1. **Call To Order/Roll Call**  
The meeting of the Budget and Finance Committee of the Oregon State Board of Higher Education was called to order at 8:35 a.m. by Chair VanLuvanee.

On roll call, the following Committee members answered present:
- Don VanLuvanee
- Geri Richmond

Absent: Directors Imeson, Williams, and Young

**Other Board members present:**
- Leslie Lehmann
- Jim Lussier
- Phyllis Wustenberg

**Chancellor’s Office staff present:** Chancellor Richard Jarvis, Tom Anderes, Shirley Clark, Grattan Kerans, and Diane Vines

**Others:** Dan Bernstine (PSU), Philip Conn (WOU), Phil Creighton (EOU), Martha Anne Dow (OIT), Lesley Hallick (OHSU), Tim White (OSU), and Elisabeth Zinser (SOU)

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

2. **Approval of Minutes**
   - October 20, 2002, Budget & Finance Committee Meeting Minutes  
     Because there was not a quorum of the Committee, the minutes were not approved. There was a consensus, however, that they should be approved.

3. **Action Item**
   a. **Amendment to OAR 580-040-0040 Academic Year Fee Book 2002-03, Pertaining to Tuition Surcharges (Temporary Rule)**

   **Report to the Board**
   The staff recommended the Board approve a temporary rule change to the 2002-03 Academic Year Fee Book through the assessment of tuition surcharges for winter and spring terms 2002-03. These surcharges are in addition to the surcharges approved at the November Executive Committee meeting.
In December 2002, the State of Oregon Office of Economic Analysis reported that the State General Fund would fall short by $111.8 million more than had been previously estimated. Rather than return to the Legislature for a sixth time for resolution, the Governor invoked his authority to make across-the-board cuts in Executive Branch agencies. The result is an additional $9.1 million reduction to the Oregon University System (OUS) General Fund appropriation for 2001-2003, to be absorbed in the last six months of the biennium.

Enrollment demand at the OUS institutions continues at an all time high. The growth, coupled with the series of general fund reductions over five special sessions of the Legislature this biennium, has resulted in a decline in the amount of total resources per student that institutions have available for instruction and support services.

In January 2003, voters will decide the outcome of a proposed income tax surcharge to help offset the reductions outlined by the Fifth Special Session of the Legislature. Contingent upon the income tax surcharge issue failing in the January Special Election, the Executive Committee of the Board, at its November 2002 meeting, approved a temporary rule change to the 2002-03 Academic Year Fee Book granting institutions the authority to assess tuition surcharges winter and spring term 2003. That action was ratified by the full Board in December 2002.

Faced with these continuing deteriorating conditions, institutions are reviewing their options for addressing the most recent $9.1 million reduction. They are responding by various means including: imposing further cuts to services; enlarging class sizes; reducing section and course offerings; and offsetting reductions with use of fund balances. One additional option is to generate offsetting income by increasing student tuition rates through a supplemental tuition surcharge.

Some institutions have determined further cuts would result in severe impacts to their ability to carry out their respective missions. As a result, it is necessary for them to assess a supplemental tuition surcharge to allow them to sustain an adequate level of service to their students.

**Need for the Temporary Rule:**

The conditions precipitating the need for the tuition surcharges were unknown at the time the original tuition and fees were approved by the Board in July 2002. The continued eroding economic condition of the State of Oregon resulted in two additional Special Sessions of the Legislature after the 2002-03 Academic Year Fee Book was adopted. Subsequent forecasts by the Office of Economic Analysis have resulted in yet further state General Fund reductions imposed by the Governor. It is necessary for certain institutions of the OUS to offset these reductions of state General Fund with other revenues. Tuition is the only source of revenues capable of generating adequate resources to address this critical need.
The timing for this amendment is critical. Registration for winter term 2003 began in mid-November. There are two options in dealing with the timing of tuition and fee assessment. One is to assess the supplemental tuition surcharge to students already enrolled winter term 2003, as well as spring 2003. The other option is to assess a larger surcharge in spring term 2003 only.

