1. **Call to Order/Roll Call**
   Board President Jim Lussier called the meeting of the Budget and Finance Committee of the Oregon State Board of Higher Education to order at 3:34 p.m.

On roll call, the following Committee members answered present:
- Dr. Geri Richmond
- Mr. Tim Young
- Mr. Jim Lussier

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

**Other Board members present:**
- Mr. Kerry Barnett
- Ms. Erin Watari
- Mr. Roger Bassett
- Ms. Phyllis Wustenberg
- Ms. Leslie Lehmann

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

**Others:** Philip Conn (WOU), Bill Danley (IFS), Martha Anne Dow (OIT), Lesley Hallick (OHSU), Dixie Lund (EOU), John Moseley (UO), Sabah Randhawa (OSU), Mary Kay Tetrault (PSU), 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**
   - April 18, 2003, Budget and Finance Committee Meeting Minutes

The Committee dispensed with the reading of the April 18, 2003, Committee meeting minutes. Director Young moved and Director Richmond seconded the motion to approve the minutes as submitted. The following voted in favor: Directors Richmond, Young, and Lussier. Those voting no: none.

3. **Report Item**
DOCKET ITEM:

Executive Summary
The Governor and Ways and Means Co-Chairs have offered budget recommendations that better “fit” the revised revenue projections. The sets of recommendations use the Governor’s original budget as a starting point. The following table highlights the different paths that the executive and legislative leadership took in allocating reductions.

Comparison of Proposed 2003-2005 Budget Reductions
(Based on the 2003-2005 Governor’s Balanced Budget)

<table>
<thead>
<tr>
<th>Enrollment impact:</th>
<th>Co-Chairs’ Proposed Reductions</th>
<th>Governor’s Proposed Reductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funded Enrollment (biennial)</td>
<td>104,079</td>
<td>114,358</td>
</tr>
<tr>
<td>Loss of Fundable Enrollment (biennial)</td>
<td>14,172</td>
<td>3,893</td>
</tr>
</tbody>
</table>

| Reduction items: | (in millions) | |
|------------------|---------------|
| Student Financial Aid (fee remissions) | $ 30.00 | $ 0 |
| Undergraduate Instruction | 22.20 | 8.59 |
| Graduate Instruction | 9.80 | 11.26 |
| Campus Administration | 4.78 | 0 |
| Central Administration | 3.22 | 2.42 |
| Capital Construction | 1.00 | 1.87 |
| Engineering (ETIC/Top Tier) | .90 | 0 |
| Systemwide Expenses | .72 | 2.16 |
| Research | .51 | 1.27 |
| OCECS | .47 | 0 |
| Statewide Public Services Building Maintenance | .30 | .63 |
| Campus Public Service Programs | .29 | .73 |
| Community College Partnerships | .28 | .28 |
| Western Undergraduate Exchange (WUE) | .27 | .27 |
| Collaborative Academic Programs | .23 | .23 |
| Statewide Public Services | 0 | 7.18 |
| OSU Cascades Campus | 0 | .34 |
| TOTAL | $74.97 | $37.23 |
Selected comparisons:

- The Co-Chairs' budget identifies a 4.4 percent reduction in state agency funding
- The Governor’s revised budget identifies a 2.7 percent reduction in state agency funding

- The OUS budget represents 6.5 percent of the Co-Chairs’ budget
- OUS reductions represent 14.4 percent of the total agency reductions identified in the Co-Chairs’ budget

- The OUS budget represents 6.8 percent of the Governor’s revised budget
- OUS reductions represent 10.1 percent of the total agency reductions identified in the Governor’s revised budget

- The Co-Chairs' budget identifies an 8.9 percent reduction in total OUS funding
- The Governor’s revised budget identifies a 3.9 percent reduction in total OUS funding

- The Co-Chairs' budget identifies an 11.4 percent reduction in OUS Education and General (E&G) funding
- The Governor’s revised budget identifies a 4.3 percent reduction in OUS E&G funding

The key reduction differences include:

