>
</tr>
<tr>
<td>Western Oregon University</td>
<td>96.2%</td>
<td>7 of 13</td>
</tr>
<tr>
<td>Oregon Institute of Technology</td>
<td>97.3%</td>
<td>5 of 12</td>
</tr>
</tbody>
</table>

Cost Increases

Employee salaries and benefits comprise approximately 80 percent of all operating expenses. Annual increases in average salaries over the past ten years have been relatively modest, but the costs of retirement and health benefits are rising rapidly.

<table>
<thead>
<tr>
<th>2003-04 Education and General Operating Expenses</th>
<th>Percent of Spending</th>
<th>Avg. Annual Increase*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>56%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Retirement (Rates)</td>
<td>9%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Health Benefits</td>
<td>8%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Other Payroll costs (Rates)</td>
<td>7%</td>
<td>--</td>
</tr>
<tr>
<td>Supplies, Services, etc</td>
<td>20%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Portland CPI</td>
<td>100%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

*Ten year average – 1994-2004

III. OUS Revenue per Student

The following table compares the estimated educational cost per student with the per-student revenues available to support the educational program. General Fund revenues that are targeted to support research and public service within the Resource Allocation Model were not included. In 2003-04, 36 percent of per-student revenues devoted to education programs were provided by state funding, 57 percent by tuition and educational resource fees, and 7 percent from other sources.
Nonresident students comprise 14 percent of student enrollment across the System but contribute 30 percent of tuition revenues. Most of the nonresident tuition revenues are generated by the UO (55 percent) and OSU (28 percent). As state funding has declined as a percentage of total funding, these two campuses are relying on nonresident tuition dollars to subsidize state funding and resident tuition revenues to maintain instructional programs.

### TABLE 4

<table>
<thead>
<tr>
<th>2003-04 Education Cost per Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction &amp; Student Services 6,823</td>
</tr>
<tr>
<td>Institutional &amp; Community 183</td>
</tr>
<tr>
<td>Indirect Costs 2,134</td>
</tr>
<tr>
<td>Financial Aid Costs 786</td>
</tr>
<tr>
<td><strong>Total Costs</strong> $9,926</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education Revenue per Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund 3,619</td>
</tr>
<tr>
<td>Tuition &amp; Fees - Resident 4,121</td>
</tr>
<tr>
<td>- Nonresident 1,661</td>
</tr>
<tr>
<td>Other Revenue 701</td>
</tr>
<tr>
<td><strong>Total</strong> $10,102</td>
</tr>
</tbody>
</table>

**IV. Program Cost Analysis – 2003-04**

The program cost analysis is built on the Committee’s prior work in calculating the average Educational Cost per Student. Education costs are driven in large part by the mix of programs and student enrollments at each institution. Using the overall cost per student shown in Table 1, the table below estimates the average cost per student across the Oregon University System by student level and discipline, with disciplines categorized as low, medium, or high cost according to the Resource Allocation Model (RAM) cell values. These relative values were adjusted to also include tuition and resource fees.

The cell values were used because the RAM was based on national cost studies and provides an objective view of program cost differentials. Given the average cost per student at each campus, the number of student FTE enrolled at each level and discipline, and the estimated cost differentials from the RAM, it was possible to estimate Cost per Student by Level and Discipline. Further description of the calculations is included under Methodology in Section VI of this report.
The number of FTE enrolled at each cell range for 2003-04 is shown in the following table. The majority of students are enrolled in the lower cost disciplines, with the greatest number at the Upper Division Undergraduate level.

Table 7 estimates the Cost per Student at each campus for the lowest cost programs, i.e., Lower Division, Level 1. This analysis isolates Cost per Student to some extent from the mix of programs and enrollments. The remaining differences among the campuses can be explained for the most part by other cost drivers, such as student/faculty ratios, mix of faculty, average faculty compensation, size of campus, and indirect costs. It is important to note that the inter-relationships among the cost factors are complex. For example, factors that influence average faculty compensation include the general salary level at the campus, benefits costs, the percentage and mix of full-time faculty, and available revenues.
TABLE 7
2003-04 Total Cost per Student Compared with Lower Division Level 1 Costs and Cost Drivers

<table>
<thead>
<tr>
<th></th>
<th>Total Cost per Student</th>
<th>Lower Division Level 1 Cost</th>
<th>Ratio*</th>
<th>Average Faculty Comp.</th>
<th>Student/Faculty Ratios**</th>
<th>Percentage of Part-time Faculty</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOU</td>
<td>$9,185</td>
<td>$7,703</td>
<td>1.19</td>
<td>$61.8</td>
<td>21.7</td>
<td>17.9%</td>
</tr>
<tr>
<td>OIT</td>
<td>$11,811</td>
<td>$9,797</td>
<td>1.21</td>
<td>$69.0</td>
<td>17.8</td>
<td>10.9%</td>
</tr>
<tr>
<td>OSU</td>
<td>$11,100</td>
<td>$7,612</td>
<td>1.46</td>
<td>$82.6</td>
<td>22.5</td>
<td>18.6%</td>
</tr>
<tr>
<td>PSU</td>
<td>$8,449</td>
<td>$6,040</td>
<td>1.40</td>
<td>$79.8</td>
<td>24.5</td>
<td>47.6%</td>
</tr>
<tr>
<td>UO</td>
<td>$10,616</td>
<td>$7,398</td>
<td>1.43</td>
<td>$82.6</td>
<td>19.2</td>
<td>29.4%</td>
</tr>
<tr>
<td>SOU</td>
<td>$8,691</td>
<td>$7,001</td>
<td>1.24</td>
<td>$68.0</td>
<td>19.9</td>
<td>30.3%</td>
</tr>
<tr>
<td>WOU</td>
<td>$8,435</td>
<td>$6,940</td>
<td>1.22</td>
<td>$66.6</td>
<td>22.8</td>
<td>42.4%</td>
</tr>
</tbody>
</table>

*Ratio of Total Cost to Lower Division Level 1 Cost per Student
** Full-time and part-time - all ranks. Includes instructors and Graduate Assistants

The ratio of Total Cost per Student to Lower Division, Level 1 Cost is calculated in Table 6 to illustrate the differences in program and enrollment mixes at the campuses. A higher ratio indicates a larger percentage of high cost and/or graduate programs.

Average faculty compensation, student/faculty ratios, and percentage of part-time faculty are included in the table because they are key cost drivers.

In reviewing Table 7, it appears that EOU's costs are driven by small enrollments but mitigated somewhat by lower average faculty compensation. OIT provides relatively high cost technical programs with small class sizes, has higher average salaries than the other regional campuses, fewer part-time faculty, and the highest estimated cost per student. None of these factors are surprising given the mission of OIT. Given their geographic locations, it is more difficult to employ part-time faculty at EOU and OIT.