Three institutions proposed assessing supplemental tuition surcharge to partially offset their portions of the $9.1 million reduction directed by the Governor in December 2002.

OSU intends to assess the surcharge winter and spring terms 2003 at $3 per credit hour for undergraduates and $4 per credit hour for graduates up to the plateau credit hour levels. The winter term assessment will not be made until after the January 28, 2003, special election in conjunction with the potential tuition surcharge assessment related to the Measure 28 outcome. The supplemental surcharge will not be assessed on students at the OSU-Cascades Branch Campus.

SOU will assess the surcharge spring term 2003 at $5 per credit hour for resident undergraduates and $2.25 per credit hour for resident graduates up to the plateau credit hour levels. Incremental hours above the plateau will be assessed the per credit hour rates. No supplemental surcharge will be assessed to nonresidents.

UO may assess the surcharge spring term 2003 at up to $3 per credit hour on all students for all credit hours. UO will only assess the surcharge if two conditions exist: 1) Measure 28 fails at the January 28, 2003, special election; and, 2) the UO determines that the additional revenue generated by the supplemental surcharge is necessary to break even in budgeted operations during the current fiscal year. The supplemental surcharge will not be assessed on Law students.

**OAR 580-040-0040 Academic Year Fee Book**
(Underlined material is added; brackets denote deletion.)

The document entitled Academic Year Fee Book, dated July 19, 2002, and amended November 15, 2002, is hereby amended by reference as a temporary rule to incorporate assessment of supplemental tuition surcharges to mitigate the reductions directed by the Governor as a result of the December 2002 Economic Forecast.

Through the amendment, the Board adopts, as a temporary rule, the document entitled Supplemental Tuition Surcharges 2002-03, memos of attachment amending the draft document, and other amendments and attached schedules noted in this agenda item. Consideration of the permanent rule will occur at the earliest possible meeting of the Board of Higher Education consistent with permanent rule-making requirements.
Staff Recommendation to the Board
Staff recommended that the Board amend OAR 580-040-0040 to reflect the ability of universities to implement tuition surcharges in both the winter and spring terms of FY 2003 in response to the additional ($9.1 million) reduction in General Funds.

COMMITTEE DISCUSSION:
Vice Chancellor Anderes reminded the Committee that this item is part of the “unending story of tuition surcharges. We will do a summary on the surcharges in February and in April you will begin to talk about tuition rates as they relate to the next biennial budget.”

The Committee was reminded that the surcharges are temporary and apply only to the end of the current academic year.

COMMITTEE ACTION:
Because of the lack of a quorum of the Committee, a vote could not be taken. However, there was a sense of the Committee to recommend that the full Board should approve the Academic Year Fee Book as presented.

4. Discussion Items
   a. Initial Review of the Implications of the Governor’s Biennial Budget Recommendation

   In introductory remarks on the implications of the Governor’s biennial budget for OUS, Vice Chancellor Anderes indicated that the best he could give at this point in time was a very general overview since the issue for the state at the present time of scarce resources is what the state can afford. “The Governor’s focus for action is basically K-12, economic development opportunities, and job creation. There is also a non-monetary concern about building confidence in government that, in turn, could generate more interest in a number of agency initiatives. Lastly, the fiscal problems associated with PERS will remain high on the Governor’s list.

   “Under the Governor’s recommendation, OUS is receiving approximately $780 million in General Fund support. That is one percent above where the System is today. And, I say today, because that could change. This is six percent below where the legislatively adopted budget was,” Vice Chancellor Anderes continued.