- $75 million (legislature) vs. $37.2 million (Governor)
- $30 million in fee remissions by legislature
- $32.2 million (legislature) vs. $19.85 (Governor) in Instructional Funding
- $7.18 million (Governor) vs. $0 (legislature) in Statewide Public Service programs at OSU

Additional analysis on Systemwide expenses, fee remissions, and the Chancellor’s Office budget was provided to clarify the implications of the recommendations.
Systemwide Expenses

Systemwide Expenses represent programs that are allocated to campuses based on System requirements or programs that are funded solely by the Chancellor’s Office. The reductions will be $1,432,500 (10 percent) by the legislature, or $2,148,000 (15 percent) by the Governor. A number of the programs cannot be reduced—Certificates of Participation (COPs), Faculty Diversity, and Statewide Assessments total nearly 40 percent of the funding. The remaining 60 percent will largely be reductions from campus budgets in addition to other instructional and targeted programs. The following are the programs:

Systemwide Expenses 2003-2005

Reduction Options: 10% - 15%

<table>
<thead>
<tr>
<th>Program</th>
<th>2001-2003</th>
<th>Legislature 10%</th>
<th>Governor 15%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificates of Participation</td>
<td>$1,766,864</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Justice</td>
<td>1,600,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment Match</td>
<td>3,454,979</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Faculty Diversity</td>
<td>697,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ORBIS (Library Consortium)</td>
<td>339,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oregon Jt. Business Programs</td>
<td>831,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OWEN (Statewide Network)</td>
<td>1,042,095</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IP Video Network</td>
<td>54,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Students-Disabilities</td>
<td>500,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SWOUC (Coos Bay Center)</td>
<td>344,364</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statewide Assessments</td>
<td>2,895,786</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WICHE (membership) Dues</td>
<td>202,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WICHE/PSEP</td>
<td>598,224</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>$14,325,312</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Target:</strong></td>
<td>$1,432,500</td>
<td>$2,148,000</td>
<td></td>
</tr>
</tbody>
</table>

COPs                                      Mandatory debt service
DOJ                                       Depends on campus usage/PSU having own attorney
Endowment Match                            Depends on legal requirements
Faculty Diversity                          Board approved no reduction for 2003-2005
Oregon Jt. Business Programs               Transition program support to campuses--support through cells
OWEN                                      System share of statewide network
Statewide Assessments                      Dependent on DAS charge-backs
WICHE/PSEP                                 Reduce participation
Fee Remissions

The most apparent difference between the Governor’s and legislative recommendations is that the legislative is twice that of the Governor’s—$75 million to $37.2 million.

The most significant difference is the legislative choice to reduce $30 million in the General Fund while designating an equal amount of tuition remission to offset the General Fund. The assumption is that tuition remissions are “available” to supplant General Fund. The reality is that $30 million in tuition remissions is not uncommitted and elimination of financial aid will limit access. The following helps define fee remissions, their availability, and the impact of a $30 million cut.

Summary of Impact of Co-Chairs’ Proposal to Cut $30 Million of Fee Remissions in Multi-Year Commitment Programs

Definition

- Programmatic Fee Remissions are those excluding Graduate Assistant Fee Remissions. They include:
  - Educational Diversity Initiative, International Cultural Services Program, OUS Supplemental Tuition Grant, and various institutional fee remission programs.

Fee Remission Allocations

- $58.8 million–total of Programmatic Fee Remissions budgeted in Governor’s balanced budget (prior to April 18, 2003).

- On average, 76 percent of all fee remissions are made with multi-year commitments.
  - These include Educational Diversity Initiative, International Programs, etc., that are focused on enrollment management for diversity and merit criteria.
  - The multi-year commitment is generally for five years if the student maintains eligibility requirements.
  - Estimates are based on recent campus financial aid offices’ feedback.
    - The remaining 24 percent is awarded annually on a need-basis.
    - Student must re-qualify annually on basis of “need.”