The cost differences between the large universities appear to be driven in large part by the cost factors in the table. PSU has the lowest cost per student, lowest average faculty compensation, highest percentage of part-time faculty, and the highest student/faculty ratios. PSU has experienced rapid enrollment growth in the past several years, which would indicate that educational programs are operating at full capacity. The educational cost differences between OSU and UO are relatively small. Average faculty compensation was the same in 2003-04. UO has lower student/faculty ratios but a higher percentage of part-time faculty than OSU.

SOU and WOU have similar enrollment numbers, offer relatively lower cost programs, and show similar costs per student. SOU has lower student/faculty ratios and slightly higher average salaries than WOU.
Indirect Operating Costs

Indirect Operating Costs include Operations and Maintenance, Depreciation of Facilities and Equipment, Institutional Administration, and Chancellor’s Office Administration. The budget reductions from the Chancellor’s Office reorganization occurred after the 2003-04 fiscal, so central administration costs will decrease in the future. A portion of total Indirect Costs have been allocated to Research, Public Service, Auxiliary Operations, and Intercollegiate Athletics and excluded from education costs in this report. These estimates may not accurately reflect the indirect costs associated with each activity and further analysis is warranted to determine whether or not the allocations are reasonable. Cost differences in indirect costs across the campuses may be a result of the allocation method and accounting practices.

A review of administrative costs at peer universities showed that the three large OUS institutions spent approximately 60 percent of the peer average in 2002-03 and the regional campuses spent approximately 90 percent of peer averages for institutional support, based on data from the National Center for Education Statistics Integrated Postsecondary Education Data System (IPEDS) database. Although these data may not be comparable in all cases, it does appear that OUS administrative costs are low compared to similar institutions.

TABLE 8
Indirect Costs per Student, 2003-04

<table>
<thead>
<tr>
<th></th>
<th>Operations &amp; Maintenance</th>
<th>Depreciation</th>
<th>Admin Costs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOU</td>
<td>$1,141</td>
<td>$448</td>
<td>$722</td>
<td>$2,311</td>
</tr>
<tr>
<td>OIT</td>
<td>$1,674</td>
<td>$499</td>
<td>$883</td>
<td>$3,056</td>
</tr>
<tr>
<td>OSU</td>
<td>$1,410</td>
<td>$398</td>
<td>$617</td>
<td>$2,425</td>
</tr>
<tr>
<td>PSU</td>
<td>$832</td>
<td>$213</td>
<td>$555</td>
<td>$1,600</td>
</tr>
<tr>
<td>UO</td>
<td>$933</td>
<td>$348</td>
<td>$926</td>
<td>$2,207</td>
</tr>
<tr>
<td>SOU</td>
<td>$1,251</td>
<td>$275</td>
<td>$764</td>
<td>$2,290</td>
</tr>
<tr>
<td>WOU</td>
<td>$938</td>
<td>$170</td>
<td>$831</td>
<td>$1,939</td>
</tr>
</tbody>
</table>

V. Marginal Costs

The purpose of the marginal cost analysis is to estimate the cost per student of enrolling additional students in the Oregon University System. The estimates presented in this report represent the initial work completed on determining marginal cost rates.

Calculating marginal costs for OUS is complicated by recent funding trends because enrollment has grown rapidly while revenue per student has remained basically flat over the past six years. Campuses have responded by reducing administrative and student
services, increasing class sizes, reducing the number of full-time faculty, and maintaining low levels of faculty compensation, resulting in historical marginal cost rates that are unsustainable. The capacity of the campuses to enroll additional students without additional revenue growth is very limited.

The marginal cost calculation focuses on educational expenses that are funded with Limited Revenues, i.e., State Funds, Tuition and Education Resource Fees, and Other Limited Revenues. Cost estimates are based on Cost per Undergraduate Student calculated with the NACUBO methodology.

Marginal cost increases are not linear, i.e., costs tend to increase based on enrolling groups of additional students rather than student-by-student. For simplicity in this analysis, marginal costs per student are estimated for enrolling 1,000 additional OUS students prorated across the System according to campus current enrollments.

Costs per student are discounted in some programs–for example, Institutional Administration–to recognize that indirect costs do not increase as quickly as direct program costs. These initial estimates are based on marginal cost calculations at two campuses, WOU and UO. Although they used different methodologies to calculate the discounts for the various categories, the results were similar.

WOU used five years of historical expense and enrollment data to calculate marginal costs. UO made the estimates using student: staff ratios for faculty and support staff in the various categories. A fully developed marginal cost model will include the use of historical data, desired staffing ratios, and professional judgment regarding relevant factors.
TABLE 9

OREGON UNIVERSITY SYSTEM
Annual Estimated Educational Costs Per Student

<table>
<thead>
<tr>
<th>Marginal Cost Per Undergraduate Student</th>
<th>Per Student</th>
<th>Percent Discount</th>
<th>Marginal Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2003-04</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruction and Student Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Instruction</td>
<td>$ 5,375</td>
<td>0%</td>
<td>$ 5,375</td>
</tr>
<tr>
<td>b. Library</td>
<td>628</td>
<td>5%</td>
<td>597</td>
</tr>
<tr>
<td>c. Student Services</td>
<td>334</td>
<td>5%</td>
<td>317</td>
</tr>
<tr>
<td>d. Department Administration</td>
<td>486</td>
<td>10%</td>
<td>437</td>
</tr>
<tr>
<td><strong>Instruction and Student Services Costs</strong></td>
<td>$ 6,823</td>
<td></td>
<td>$ 6,726</td>
</tr>
<tr>
<td>Institutional and Community Costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Museums, Recreations, Campus Life, etc.</td>
<td>$ 33</td>
<td>20%</td>
<td>$ 26</td>
</tr>
<tr>
<td>b. Net Cost of Intercollegiate Athletics</td>
<td>133</td>
<td>100%</td>
<td>-</td>
</tr>
<tr>
<td>c. Net Cost of Other Auxiliary Operations</td>
<td>18</td>
<td>100%</td>
<td>-</td>
</tr>
<tr>
<td><strong>Institutional and Community Costs</strong></td>
<td>$ 184</td>
<td></td>
<td>$ 26</td>
</tr>
<tr>
<td>Indirect Operating Costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Allocated O&amp;M Expenses</td>
<td>$ 1,087</td>
<td>30%</td>
<td>$ 761</td>
</tr>
<tr>
<td>b. Allocated Depreciation: Facilities</td>
<td>138</td>
<td>30%</td>
<td>97</td>
</tr>
<tr>
<td>c. Allocated Depreciation: Equipment</td>
<td>182</td>
<td>40%</td>
<td>109</td>
</tr>
<tr>
<td>d.1. Allocated Administration (G&amp;A): Institution</td>
<td>543</td>
<td>50%</td>
<td>272</td>
</tr>
<tr>
<td>e.2. Allocated Administration (G&amp;A): Chancellor's Office</td>
<td>183</td>
<td>100%</td>
<td>-</td>
</tr>
<tr>
<td><strong>Indirect Costs</strong></td>
<td>$ 2,133</td>
<td></td>
<td>$ 1,238</td>
</tr>
<tr>
<td>Undergraduate Financial Aid Costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional Resources</td>
<td>$ 786</td>
<td></td>
<td>$ 786</td>
</tr>
<tr>
<td><strong>Total Estimated Marginal Cost per Student</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruction and Student Service Costs</td>
<td>$ 6,823</td>
<td></td>
<td>$ 6,726</td>
</tr>
<tr>
<td>Institutional and Community Costs</td>
<td>$ 184</td>
<td></td>
<td>$ 26</td>
</tr>
<tr>
<td>Indirect Costs</td>
<td>$ 2,133</td>
<td></td>
<td>$ 1,238</td>
</tr>
<tr>
<td>Financial Aid Costs</td>
<td>$ 786</td>
<td></td>
<td>$ 786</td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td>$ 9,926</td>
<td>88%</td>
<td>$ 8,777</td>
</tr>
</tbody>
</table>
VI. Methodology