   If the resources of the state are put into the funding model and the 80 percent threshold that the Board approved in the revised budget process, the System would be able to handle 105,200 students or 13,200 below the number currently being served. The present recommendation would also place the System at 34 percent below the peer median if we were to fund all of the students that we believe would want access in the next biennium. In addition, the Governor has recommended tuition increases at a 2 percent level for residents and 3.5 percent for non-residents. Dr. Anderes explained that this would be money to provide some additional capacity for the institutions to offset some of the reductions they realized this biennium.
There were policy packages that had been part of the Board’s budget request, none of which have been supported by the Governor and, given the current environment, there will not be any policy packages considered. Further, the Governor has recommended that there will be no increases in his budget for salary enhancements, PERS, or PEBB. Phase-in costs for the College of Veterinary Medicine were approved.

“What do the recommendations mean?” Dr. Anderes continued. “This is a very broad analysis. The institutions will not meet the full demand for instructional services. The additional demand for students that had been projected is in the area of 9,000 to 10,000 additional students beyond where enrollments are today. The recommendation would suggest that if we simply stay at the same cell value of 74 percent, we can fund the FTE and there is a gap growing of 9,000-10,000 students that can’t be served, at least not from the General Fund as the single source. If we don’t keep the enrollment where it is and we grow, then we will be looking at the cell value going down.”

It was pointed out that the Budget and Finance Committee, over the next few meetings, could focus on the dynamic of the options that are available given the current level of funding, affordability (in terms of tuition increase), and the level of quality the System wants to achieve.

The engineering and computer science initiatives were discussed. “What we have to understand is that there are resources that continue in the budget for ETIC. These are dollars that exist that could be realigned. I think we are going to have to look at the objectives, whether it’s the top-tier, whether it’s quality issues, and begin to reassess those and determine how best the existing dollars (about $25 million) can be used.”

“Unfunded compensation and operating costs will have to be supported through the reduction of existing programs and increased tuition,” continued Dr. Anderes. “It is inevitable that, as we talk about the programs that are presently being supported in a somewhat precarious way through the tuition surcharge, there will be decisions that if we don’t retain some level of funding, we’re going to lose programs.”

Finally, Dr. Anderes observed that PERS presents some daunting challenges for state agencies. It was highlighted that it is very difficult to create meaningful scenarios with no idea of what decisions will be made about the future of PERS. Dr. Anderes expressed the hope that there would be additional information in April on the range of possible options. There is optimism that the Governor will work with key committees and arrive at a reasonably acceptable solution. The major factor in planning is that there is no indication at the present of a timeline for resolution.

Turning to the Flexibility Initiatives, Vice Chancellor Anderes expressed the hope that these initiatives would be something positive for the System and that their approval would result in an ability to deliver services at a higher level of quality. The relationship of the Flexibility Initiatives and The Deal form the basis for some of the work of the Budget and Finance Committee in the next few months. The first topic discussed was
tuition. There are a host of issues that are embedded in the tuition and access items including the relative impacts on students, both resident and non-resident, and whether tuition increases are seen as short-term or long-term measures.

In the area of compensation, there are the PERS and PEBB issues and a need to re-examine faculty salaries and the manner in which they are tied to meaningful benchmarks in areas such as quality. If there are mandates concerning PERS and PEBB, but they are not funded or only partially funded, what is it that each institution will be called on to absorb? How can it be accomplished?

Vice Chancellor Anderes underscored for the Committee the importance of linking Strategic Planning Directions in a meaningful way with financial planning. This is reflected in discussions concerning affordability, access, and quality that the SSP Committee will be addressing. It will be imperative to have strategies in place as the System moves through both the legislative session and then, in July, into the next biennium.

b. System Strategic Directions – Work Plan and Committee Assignments

Vice Chancellor Anderes turned to a discussion of how the work of the Budget and Finance Committee could relate to the System Strategic Directions, specifically those under category B: Propose a New Higher Education Financial Strategy for Resource Acquisition (The Deal). Topics such as: reviewing alternatives and managing reduced enrollment levels; limiting erosion of quality; reviewing different tuition scenarios to address access and quality concerns; assessing financial aid requirements such as use of fee remissions, establishing parameters for access of the neediest students; creating a clear understanding of compensation issues and how to retain a strong faculty and staff are all topics that naturally should be covered by the Committee. In addition, there are four other items that will require attention: new sources of revenue; the Flexibility Initiatives; bonding relative to deferred maintenance; and unmet educational needs and how to target funding.