- Few students receiving Programmatic Fee Remissions have their entire tuition offset by remissions and other financial aid and continue to pay a portion of their tuition.

- Of Programmatic Fee Remission allocations for 2003-04, approximately 95 percent-plus has been committed as of April 15, 2003.
Implication of Co-Chairs’ Proposed Reduction

- The Ways and Means Co-Chairs’ recommendations propose elimination of $30 million of fee remissions, earmarked as multi-year awards.
  - The reduction of fee remissions directly reduces financial aid to students.
  - Elimination of $30 million of fee remission is apparently intended to increase net available tuition income.
  - This fee remission reduction is linked directly to a $30 million reduction in state General Fund.
    - The intent is for the resulting net tuition income increase to offset the reduction of state General Fund.
  - Hypothetically, the net impact on total resources would appear to be $0.
    - However, it is expected that a number of students would no longer be able to continue their education with OUS, resulting in a loss of the tuition income paid by these students.
      - This would be a net loss in total resources to the institution.
  - Reducing only multi-year awards would require rescinding approximately $30 million of awards already committed for the 2003-2005 biennium.
    - This would require rescinding 78.5 percent of all multi-year awards already committed to students.
    - This would impact almost 5,000 students currently receiving multi-year committed awards expecting to have their fee remission commitment continued.

- Withdrawing fee remissions already awarded to students would have multiple impacts.
  - There would be legal liability due to financial commitments made to students and families based on the assurance of this financial aid.
  - Many of these students would likely withdraw from OUS institutions with long-lasting negative attitudes toward the institutions and OUS.
  - The loss of these students would result in a loss of tuition income.

Chancellor’s Office

The Chancellor’s Office, minimally, will be implementing a 10 percent reduction of $2.4 million. It is probable that number will increase before the session is over. There had been vacant positions or excess operating dollars prior to the $3.6 million reduction incurred in 2001-2003 (13.3 percent); however, that flexibility no longer exists. The System is reviewing program options that will reduce centralized services to the campuses and shift the responsibility where appropriate. There are a number of possibilities under consideration that will be discussed with the campuses as alternatives are finalized.

While there seems to be an inevitability by many internal and external constituents accepting the concept that “administrative” costs located centrally must be minimized,
there will be added costs at the campus levels and that cannot be ignored. If services are being performed centrally to the benefit of the campuses, then the only way those services can continue is for universities to create a resource base to maintain support. There is an array of mandatory campus-focused activities such as payroll, telecommunications, information systems (Banner) management, web development, cash management, tax development, collective bargaining, and much more that, if unfunded at the System level, will be a cost assumed by each university.

There are, as well, System activities that provide services to the Board, campuses, and external bodies. We have made marginal cuts in most activities and now must decide what responsibilities we simply will not be able to meet. Ultimately, we are determining how we will be accountable and to whom, conditioned not only on pertinent Internal Management Directives, Oregon Administrative Rules, and Board priorities, but also with cost as a critical factor.

As we move toward final decisions, we will work closely with the campuses and keep the Board informed of the status of programs and services.

COMMITTEE DISCUSSION
Vice Chancellor Anderes provided a macro-level overview of the differences between the Governor’s and Co-Chairs’ budgets and highlighted the impacts these proposed budgets would have on the institutions and the Chancellor’s Office. The revised revenue estimates (which were released the day of the Committee meeting) are projected to be down by an estimated $600—$650 million which will translate into additional cuts for the System. The focus of the presentation was on fee remissions, Systemwide expenses, and the Chancellor’s Office.

It was highlighted that at the macro-level, the OUS budget represented 6.5 percent of the Co-Chairs budget, yet the level of reductions that the System might be called on to assume represents 14.4 percent. On the other hand, the OUS budget represents 6.8 percent of the Governor’s revised budget and within that budget, OUS is anticipating a 10.1 percent share of the total agency reductions. Dr. Anderes pointed out the differences in the two budget recommendations. (A copy of the PowerPoint presentation can be found at http://www.ous.edu/board/meetingmaterials.htm)

The category of Systemwide expenses relates to expenses that reside within the Chancellor’s Office at a level of approximately $14 million. Anticipated reductions range up to 15 percent or about $2.15 million. Of these funds, 40 percent are for programs that cannot be touched such as Certificates of Participation (mandated debt that the System has for information technology programs or projects that relate to all campuses), and 15 statewide assessments (such as the Secretary of State’s audit). The Chancellor’s Office is facing approximately 10-15 percent reductions in staff and services.