Estimated Cost of Education per Student

The committee chose to use a method developed by the National Association of College and University Business Officers (NACUBO) in its Cost of College Project, a two-year effort to identify a method for clearly outlining the annual cost to U.S. higher education institutions of educating undergraduates. This method was chosen because it is nationally recognized and provides a common methodology across the campuses.

The calculations are based on audited expenses by program for all operating funds, including activities supported by State Appropriations, Tuition and Fees, Federal and Private Gifts, Grants, and Contracts, and Other Sources of revenue. Costs are also broken out by funding source: Budgeted Operations (primarily State Appropriations and Tuition and Fees) and Restricted Funds (Federal and Private Gifts, Grants, and Contracts).

Excluded from Estimated Educational Cost per Student are expenses for Research and Public Service because these activities are not directly related to the costs of educating students. For self-supporting activities such as Intercollegiate Athletics and other Auxiliary Operations (e.g., housing, food service, etc.) only the net cost of operations is included. Capital Outlay expenses and debt service payments are excluded, but facilities and equipment depreciation estimates are included in the calculations.

Direct program expenses include Instruction, Academic Support, Student Services, Library, and Institutional and Community Costs. Indirect expenses for Operations and Maintenance of Plant, Depreciation of facilities and equipment, and Administrative Support are allocated to these programs. Financial Aid costs per undergraduate student that are direct expenses of the institutions are also included.

Cost Allocation Issues

Indirect Costs

Expenses for Research, Public Service, and self-supporting activities such as non-credit classes and the indirect costs associated with these activities are excluded from this analysis. Under the NACUBO methodology used in this project, centralized costs for depreciation are allocated to the various activities based on estimated square footage and administrative costs are allocated based on total dollar amounts of the direct expenses in each activity. These allocations may not accurately reflect the indirect costs associated with each activity. Further analysis is warranted to determine whether or not the resulting allocations reasonably reflect OUS institutional activity.

Automation of the Calculation Process

In the first phase of the project, campus staff reviewed and analyzed their data manually to ensure that the calculations were appropriate and consistent. In the second phase,
the process has been automated, using Hyperion Performance Management software to extract expenditure and revenue data from the System database and make the necessary calculations. All financial outcomes reconcile to OUS audited financial statements.

Automation of the process will provide consistent calculations across campuses and facilitate multi-year analysis. The accuracy of the calculations and comparisons depend on the campuses coding financial activity consistently. We expect that there are some anomalies in the data that will diminish over time as we examine the data more closely on a Systemwide basis.

Program Cost Analysis

This analysis is built on the Committee’s prior work in calculating the cost per student for educating undergraduates, which was based on the methodology developed by the National Association of College and University Business Officers (NACUBO) in its Cost of College Project.

The program cost analysis uses the OUS Resource Allocation Model (RAM) “cell” values to estimate the relative costs of various instructional programs. Tuition and educational resource fees were added to the RAM cell values. Then the ratio relationships were determined by dividing the values in each cell by the amount in the Level 1, Lower Division cell. (See table below.) The RAM cells were used to provide an estimate of program cost differentials because the RAM was developed on a nation-wide program-by-program cost study.

OUS faculty salary costs by course section were used to validate the cell value relationships developed in the table below. Using the OUS salary data as a proxy for Cost of Instruction, the analysis showed that, in general, the relative weights were very similar. The OUS salary data showed slightly less difference in costs between the cells, i.e., less variation by student level and discipline. Greater differences were found in high cost disciplines with fewer students.

<table>
<thead>
<tr>
<th></th>
<th>Lower Division UG</th>
<th>Upper Division UG</th>
<th>Master’s Graduate</th>
<th>Ph.D. Graduate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level 1</strong></td>
<td>1.00</td>
<td>1.09</td>
<td>1.95</td>
<td>2.42</td>
</tr>
<tr>
<td><strong>Level 2</strong></td>
<td>1.08</td>
<td>1.20</td>
<td>2.14</td>
<td>2.62</td>
</tr>
<tr>
<td><strong>Level 3</strong></td>
<td>1.26</td>
<td>1.47</td>
<td>2.45</td>
<td>2.93</td>
</tr>
<tr>
<td><strong>Pharmacy</strong></td>
<td>1.63</td>
<td>2.66</td>
<td>3.12</td>
<td>4.59</td>
</tr>
<tr>
<td><strong>Law</strong></td>
<td></td>
<td></td>
<td>3.45</td>
<td>3.31</td>
</tr>
<tr>
<td><strong>Vet Med</strong></td>
<td></td>
<td></td>
<td></td>
<td>6.24</td>
</tr>
</tbody>
</table>

TABLE 10
Cost Differential Ratios by Student Level and Discipline
The RAM uses course CIP codes (Classification of Instructional Programs) as defined by NCES (National Center for Education Statistics) to assign values by discipline. Funding values are identified in twelve cells: four levels of instruction by low, medium, and high cost. Each cell represents the average state share of cost for one FTE student. The cell value relationships were determined when the RAM was developed in 1998 based on a review of a number of studies of higher education program costs, including the National Study of Instructional Costs and Productivity (the Delaware Study) and studies conducted by the Ohio Board of Regents and the state of New York.

Estimated costs per student by level and discipline were calculated using the cost ratios developed above and the overall average cost per student. Given the cost ratios, the number of student FTE at each level, and the average cost per student, it was possible to solve the 'equation' to derive the Lower Division, Level 1 cost.