To begin to address some specific areas, it was suggested that February would be a time to look at some of the implications of the Governor’s recommendations as they relate to The Deal. This would be in conjunction with affordability issues that the SSP Committee is working on, and some background information on student financial aid, fee remission, and so forth.

In response to Director Lehmann’s inquiry about whether or not the Governor expressed any intent about funding student financial aid, Dr. Anderes indicated that he had not and that he understood the Governor wanted it to remain separate from the OUS budget.

Director Lehmann asked if there were a way to quantify what the System would be able to provide in terms of access and quality. For example, she added, is there a way to take the absolute amount that the Governor is recommending in his budget, apply the Flexibility Initiatives, and arrive at levels of access and quality. Dr. Anderes responded
that it would probably be most valuable to examine a number of scenarios that relate to enrollments, Flexibility Initiatives, RAM cell values, and begin to modify or adjust those variables and determine alternatives.

Director Richmond indicated that it was important not to lose track of the small school enhancements that had been discussed. Dr. Anderes indicated that an analysis of the RAM cells is underway and there is a focus on the small school allocation. “A major part of what we want to do is move the small school allocation up so that it is not as vulnerable as it is when it stands out as a targeted program. We want to move it out of harm’s way and figure out how to have it viewed clearly as instruction and instructional support like the cell support provides.

“You will remember from the last biennium that we came back at a time of reductions and said there were some things we needed to add back. If there are really critical needs that we have that, even in some general sense we should put forth and say, ‘if “a” happens then we can do “b”.’ We may want to be prepared to do that,” Vice Chancellor Anderes concluded.

Director Wustenberg asked if it were desirable in the current environment to have packages prepared. Mr. Kerans clarified that the reference was to the policy option packages that were presented in the budget and subsequently removed.

“The Policy Option Packages are the products of the standard Continuing Service Level (CSL) budget development process, in which we had to say what the CSL would be. Then we had to follow the fairly arcane rules in describing what is in and what is out of the CSL budget,” Mr. Kerans clarified. “Once we get that established, then we have to make recommendations for policy option packages that would be considered add-ons. All of that process has been swept away—the Governor has indicated that he wants to throw CSL in the ashcan. He wants to establish the thinking within agencies, his own Department of Administrative Services included, of a core functions budget. Essentially we’re in a period of transition.

“What Vice Chancellor Anderes has alluded to is the idea of bringing back some of those policy option items and saying, ‘We lost these in the budget development process. Governor-elect Kulongoski made his budget, presented it, and now perhaps there is some opportunity for an add-back.’ I think the likelihood of that happening is somewhere between slim and none. The Governor has said that, once he sees the outcome of the January 28 vote and the outcome of the February 28 revenue forecast (which will be the second to the last quarterly revenue impact with revenue estimate), he might make some further marginal priority decisions. If the estimates were up, there’s no evidence that we would be on the list, but there’s no evidence anybody would be on the list. So, going forward, I think we need to look at the dollars, which the Governor has recommended, and begin working around that level of funding.”

Continuing with an explanation of the current political and funding context, Mr. Kerans said, “The $779.9 million that Governor Kulongoski has recommended as an
appropriation level for the Oregon University System is an artifact of a five special
session budget triage process, and it does not anticipate any of the revenue from the
January 28 vote. In that regard, it's an ad hoc decision for every budget element in the
State General Fund, not a purposeful one. On our side of the equation, it would seem to
me that as the Chancellor and the rest of us interface with the Governor and the
legislature, we need to try and establish budget policy objectives more meaningful than,
‘Let’s get through the next biennium and good luck.’ Instead, we want something that
says, ‘What is it that we would want to invest in that number -- what does that number
mean in relation to the Board's priorities for access, quality, affordability? Is it support
for so many students, at such a level of funding per student, which would establish not
an ad hoc, but a purposeful process?’ It goes to the quality issue. It goes to the access
issue.