One of the most challenging reductions being proposed in the Co-Chairs’ budget is the recommended elimination of $30 million in fee remissions. “That’s a direct reduction in
student financial aid. What they’re saying is that they want to (subtract) $30 million of General Fund (resources). When they say that they are going to eliminate $30 million in fee remissions, what they’re really saying is, ‘We took $30 million away in your General Fund; you now can take $30 million away in fee remissions and you can use those tuition dollars to back-fill the $30 million in General Fund that we took away,” Dr. Anderes explained.

Vice Chancellor Anderes continued to explain that with these reductions there would be $60 million in various fees that would not be available. On average, 76 percent of those are multi-year commitments. These fee remissions are primarily used for the purposes of enrollment management, diversity initiatives, and for merit. The remaining 24 percent are need-based. At the present time, the System as a whole has committed upwards to 98 percent of those funds going into the next fiscal year.

“When you look at reducing the multi-year commitments (diversity/merit fee remissions) to get to the $30 million, it would require 78.5 percent of those to be rescinded, affecting approximately 5,000 students. This would result in legal problems as well as significant attitude problems,” Vice Chancellor Anderes explained.

Chair Lussier asked if the reasoning of the Co-Chairs was that these students would continue on, even if they did not receive the fee remissions, thus bringing in tuition. It was generally agreed that this would be a false assumption.

With regard to reductions in the Chancellor’s Office, it was explained that since FY 2002, the reductions have ranged from 23–28 percent and the additional reductions would be in the range of 10–15 percent. The reductions will include staffing changes and passing along some of the responsibilities to the campuses.

Director Bassett asked about the impact passage of the flexibility initiatives would have on some of these reductions. “Recalling back to the beginning of our discussion about the flexibility initiatives, I remember the matrix that had a column of things the legislature would have to do, a column of things the Board could do, and a column for the work the Chancellor’s Office could do. It would be helpful to see the results of this work brought back to us at some point as a modification of that list of things the Board could do so that we could share the shift between the awfulness of budget cuts like this and, hopefully, at some opportunity, at least some complementary actions related to that earlier list.”

Vice Chancellor Anderes continued to explain that another area where the legislature is looking for possible sources of funds is in OUS ending balances/operational reserves. The intent would seem to be to identify “reserves” that appear to exceed appropriate levels and might be available for other purposes. The intent is to look at every fund source possible and, because of the nature of the resource flow for OUS, there are pockets of resources that look unusually high. For example, a major component of the System budget is federal grants and contracts and those come in large amounts and
are spent out as needed. Although there is general agreement those sources can’t be tapped, they do need to be carefully explained and the budgeted levels justified.

Finally, one other area where the legislature is examining budgets is in vacancy savings. There appear to be a lot of vacancies and the legislature assumes there are funds remaining. Many of these are vacant because OUS, like other agencies, have been told not to fill them. It is a very complicated issue and one that is being watched carefully.

b. Review of Extension Services’ Programming and Resources

Chancellor Jarvis called on President Tim White to brief the Board on the review of Extension Services’ programming and resources. President White indicated that OSU identified a problem in the Extension program about a year ago and a plan has been crafted to resolve it. They are now in a position to implement the plan. “I want to be real clear,” he said, “that the budget is indeed balanced in the current 2001-2003 biennium and the budget will be balanced in the 2003-2005 biennium. But in order to do that, we have to reduce the program.”

Continuing, he indicated that the range of reductions would be between 42 to 63 full time equivalents (FTE) out of approximately 220 FTE. The vast majority of those reductions will result from retirements.