VII. Definitions

Average Tuition and Fees per Resident Undergrad Student
Systemwide weighted average based on academic year tuition and average Resource Fees. Does not include fees that support auxiliary services.

Instruction
Operating expenses associated with the colleges, schools, departments, and other instructional divisions of the institution for academic instruction, curriculum development, instructional technology, and academic support.

Student Services
Funds expended for offices of admissions, registrar, financial aid, minority education offices, and other student services. Examples include services to students with disabilities, career guidance, counseling, and student records.

Institutional and Community Costs
Expenses that contribute to the community and to the student's social, intellectual, and cultural development. Examples include student activities, museums, and cultural events.

Auxiliary Operations
Self-supporting operations that furnish services to students, faculty, or staff. Examples are residence halls, food services, student health services, intercollegiate athletics, student newspapers, intramural athletics, student organizations, college unions, college stores, and parking.

Operations and Maintenance
Expenses for the operation and maintenance of grounds and facilities, including routine maintenance and repairs, utilities, and custodial services.
**Depreciation**
Allocates the cost of capital assets, less any salvage value, to expenses over the estimated useful life of the asset for equipment and facilities.

**Administrative Support**
Central executive activities concerned with management and long-range planning of the entire institution, legal and fiscal operations, space management, employee personnel and records, public relations and development, purchasing, public safety and security. Operating expenses for the Chancellor’s Office have been allocated to the institutions.

**Financial Aid**
Expenses for financial aid from institutional and private funds that are controlled by the institution, including fee remissions.

**Budgeted Operations—Limited Funds**
Revenues that are subject to expenditure limitation by the Legislature, including primarily State Appropriations and Tuition and Fees.

**Nonlimited Funds**
Revenues that are not subject to expenditure limitation by the Legislature, including Federal and Private Gifts, Grants, and Contracts, Designated Operations (e.g., community workshops and other self-sustaining public service and education activities); and Auxiliary Activities such as student housing, food service, parking, athletics, and incidental fee activities.

**Marginal Costs**
Variable costs that are dependent on student enrollment. In this case, marginal costs refer to the cost per student incurred by the institutions as additional students are enrolled.

**BOARD DISCUSSION:**

Chair Lorenzen recognized Nancy Heiligman to provide the Cost Study update. She noted that the report was designed to update the November 2004 report and used 2003-04 data. Heiligman observed that she wanted to briefly highlight the report, look at the findings, and identify some of the key cost drivers. She noted staff looked at revenue per student devoted to instruction, program costs, and how costs vary across different programs across the System.

Heiligman reviewed the findings, noting an average educational cost per student at $9,926 with the key drivers of campus mission and the mix of programs and enrollments at each campus. She explained that staff also found that cost per student is in part a function of level of funding available. Heiligman observed that non-resident tuition was a critical source of revenue for the System.

She continued with the findings, noting that the spending per student reflects the revenue constraints that OUS has been experiencing for a number of years. Heiligman
Heiligman pointed out that the biggest bulk of spending in the education cost per students went to direct spending on instruction and student services. She continued by observing from where the revenues were coming to support the instructional expenditures, including state support and resident tuition and fees. Heiligman stressed that the numbers provided did not reflect tuition rate. She added that nonresident students make up 14 percent of the student FTE, but contribute 30 percent of gross tuition revenue. Director von Schlegell asked about the tuition contribution and Heiligman clarified that it was gross tuition revenue for residents divided by all students.

Heiligman turned to the program cost analysis, attempting to estimate the cost differences among various programs. She explained the estimation process that utilized the RAM cell values. Heiligman noted that cost relationships were constructed based on lower division undergraduate level as 1.0, with other program level calculated relative to that number. Director von Schlegell asked if the calculations were controversial and Heiligman mentioned the staff felt they were reasonable estimates. She also reviewed the number of FTE by student level and the lower division level one costs per campus. Director Dyess asked why PSU costs were so much lower and Heiligman explained PSU's average salaries were lower than the larger universities, the student/faculty ratios were the highest, and there was more reliance on part-time faculty. Chair Lorenzen asked for clarification on the student/faculty numbers and Heiligman explained different calculations might include part-time faculty, graduate assistants, or adjunct professors. Director Van Vliet inquired if any effort was made to draw a relationship between faculty salaries and cost of living and Heiligman replied institutional research was studying that.

President Ray pointed out clarifications on the student/faculty ratio numbers and Pernsteiner noted that in the materials faculty compensation is full-time equivalent, but the student/faculty ratio was not. Heiligman observed that the construction of the indirect costs per student were the most controversial.

Heiligman also reviewed the methodology, noting the cost study was tied to 2003-04 audited financial statements. She stressed that staff wanted to assure a consistent method of calculation for each of the campuses. Heiligman mentioned various categories, including instruction and indirect costs. She outlined some possible next steps, including estimating the additional cost per student to bring OUS to average spending levels on a variety of measures. She noted she would like to study changes in estimated costs per student, to review financial policies regarding auxiliary operations, and to get a better understanding of fixed versus variable costs. Heiligman also included the need to create greater consistency in accounting methods and account code classification across campuses. Director Nesbitt asked about the revenue per student information and wondered what explained the differences in spending and revenues. Heiligman explained it was due to under-spending revenue in the first year of the
Director Nesbitt also asked about marginal costs because it was likely to be an issue if more students attend OUS institutions because of the Oregon Opportunity Grant redesign. Heiligman noted that there was marginal cost data in the study and Chair Lorenzen observed that tuition of additional students would not cover marginal cost. Chair Lorenzen asked Heiligman to explain Representative Morgan’s recent question about the RAM and Heiligman noted that Representative Morgan might be concerned with whether the RAM was allocating revenues appropriately to the campuses based on those relative program costs.

b. Governor’s Recommended Budget

**DOCKET:**

The following table compares the 2003-2005 Legislatively Approved Budget (LAB) with the 2005-2007 Essential Budget Level (EBL) and with the Governor’s Recommended Budget (GRB) for the next biennium, including all operating and capital funds.

