CALL TO ORDER

A meeting of the State Board of Higher Education Executive Committee was called to order by President VanLuvanee at 11:32 a.m.

ROLL CALL

On roll call, the following Executive Committee members answered present:

Mr. Jim Lussier
Mr. Tom Imeson (via telephone)
Ms. Leslie Lehmann
Ms. Phyllis Wustenberg (arrived at 11:36 a.m.)

Absent: Mr. Don VanLuvanee (ill)

Other Board members present: Mr. Roger Bassett, Dr. Geri Richmond, Ms. Erin Watari, Mr. Tim Young

Chancellor’s Office staff: Tom Anderes, Jim Arnold, Bob Bruce, Nancy Goldschmidt, Grattan Kerans, David McDonald (OUS), Diane Sawyer, Patricia Snopkowski, Alayne Switzer, Christine Tell, Lisa Zavala

Others: Kerry Barnett (Board Nominee), Elaine Deutschman (IFS), Martha Anne Dow (OIT), George Kartsounes (OIT), John Minahan (WOU), John Moseley (UO), Paul Risser (OSU), Jeane Thorne (Governor's Office), Tim White (OSU), Betty Youngblood (WOU), Elizabeth Zinser (SOU)

NEW BOARD MEMBER

Mr. Lussier introduced Kerry Barnett, vice president for professional services at ODS Health Plans. Mr. Barnett has been nominated by the Governor to replace Jim Willis on the Board.

APPROVAL OF MINUTES

The Board dispensed with the reading of the December 21, 2001, Executive Committee meeting minutes. Ms. Wustenberg moved and Mr. Imeson seconded the motion to approve the minutes as submitted. The following voted in favor: Directors Lussier, Imeson, Lehmann, and Wustenberg. Those voting no: none.
Summary

Vice Chancellor Tom Anderes explained that EOU seeks to transfer .247 acres of land, which is located in the town of Union. He explained that this donation will provide space for the Eastern Oregon Head Start program to expand their preschool program. The Head Start program has recently been forced to move from its location in the Union High School because of the condition of the space at that site. The program received a federal grant of $217,000, which would allow them to purchase a modular classroom to put on the donated parcel which is valued $60,000. Vice Chancellor Anderes noted that it isn’t usual to transfer these kinds of requests of under $100,000, however, since the property is located off campus it requires Board approval.

Staff Recommendation to the Executive Committee

Staff recommends that the Executive Committee approve, on behalf of the Board, EOU’s request to accept a donation of .247 acres of land located at 542 S. College Street, Union, Oregon, from the Community Bank of Joseph, Oregon, assuming all conditions are met and that final transfer details are agreed upon by all parties subject to final approval by the Vice Chancellor of Finance and Administration.

Executive Committee Discussion and Action

Ms. Wustenberg moved and Mr. Imeson seconded the motion to approve on behalf of the Board the donation of real property to EOU as submitted. The following voted in favor: Directors Lussier, Imeson, Lehmann, and Wustenberg. Those voting no: none.

GOVERNOR’S PROPOSED REDUCTIONS FOR OUS

Dr. Anderes explained that there are multiple phases of the discussions on budget reductions, related revenues, re-balancing, the governor, and the legislature. He explained that the first thing to be reviewed will be the Governor’s initial reductions. He pointed out that the reductions being discussed were neither desired nor recommended. He explained that, if they were to look at simply making across-the-board cuts, it would require a 7 percent reduction for OUS, however, the Governor has made various decisions which would put OUS at a 10.4 percent reduction, the community colleges at an 8 percent reduction and K-12 is at a 6 percent reduction. Dr. Anderes cautioned that the intention of this exercise was to take a dramatic look at reductions and expenditures. Another consideration
would be to identify and address revenues and to work from that position. The current economic shortfall for the State is $830 million and the Governor is looking at six or seven different reduction scenarios which are continuing to change and evolve.

Working from the 10 percent reduction level, some possibilities for adjusting the budget include the state restoring $3.1 million for instruction, $8.5 million for the statewide programs, reducing top-tier engineering and reducing ETIC at 7 percent. He briefly reviewed different combinations of possible reductions in engineering. He went on to say that the OSU Cascades-Campus would reduced by 7 percent, which is less of a reduction than previously proposed.