“Second, we might say, ‘At ‘x’ amount we cover ‘y’ number of students, which defines
who's left out.’ That’s when the elements of the Flexibility Initiative come into play. We
need to quantify, in some gross amount, how many students we could support with the
dollars earned and saved from the Flex proposal. Then it's an access issue, while
delivering quality. The same is true with the tuition issue. What greater access can you
accomplish through tuition income, after an offset for low income students, so you
protect quality, protect access, and do something for the most needy students? We
need to get an accommodation with both the Governor and the legislature that we have
made those decisions on our side, they are blessed on their side, and they have agreed
that those are the parameters of our deal, of our arrangement. That does not mean
dollars are brought to the budget. It does not mean that we're going to enroll everybody.
It does mean that there will be a logical, rational, purposeful, and dispassionate
discussion of the elements of that deal or agreement and that we need to get away from
ad hoc decision making and triage that simply produces lower and lower dollars as we
go down, leaving us with ad hoc decisions to make in perpetuity.

“Rather, we would hope to come to an accommodation among the enterprise, the
Governor, and the legislature about what that means in the next biennium. In addition,
we could say, ‘Here's how we build up over two, four, six, and eight years as we try to
work with less while at the same time there are the inexorable demands of the changing
demographics coming to us in enrollment.’ That's where the framing of this would be
most useful as we try to get away from a budget triage product and number and instead
turn it into some kind of design for long-term management of the enterprise and getting
agreement with that vision that would produce.

“That is a tall order in a very noisy and depressing kind of legislative process, but I think
that's where we want to be at the end of the session. If we succeed in gaining such an
agreement, we would have accomplished something of significant value in terms of
management of the enterprise,” Mr. Kerans concluded.

Mr. Bassett indicated that Mr. Kerans remarks were very instructive and suggested that
the framework should be part of the work of the Strategic Planning Committee. “The
idea that we would get caught following an ad hoc strategy to wherever it goes, which is
a sort of a never-never-no-bottom land, really does trouble us all. The other side of that is whatever actions we take, taken in sum, need to communicate to the general public that we are doing the best we can with what we have. That has to be believable, it has to be realistic, and it has to be sustainable. Whatever combination of the variables we select at any given stage or any given moment when we're trying to predict what's next, needs to have those qualities," Director Bassett concluded.

Director VanLuvanee indicated that, fundamentally the System is budgeted for a particular size and a certain number of students at a certain level. “The issue is, we have enough funding for however many students we have and anything that increases the number of students has to increase the funding or we don't have the same System. Fundamentally, we've got to step up and say this is what we can do with what we have and maybe there are a few students here and there, but we can't say there's 10 percent more students," he emphasized.

Director Wustenberg expressed her agreement and added that, “It puts the responsibility of access back on the legislature. If they want quality education for Oregon students, then this is the level that they have given us.”

“I think that the Board needs to have a vote,” Director Richmond said, “that is clear that this is the path that we are on. It's very thoughtful, very prudent, very essential. We should say that we can have as much access as possible, but we basically have to decide what numbers we could admit in order to keep the quality up. What I would like to see the Board do is actually have a motion, make that statement, and hope it get out to the public.”

Vice Chancellor Anderes added that the implication of the 80 percent level is 13,000 fewer students than are currently in the System.

In concluding the discussion, Director Richmond asked when the RAM model would be reviewed to determine if changes in the cell values are warranted and Dr. Anderes indicated that the review is underway.

7. **Adjournment**

The meeting adjourned at 9:40 a.m.