<table>
<thead>
<tr>
<th>Total OUS Budget (In millions of dollars)</th>
<th>General Fund</th>
<th>Other Fds Limited</th>
<th>Total Limited Fds</th>
<th>Non-Limited</th>
<th>Total All Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-2005 LAB (including M30 Cuts)</td>
<td>671.4</td>
<td>1,488.4</td>
<td>2,159.8</td>
<td>2,087.3</td>
<td>4,247.1</td>
</tr>
<tr>
<td>Plus EBL Adjustments</td>
<td>50.4</td>
<td>(396.5)</td>
<td>(346.1)</td>
<td>316.9</td>
<td>(29.2)</td>
</tr>
<tr>
<td><strong>2005-2007 Essential Budget Level</strong></td>
<td><strong>721.8</strong></td>
<td><strong>1,091.9</strong></td>
<td><strong>1,813.6</strong></td>
<td><strong>2,404.2</strong></td>
<td><strong>4,217.8</strong></td>
</tr>
<tr>
<td>EBL Reductions and Fund Shits</td>
<td>(45.1)</td>
<td>(40.5)</td>
<td>(85.5)</td>
<td>21.4</td>
<td>(64.1)</td>
</tr>
<tr>
<td>Subtotal</td>
<td>676.7</td>
<td>1,051.4</td>
<td>1,728.1</td>
<td>2,425.6</td>
<td>4,153.7</td>
</tr>
</tbody>
</table>

Policy Packages
- MBF - Data Project: 2.2
- Faculty Recruitment & Retention: 1.0
- Enrollment Growth: 22.7
- OSU Natural Resources: 0.3
- Capital Construction: 5.4
- COPS Authority: 20.0

Subtotal Policy Packages: 8.8

| Net Changes to EBL | 362.5 | 239.2 | 2,425.6 | 2,717.9 |

Governor’s Rec. Budget: 685.4

Change from EBL: -5.0% 30.1% 16.1% 0.9% 7.4%

Change from 2003-2005: 2.1% -4.6% -2.5% 16.2% 6.7%

*Includes Debt Service, Capital Construction, Lottery*

**Budget Highlights:**
The Governor’s Recommended Budget (GRB) for 2005-2007 includes $685.4 million in General Fund for operating, capital construction and debt service, a 2.1 percent increase over the 2003-2005 General Fund budget.
The Education and General portion of the GRB (funds used for campuses and Chancellor’s Office, and excluding Statewide Public Service Programs, capital construction and debt service) is $549 million, an increase of $4.6 million or 1.1 percent over the 2003-2005 biennium. The increase in State General Funds will not be sufficient to carry forward the current level of programs from the 2003-2005 biennium.

The 2005-2007 Essential Budget Level is $581.5 million for the Education and General Operating Budget, or $32.6 million more than the GRB.

**Access Priorities in Brief:**
- The GRB will enable OUS universities to maintain enrollment of more than 80,000 students per year in 2005-2007.
- $2.2 million is included in the GRB for a data transfer process that supports student academic credit movement between Oregon high schools, community colleges, and 4-year colleges. This is an initiative of the Excellence in Delivery and Productivity Working Group of the Board.
- The budget makes a substantial investment in university facilities (capital construction and deferred maintenance), including new construction in Medford to support dual enrollment between Southern Oregon University and Rogue Community College, as well as funding for significant repair and maintenance at each campus to improve access and safety for students and the campus communities.

**Affordability Priorities in Brief:**
- The GRB keeps tuition revenue increases below those seen in the last two biennia, averaging no more than 7 percent the first year and 5 percent in the second year.
- The GRB doubles the Oregon Opportunity Grant to $91.6 million, improving the affordability of college for Oregonians, and providing a level of stability to the campuses in their support of students’ financial aid needs (in the OSAC budget).
- The proposal to phase out the limitation on fee remissions addresses the affordability gap for Oregon’s most economically disadvantaged students, created by stagnating aid and increasing tuition rates over the last few biennia.

**Excellence Priorities in Brief:**
- The importance of recruiting and retaining top faculty is demonstrated by a $1 million investment and through the elimination of the salary freeze for all state employees. This will assist campuses in retaining top faculty who have contributed significantly to student success, academic excellence, and graduates’ job readiness, and who bring millions of dollars annually into the state through grant funding of critical research and economic development initiatives.
Excellence is also exemplified in the high quality undergraduate and graduate instruction provided to students at OUS campuses. The GRB includes $545.5 million for instruction and targeted programs to ensure academic excellence and job-ready graduates who can support Oregon’s workforce needs.

Economic Development Priorities in Brief:

- The budget invests directly in the commercialization of the intellectual capital developed by our campus research enterprise (in Oregon Economic and Community Development Department budget). This creates new companies, new jobs, and new market niches for Oregon that help sustain a strong, diverse economy.

- The $21.7 million ETIC portion of the OUS General Fund budget will enable OUS and its industry partners to continue meeting the state’s goals of making engineering and technology education a strategic resource that supports our economy and largest industry sector, and creates opportunities for all Oregonians.

- More than 3,000 jobs will be created across the state through the funding of deferred maintenance and capital construction projects on all seven campuses (estimated nine jobs per $1 million on $355.4 million capital construction budget).

- The 2005-2007 GRB for OUS Capital Construction projects totals more than $300 million. This is a combination of General Funds, lottery and State Energy Loan Program bonding, and private funding sources. The GRB proposes $17.2 million in General Fund, representing an increase of 50 percent over 2003-2005 General Funds. The budget includes funding for capital repair ($23.6 million); deferred maintenance projects ($47.3 million); the OSU Power Plant ($55 million); the Southern Oregon University collaborative project with Rogue Community College to construct an educational building in Medford ($11.8 million); self-supported projects by campuses ($149.1 million); and gift-funded projects ($68 million).

Budget Prioritization and 10 percent Reductions Options:

Each biennium, the Legislature requires all state agencies to prioritize programs within their budgets and to identify 10 percent reduction options from the Governor’s Recommended Budget. The priorities and reductions option were due to the Legislative Fiscal Office on January 15th, and staff requested comments from the campus presidents and individual Board members to develop priorities within this timeline. The following criteria were used in developing the priority list:

Give the highest priority to OUS programs that:

- Maintain core programs and infrastructure and invest strategically in new programs
- Provide the greatest return on the dollars invested
- Provide broad access to OUS institutions
- Maintain and enhance quality instruction in OUS institutions
• Promote economic development

The potential reductions listed below must be viewed in the context of the severe reductions that the OUS has suffered over the past two biennia with state support for the Education and General Program dropping by $83 million since 1999-01. The Governor’s Recommended Budget is 5 percent below the Essential Budget Level for 2005-2007, which would carry forward the current program levels.

If tuition rates were increased to offset General Fund reductions, then a $53.8 million reduction would require an additional increase in tuition revenue of 4 percent each year, bringing the total increases needed to 11 percent in the first year and 9 percent in the second year of the biennium.