Dr. Anderes noted that the legislative proposal that was put out last week did not, at that time, reflect specific fund sources that would be tapped for the targeted $240 million. He explained that there was some discussion regarding trust funds for schools, the tobacco settlement funds and the ending balance. He anticipates more involvement and interaction between the legislature and the Governor on arriving at an acceptable compromise.

Dr. Anderes assured the Board that OUS will stay on top of the issues as information comes forth and will continue to keep the Board informed of progress on the budget. He stated that tuition has not been raised specifically at this point as a funding source, although the possibility is being discussed.

OUS Director of Government Affairs Grattan Kerans pointed out that the possible reduction scenarios were being revised daily. The proposal will go to the caucuses and will become public sometime after that, but the Governor has already said that he doesn’t like some of the proposed funding sources and will release his preferred alternative next Tuesday.

Dr. Anderes explained that the Board had suggested an independent fiscal review. He explained that OUS staff has been coordinating with the Secretary of State to identify an auditor who can come in and, in a very short period of time, work through some of the issues about which the Board has expressed concern. The internal audit staff and the controller’s division will continue to be involved on other aspects of the review in terms of financial reporting. Dr. Anderes felt that a preliminary report could be available in time for the February 15, 2002, Board meeting.
Dr. Anderes briefly discussed the objectives of the review 1) to identify the decisions and factors that contributed to the shortfall; 2) to assess the solutions provided by OSU regarding the elimination of the projected budget deficit for the fiscal year; and 3) to offer solutions to limit the potential of future budget deficits occurring, including improvements to the budgeting and monitoring procedures. The main objective is to have a clear understanding of what led to the shortfall not only for the benefit of assisting OSU to correct the problem, but also as a guideline for all the institutions. He stated that there is a potential here to identify some best practices and opportunities upon which to build.

Dr. Anderes stated that the firm chosen to assist in the audit process was Talbot, Korvola and Warwick (TKW). He explained that they had to go through the Secretary of State’s audit division to develop the process, prepare a request for proposal, and make an analysis. One of the drawbacks of this process was that it shortened the time-frame. The firm (TKW) was able to guarantee that by February 15, the majority of the work could be completed. He said that the Board will continue to be briefed following the February meeting. Dr. Anderes introduced to the Board Roger Korvola, a partner in TKW, Brad Rafish, a partner, and Bill Barker, senior manager, and invited the Board to question them.

Mr. Lussier asked to what extent the Chancellor’s office staff will be interrelated with the audit team and whether this is a joint effort. Dr. Anderes explained that the firm will need some assistance in terms of understanding the Oregon University System, including its financial system, and the processes. Staff will also review the budget process, assist in a final analysis and financial reporting at the March meeting, and be available as a resource to the firm.

Mr. Lussier expressed interest in utilizing this exercise as a lesson that will benefit the entire System. Dr. Anderes agreed, noting that, while we’re putting an emphasis on the budget process and communications, we are not assuming that there is necessarily a specific problem or set of problems at OSU. Rather, the System is attempting to take a fairly measured approach in looking at the current issue and making adjustments to the process.

Mr. Imeson asked that the Board be given an opportunity to submit to staff specific questions relative to this process and have staff report back. Dr. Anderes invited the Board to submit to him, as soon as
possible, any questions, issues or concerns that he can pass along to others prior to the report in February.

Responding to an invitation from Mr. Lussier to comment on the discussion, President Risser stated that he is looking forward to the process. He stated that OSU has made the necessary adjustments to balance the budget for this year and next. He said that the redesign process is moving along well and he hopes to provide a full report at the February 15, 2002, meeting.

PRESENTATION BY OIT OF THE CONCEPT OF POSSIBLE PRIVATIZATION

OIT President Martha Anne Dow presented the Board with an innovative opportunity for the future of OIT. She stated that there has been an unprecedented endowment gift offer, which she would explain to the Board. She continued that it is a local foundation endowment that comes with the opportunity to explore privatization or independence, noting that the gift is contingent upon privatization of the institution. In order to review the proposal, she stated that she had spent several weeks in discussion with executive staff, and their first concern was that they could show various revenue models that would prove that this endeavor could be fiscally viable.