A contributing factor to the resource problem is that OSU had reduced the fund balance. “There were some investments that were made back in 1997-98 that were intended to enhance programming and to bring in new grants and contracts that would ultimately sustain the programs, but those all didn’t work out,” President White explained. He said they were operating under several principles. The first is that OSU does not want to over-cut and stop programming at too great a rate only to find out that some of the funding has been restored. A lot of input has been received from Extension stakeholders that has informed the planning. The intent is to maintain the highest priority programs.

At the institution level, President White indicated that improvements in tracking Federal Reserve funds have been instituted and in the fall there will be an audit of the program.

Director Wustenberg stressed that she would expect the Chancellor’s Office and the Board to be kept up-to-date on the situation and that the problems in the financial area would be adequately addressed so the situation would not occur again.

To Director Lehman’s question about the response from legislators about the situation, Dr. White said the most common had been, “How did we get here?” There has been strong support for strategic decisions about cuts in the program, not approaching the situation with across-the-board cuts.
Chair Lussier asked that the Chancellor stay informed about the progress on decisions regarding the situation and provide periodic updates to the Board.

4. **DISCUSSION ITEM**
   a. **Discussion of the Connection of Tuition Increases and Enrollments**

Vice Chancellor Anderes introduced the discussion by reminding the Committee that the report was in response to a question raised by Directors Imeson and Richmond, “How would enrollments be altered by reduced tuition rates?”

NOTE: a copy of the PowerPoint presentation is available at: [http://www.ous.edu/board/meetingmaterials.htm](http://www.ous.edu/board/meetingmaterials.htm).

Enrollments, Dr. Anderes pointed out, can vary based on cost of attendance, availability of financial aid, state funding support, perception of university quality, admissions selectivity, and program availability, to name a few. The challenge is connecting the state component with tuition funding in an approach that might be similar to the Resource Allocation Model. There is no parallel RAM for tuition funds that drives them based on peer rates.

Vice Chancellor Anderes continued by pointing out that there is a need to create an index that incorporates enrollments, Quality Funding Index, tuition rates, tuition/state share, and other factors in a manner that provides alternative outcomes based on the interaction of all variables. To answer the question raised by Directors Imeson and Richmond, the following baseline data were used:

- Governor’s Recommended Budget–$649 million
- Quality Funding Index–72 percent
- Tuition Rates (as approved by the Board)
- State/student share–55 percent/45 percent
- Enrollment–118,211

Taking these factors into account and assuming a 10 percent reduction in resident tuition rates, there would be a loss of 6,000 in enrollments. If the assumption were a 15 percent reduction in resident tuition rates, the enrollment loss would be 9,000.

“The problem we’ve had over the last year or so is that we’ve looked at tuition as constantly backfilling. General Fund goes away–tuition goes up. We haven’t looked at tuition, whether it relates to peers or relates to any other factors and said, in terms of a Quality Funding Index for tuition, what’s happening here,” Dr. Anderes explained. “But we need to look at some way of aggregating this and being able, at a minimum, to at least understand the implication of the combination of the two. The model that we came up with in effect said that we’d lose, at a 10 percent reduction in tuition, 6,000 in enrollment.”

Director Richmond questioned whether there were software packages that other states might be using. Dr. Anderes observed that there were very few states that look at any
kind of cost of discipline. The shifting of emphasis to student/tuition support from state-peer based commitments necessitates developing stronger linkages between the two funding sources. “A single ‘index’ encompassing General Fund and tuition/fees might be the next possible phase as the model evolves,” Dr. Anderes concluded.

Director Bassett pointed out that the presentation and discussion had been most useful in providing a context for beginning the discussion of affordability and access. In addition, the discussion begins to force focus on policy issues that relate as well.

5. **ADJOURNMENT**

   It was moved by Director Young and seconded by Director Richmond that the meeting be adjourned. Those voting in favor of the motion: Directors Richmond, Young, and Lussier. Those voting no: none.

   The meeting adjourned at 4:58 p.m.