The alternative to tuition hikes would be further program reductions, leading to larger class sizes, reduced advising, less maintenance, and longer lines or, in the alternative, to fewer course sections and lower enrollment. The Statewide Public Service Programs would experience severe cutbacks.
### Oregon University System

**2005-2007 Budget Program Priorities - Governor’s Recommended Budget (GRB)**

**In Order of Priority - Lowest Priority First**

<table>
<thead>
<tr>
<th>Percent of GRB</th>
<th>Program Priority Amount</th>
<th>Cumulative Amount</th>
<th>Percent of Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/19/05</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fee Remission Equity</td>
<td>$ 828</td>
<td>$ 828</td>
<td>100%</td>
</tr>
<tr>
<td>Central Services</td>
<td>$ 1,824</td>
<td>2,652</td>
<td>6%</td>
</tr>
<tr>
<td>WUE</td>
<td>$ 820</td>
<td>3,471</td>
<td>100%</td>
</tr>
<tr>
<td>Building Maintenance-Statewide Public Sv</td>
<td>$ 477</td>
<td>3,948</td>
<td>12%</td>
</tr>
<tr>
<td>Campus Public Service Programs</td>
<td>$ 1,395</td>
<td>5,344</td>
<td>20%</td>
</tr>
<tr>
<td>Statewide Public Service Programs</td>
<td>$ 10,689</td>
<td>16,033</td>
<td>12%</td>
</tr>
<tr>
<td>Collaborative Programs</td>
<td>$ 11</td>
<td>16,044</td>
<td>10%</td>
</tr>
<tr>
<td>Engineering</td>
<td>$ 3,034</td>
<td>19,078</td>
<td>10%</td>
</tr>
<tr>
<td>Research</td>
<td>$ 1,342</td>
<td>20,420</td>
<td>10%</td>
</tr>
<tr>
<td>OSU-Cascades</td>
<td>$ 339</td>
<td>20,759</td>
<td>5%</td>
</tr>
<tr>
<td>Capital Construction</td>
<td>$ 5,400</td>
<td>26,159</td>
<td>100%</td>
</tr>
<tr>
<td>Graduate Education</td>
<td>$ 11,115</td>
<td>37,273</td>
<td>14%</td>
</tr>
<tr>
<td><strong>10%</strong></td>
<td><strong>31,272</strong></td>
<td><strong>68,545</strong></td>
<td><strong>9%</strong></td>
</tr>
<tr>
<td>Central Services</td>
<td>$ 30,746</td>
<td>99,292</td>
<td>94%</td>
</tr>
<tr>
<td>Building Maintenance-Statewide</td>
<td>$ 3,504</td>
<td>102,796</td>
<td>88%</td>
</tr>
<tr>
<td>Campus Public Service Programs</td>
<td>$ 5,584</td>
<td>108,379</td>
<td>80%</td>
</tr>
<tr>
<td>Forest Research Laboratory</td>
<td>$ 4,330</td>
<td>112,709</td>
<td>88%</td>
</tr>
<tr>
<td>Extension Service</td>
<td>$ 30,478</td>
<td>143,188</td>
<td>88%</td>
</tr>
<tr>
<td>Agricultural Experiment Station</td>
<td>$ 43,575</td>
<td>186,763</td>
<td>88%</td>
</tr>
<tr>
<td>Collaborative Programs</td>
<td>$ 101</td>
<td>186,863</td>
<td>90%</td>
</tr>
<tr>
<td>Engineering</td>
<td>$ 27,304</td>
<td>214,167</td>
<td>90%</td>
</tr>
<tr>
<td>Research</td>
<td>$ 12,079</td>
<td>226,246</td>
<td>90%</td>
</tr>
<tr>
<td>K-16 Data System</td>
<td>$ 2,176</td>
<td>228,423</td>
<td>100%</td>
</tr>
<tr>
<td>Faculty Recruitment and Retention</td>
<td>$ 1,000</td>
<td>229,423</td>
<td>100%</td>
</tr>
<tr>
<td>OSU-Cascades</td>
<td>$ 6,446</td>
<td>235,869</td>
<td>95%</td>
</tr>
<tr>
<td>Small School Funding</td>
<td>$ 25,455</td>
<td>261,324</td>
<td>100%</td>
</tr>
<tr>
<td>Debt Service</td>
<td>$ 30,275</td>
<td>291,599</td>
<td>100%</td>
</tr>
<tr>
<td>Deferred Maintenance Projects</td>
<td>$ 11,796</td>
<td>303,396</td>
<td>100%</td>
</tr>
<tr>
<td>Graduate Education</td>
<td>$ 66,611</td>
<td>370,006</td>
<td>86%</td>
</tr>
<tr>
<td><strong>100%</strong></td>
<td><strong>315,445</strong></td>
<td><strong>685,451</strong></td>
<td><strong>91%</strong></td>
</tr>
</tbody>
</table>

Total General Fund Priorities | $ 685,451 | 68,545

OUS will have an opportunity to discuss System priorities, the Governor’s Recommended Budget, and expected outcomes with the Ways and Means Education Subcommittee over the next several months. The first presentations for OUS are currently scheduled to begin in early March.
BOARD DISCUSSION:

Chair Lorenzen asked Pernsteiner to start the discussion of the Governor's Recommended Budget. Pernsteiner discussed various elements of the Governor's Recommended Budget, including the General Fund proposal of $685 million, the moderate tuition increases built into the budget, and the necessity to identify reductions. Pernsteiner spoke about the Oregon Opportunity Grant proposal and other adjustments in non-General Fund arenas, such as policy packages. He also mentioned that enrollment growth was funded, but was recognized as a tuition-only item because there were not sufficient General Funds to support the anticipated enrollment growth. Pernsteiner summarized that while there is reduction from the Essential Budget Level (EBL), only a portion will be recovered from tuition increases. Chair Lorenzen asked about the EBL adjustment in Other Funds Limited and Heiligman replied it was a technical adjustment. Director Van Vliet noted that the 5 percent EBL reduction reflects reductions made in the 2003-2005 biennium. Heiligman stressed the importance of the context surrounding cuts. Pernsteiner added that the proposed 2005-2007 appropriation is lower in absolute dollars than the 1989-1991 appropriation. Provost Moseley inquired about enrollment growth numbers and Heiligman explained it represented Other Funds expectations. Heiligman also observed that increases in salary and healthcare are not part of the budget, but are included in a separate pool. Pernsteiner mentioned that many of the Board's priorities were funded, but some were not in the OUS budget. Pernsteiner reiterated the Board's priorities and discussed various budgetary provisions for EDP, ETIC investments and deferred maintenance. Pernsteiner concluded that the Governor's Recommended Budget did represent a major investment in higher education, although there was difficulty with the EBL reduction.

With the discussion of the Governor's Recommended Budget complete, Pernsteiner turned to the ten-percent reduction options. He observed that, as a part of state budget law, OUS needed to look an additional ten-percent reduction from the Governor's proposals. He explained that, for example, looking at the tuition, an additional ten-percent reduction would require 4+4 percent increases in tuition. He offered that program cuts were another avenue and they were spelled out in the materials according to the line items of the RAM.

Director Dyess suggested a methodology to approach ten-percent reductions. She acknowledged that she did not believe it was the Board's role to mandate specific cuts. She shared seven principles to guide the ten-percent reduction requirements, including: (1) quality of education is more critical than the number of programs or students; while we would love to continue to serve the same or more students with a broad diversity of programs, we cannot compromise quality; (2) be prepared to support the additional Opportunity Grant recipients within the 90 percent; (3) we do not support a return to double-digit increases in tuition and fees; while each school is serving a different population, we would encourage you to consider personal income and the cost of living index in considering increases of in-state tuition; (4) do not cut your "spires of excellence" that bring revenue and jobs into the state via grants, donations and other revenue related to commercialization of research; (5) partner with other institutions in
the State to diminish overlap and to make limited dollars go further; i.e., ONAMI, nursing education, support for *More, Better, Faster* committee initiatives; (6) consider cutting programs that cannot be sustainable over time and/or that do not show a positive return on investment. Do not do a one-time save only to have to cut the program next biennium because you could not develop other revenue sources; (7) continue to work toward making athletic programs more self-supporting.

Director Van Vliet asked if Director Dyess would like to see the presidents return with a list and she replied no. Director Dyess noted that she was afraid that the Board would attempt to decide on the specific ten-percent list and it would more appropriately be placed in the able hands of the presidents. Director Van Vliet expressed his concern about identifying specific proposals because the legislature would move in to cut. Director Sohn asked when the list was required and Pernsteiner confirmed approximately one month ago. Director Van Vliet noted it would help to communicate to the Legislative Fiscal Office that the list was preliminary and Pernsteiner observed the cover letter communicated that sentiment. Director Nesbitt and Chair Lorenzen expressed their appreciation for Director Dyess' principles. Director Sohn asked if the ten-percent list was campus-generated and Pernsteiner noted that it was discussed with the presidents. Director Sohn asked if there were differences between achieving the ten-percent reductions systemically or by campus and noted that he believed some of the things would be easier to do at the System level. Perstein observed the materials, observing that in order to hold undergraduate cuts below ten percent, many other programs would have to be cut far more than ten percent. Directors Sohn, Richmond, and Van Vliet discussed the presentation of the material. Director Richmond and President Ray offered comments on the Statewides and the context in which cuts were made. Provost Moseley asked the Board for some guidance regarding enrollment. Chair Lorenzen echoed the notion that the Board would need to rely upon the universities to identify specific cuts, if necessary. Director Van Vliet suggested a letter to Steve Bender articulating the principles that will drive ten-percent reductions.

7. **PUBLIC INPUT**

Public input was conducted amid Director Nesbitt's Access and Affordability report.

8. **BOARD COMMENTS**

Chair Lorenzen made two announcements. He noted an upcoming Board meeting with the Governor to discuss the PK-20 education continuum and recognized Director Richmond for her receipt of the American Chemical Society's award for encouraging women into careers in the chemical sciences.

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

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

Chair Lorenzen called for a motion to accept the delegation of authority as included in the docket. Director Dyess moved acceptance of the delegation and Director Nesbitt seconded the motion. All in favor: Lorenzen, Dyess, Mendoza, Nesbitt, Richmond, Schuette, Sohn, and Van Vliet. Opposed: none. Motion passed. Director von Schlegell left the meeting at 1:34 p.m.

10. ADJOURNMENT

Chair Lorenzen adjourned the meeting at 1:43 p.m.

Henry C. Lorenzen
President of the Board

Ryan J. Hagemann
Secretary of the Board
1. **CALL TO ORDER/ROLL CALL/WELCOME**

Chair Henry Lorenzen called the special meeting of the State Board of Higher Education to order at 2:06 p.m.

**On roll call, the following Board members were present:** Henry Lorenzen, Kirby Dyess, Bridget Burns (via telephone), Adriana Mendoza, Tim Nesbitt, Geri Richmond, Gretchen Schuette, Howard Sohn, John von Schlegell, and Tony Van Vliet.

**Board members absent:** Don Blair was absent due to a business conflict.

**Others present included:** Governor Ted Kulongoski, James Sager, George Pernsteiner, Ryan Hagemann, Nancy Heiligman, Benjamin Rawlins, and Susan Weeks.

Meeting attendees also included OUS staff, faculty, institution representatives, the press, and interested observers.

Chair Lorenzen welcomed everyone to the special meeting and specifically acknowledged the Governor's participation in the meeting. Chair Lorenzen also recognized Portland State University's receipt of the American Association for Colleges of Teacher Education Best Practice Award in Support of Diversity. Chair Lorenzen turned to Governor Kulongoski for opening remarks.

2. **GOVERNOR'S REMARKS**

Governor Kulongoski commented on his travels across the state and opportunity to speak on the importance of education. He noted that he wanted to communicate with the Board on what he wanted to accomplish and how he wanted to get there. Kulongoski mentioned that he believed the state no longer had the luxury to look only to the next legislative session, but needed a plan to ask where the state would be in 2025 and what a system of postsecondary education would look like. He stressed his desire for education to talk more holistically about itself and how various sectors could create a seamless education system. Kulongoski observed that change would not happen overnight, but it might be an important strategy to deflect the angle in order to permit large institutions to slowly move to change.

Kulongoski continued with comments about collaboration between sectors and movement to a seamless system, observing that it would be critical to consider the funding side of the equation. He noted that he was interested in some resolution
regarding the Cascades campus debate and would like the Board to resolve it within two years. Kulongoski asked the Board to consider, even with current constraints, whether it was appropriate to plan for an expansion. He also observed that he would like to see more cooperation, as opposed to competition, among the institutions. Kulongoski spoke to the relationship between K-12 and the students that would end up in the postsecondary system. Kulongoski noted that there needed to be a broader debate about the financing of the System based on a dedicated funding mechanism that assured sustained growth. He commented on the difficulty of changing, how it is externally driven, and how the business community would be the catalyst for change. He asked the Board for assistance in communicating with the business community about coming together to say, "we have to make a change." Kulongoski observed the difficulty with a progressive income tax and the instability of hard economic times. Kulongoski offered that he wanted the Board's help in developing an education system with stable funding.

Director Van Vliet asked if there was any traction from the legislature and Kulongoski commented that the change would come from the business community. Director Van Vliet reiterated that a stable and predictable tax system was at the heart of the problem. Kulongoski observed that the public would not tolerate an unfair system for much longer and Director Sohn noted that individuals and families needed to perceive the current system as unfair to them. Director Dyess suggested taking advantage of university advisory councils and Director Schuette noted it was a strategy used by community colleges. Director Sohn added that it starts a process of identifying what kind of network would be necessary to effect the changes. Director Schuette started a discussion of a strategic plan and Chair Lorenzen echoed her sentiments by noting a master plan permitted identification of the direction in which the education system would go. Director Burns added that there should not be a trade-off between economic success and long-term success of the universities.

Director von Schlegell asked the Governor for some direction on the context in which the Board should plan. Kulongoski stressed that the Board was responsible for higher education matters and should not feel obligated to construct the entire education continuum on its own. He continued, however, that the Board should consider the impact on other education sectors as it moves forward in constructing its own vision. He asked the Board to be cognizant of the other pieces of the puzzle. Director Schuette mentioned the charge to the Joint Boards. Director Van Vliet added that until people of different communities are concerned about education in other parts of the state, the continuum is not there.

Director Sohn noted that many of the pieces were out there and that, perhaps, the work would be in painting a clearer picture about those pieces. Chair Lorenzen observed the reorganization of the Chancellor's Office and movement to delegate more authority to the campuses and offered for each of the Board's working groups to provide brief updates to the Governor. Before the reports, Kulongoski noted that he would be working on the budgetary squeeze on the Chancellor's Office and the additional funding for
community colleges. Kulongoski also noted the importance of including many institution constituencies in the retreat and planning process.

3. REPORT ITEMS

a. Access and Affordability Working Group

Chair Lorenzen recognized Director Nesbitt for an AAWG update. He observed the work to organize the proposed $91.6 million funding of the Oregon Opportunity Grant (OOG). Director Nesbitt talked about the process and the consensus that developed as the working group moved toward the redesign of the OOG. He noted the effort to reach more students and provide more aid to those students. Director Nesbitt also described the proposed incentive grant for students that earned the Certificate of Initial Mastery. Kulongoski added that he would appreciate some consideration on how to get more two-year degree recipients into four-year programs.

Chair Lorenzen noted that the standard for degree completion is now six years when it used to be four. He stressed the importance of identifying and eliminating barriers to achieving a degree in four years and whether there were additional strategies at the conclusion of college that might help. Kulongoski discussed the possibility of a state service program and Chair Lorenzen added the possibility of a tax credit to Oregon income taxes. Director Burns commented on the efficacy of loan forgiveness programs.

b. Academic Excellence and Economic Development Working Group

Chair Lorenzen turned to Director Dyess for an update of the AEED. Director Dyess reviewed the charge of the working group and outlined the opportunity areas the working group, with its sub-teams, were exploring. Director Dyess discussed nanoscience and microtechnology; neuroscience and biomedical research; natural resources; sustainability; leisure, recreation and sports; supply of medical personnel; keeping top students in Oregon; arts and creative services; general K-12 issues; and behavior intervention. She also noted the work with the Pacific Rim.

Director Dyess continued with some observations that emerged from the campus visits, including innovation that occurs between disciplines and campuses and that many of the regional institutions had vibrant research elements. Director Dyess also addressed the issue of commercialization of research and expressed her appreciation for the funds in the Governor's Recommended Budget to respond to that concern. Director Dyess concluded with a discussion of the state commitments necessary to build an ongoing economic engine: facilities, faculty base pay, and keeping top students.

Kulongoski returned to Director Dyess' comments about medical personnel. He noted OHSU's concerns about its proposed funding level, but suggested there might be different ways to approach nursing education. He offered that he would like a decentralized process to deliver healthcare throughout Oregon.
c. Excellence in Delivery and Productivity Working Group

Chair Lorenzen recognized Director Schuette for an EDP update. She distributed the working group's work plan and discussed its focus on the long view and the collaboration inherent in its goals. Director Schuette stressed the student-focused, collaborative, statewide platform from which the working group was focusing its efforts. She noted the progress with the student data system and excitement surrounding the articulated transfer link audit system that would provide real-time information about college courses and their transferability. Director Schuette also noted efforts regarding the Oregon Transfer Module, in addition to work on the articulation of majors and online delivery and capacity courses. Director von Schlegell asked Director Schuette to characterize the significance of the efforts to change the system. Director Schuette offered that the efforts would make a substantial difference, particularly the retention element of the work plan. Chair Lorenzen reiterated the importance of a planning effort.

d. Budget Update

Chair Lorenzen asked Acting Chancellor Pernsteiner for comments on the budget. Pernsteiner observed the proposed 2005-2007 biennial budget was a starting point for a longer journey. He stressed the four Board priorities of access, affordability, excellence, and economic development. Pernsteiner summarized that the message OUS would bring to Ways & Means would be the Governor's Recommended Budget would allow OUS to serve 80,000 students, make appropriate and strategic investments, provide additional access to students through the Oregon Opportunity Grant, make an initial investment in faculty salaries, continue economic development, and start to attack the deferred maintenance of the system. Pernsteiner noted that while the System could discuss what the budget does not do, there is plenty that it does do.

e. Long-Range Planning and Retreat

Chair Lorenzen turned to the Director von Schlegell for a discussion of the recent Board retreat and planning efforts. Director von Schlegell described the retreat and identified the general action steps that emerged from substantial discussion: (1) create a viable, stable financial system; (2) create an education ethic; (3) choose and invest in specific initiatives; (4) develop a plan for information technology to further educational and efficiency goals; (5) focus on student-centered goals; (6) clarify institutional missions; (7) identify areas of excellence and build on them; (8) create a fertile and nurturing environment for research and development; (9) provide for institutional autonomy, but strengthen accountability; (10) create a seamless education system to enhance accountability; (11) create a broader higher education constituency; (12) build a sustainable, predictable, and transparent tuition policy; and (13) rethink academic delivery to assure credibility with public and policymakers.

Director von Schlegell also noted that there was good discussion regarding the relationship between the Board and the Chancellor and whether the Chancellor served
in a CEO or staff model. He concluded with comments about constituting a planning committee.

4. Discussion Item

a. K-20 Continuum: A Vision for an Educated Oregon

Governor Kulongoski offered final thoughts: He stressed that as long as he was Governor, education would not take a step backward. Kulongoski offered that his strategy was to figure out how to move education forward. He returned to the discussion of a funding source and observed that three things need to occur: (1) someone needs to exhibit political leadership to identify what is important, (2) there needs to be a vision of where we want to go, and (3) there needs to be a process to get there. He also observed that the public needs to sense that change is necessary.

Kulongoski concluded with a suggestion about a funding mechanism. He stated if the business community would step up on two issues, he would step up on a third issue. Kulongoski noted that there needed to be a change in the corporate minimum tax, but the business community needed to come to the conclusion that it would be right for Oregon. Kulongoski added he would also include the corporate kicker. The trade-off, Kulongoski shared, would be a different view of the capital gains tax. He mentioned that all of that could be put together and dedicated to education.

5. Adjournment

Chair Lorenzen adjourned the meeting at 3:58 p.m.

Henry C. Lorenzen
President of the Board

Ryan J. Hagemann
Secretary of the Board