President Dow briefly reviewed one of the budget models and stated that the assumption for the model would be that State funding would continue for two years and that it would also include support from the interest on their auxiliary enterprises and aggressive growth in the Oregon Tech Foundation. She stated that the model evaluated showed they increased their total expenditure budget annually at about five percent. One of the key areas that needs to be addressed is projections on the endowment return. She explained that OIT has developed several modest models and some aggressive models as well. They looked at a model that they felt was viable using a ten percent tuition increase the first ten years. Then they also looked at a growth of about three percent in enrollment. In that particular model, at the end of 15 years the endowment had grown to about $50 million and, as they had used the educational endowment to offset the tuition increases with educational scholarships, they were able to manage to supplant the $17 million.

Without reviewing the other revenue models in detail, President Dow noted that they involved different levels of aggressiveness with enrollment and tuition increases, including models more aggressive than the 10 percent for the first ten years, and tuition discounting that would still continue to provide optimum access to students. She
expressed the importance of the students as the most important part of the equation and stated that she would propose a model that best offsets impact to students and increases access.

President Dow explained that public policy issues are also being addressed. Other considerations include access for Oregon students, how to transfer public assets to private assets, how to address existing debt, and whether it would be possible to have transitional funding from the state for two years. Overarching all of these considerations and research, she noted, would be OIT’s consideration of what fiscal and legal requirements are involved in transferring a state entity to an independent agent and what financial plan would assure the long-term success of OIT and the students.

Reasons for exploring independence, according to President Dow, include not only the contingency on the endowment give, but the potential to continue to fulfill OIT’s goal of providing the highest quality technological education to meet the needs of the state. She explained that the ability of OIT to sustain quality has continued to erode under the current system. She pointed out that OIT needs to seek more fiscal stability while enhancing access through providing student support with equitable fee remissions and scholarships, and also be flexible and entrepreneurial in OIT’s program development. She pointed out that support from public funds continues to decline and over the last 20 years, the environment of public higher education has changed, not only in Oregon, but nationally as well.

President Dow stressed that this is only a proposal that they are researching at this time. She recognized that it is a controversial proposal among their constituents and stakeholders, however, there remains a great deal of interest in pursuing the idea. She noted that there are also many questions that need to be answered, particularly with regard to the steps necessary to allow for a transition plan from a public institution to a private, independent institution while minimizing the impact on students, faculty and staff and maintaining the integrity that a higher education requires. Some other concerns include personnel issues, retirement, compensation, and insurance.

She recognized that the tuition increases would have to be reasonable and that tuition discounting and scholarships would need to be made available at a level to assure that qualified students have access to OIT. She acknowledged that OIT needs a formal research plan for this proposal, which will include developing, with all the
stakeholders, the questions and processes. She explained that a list of questions were developed at the meetings that were held on the OIT campus and a list was also generated from one meeting with community leaders in the Klamath Falls basin. The review of the concept must establish substantive answers to the questions concerning the viability of implementation and the process of seeking legislative approval. OIT will then decide whether to request formal approval after the review process is completed.

President Dow noted that key issues for discussion with all stakeholders including their Board will need to be established and stakeholders must help to develop those questions and participate in the modeling. Subsequent to the findings and with assistance from and outside consultant, OIT would then have to determine whether to present the proposal to the Board of Higher Education for their review and approval. If approved, the proposal would then require legislative response and Governor approval.

By September 2002, President Dow anticipates that the research should be completed. The next legislative session will begin in January 2003, and, if the Board has approved moving forward with this particular item, the earliest possible implementation would be in 2004.

She noted that most of OIT’s constituents are interested in pursuing this proposal. The Faculty Senate executive team and the Associated Students of Oregon Institute of Technology have also expressed an interest in pursuing the proposal.

Ms. Lehmann stated that this is an opportunity for everyone to think hard about the System and the larger issues surrounding why OIT is looking so seriously at this issue. She asked, in looking at tuition subsidies, whether tuition would go up significantly and, if so, would subsidies be able to make up the difference.

President Dow explained that OIT is giving serious consideration to the issue of subsidies and opined that they would be able to provide the opportunity to individualize subsidies both in terms of need and merit. Current statistics indicate that at least 50-60 percent of the students at OIT are local students from the Klamath Basin and Southern Oregon. She stated that, while there are many OIT students in the Portland area, she believes it’s very important to continue providing access to the Basin and to serve that regional need.
Vice President for Finance and Administration at OIT Doug Yates asked for approval from the Board to have the opportunity to look at the gift proposal in detail and to have access to the talent and expertise that the Board’s and Controller’s office can offer.

Mr. Lussier asked for clarification that the proposed endowment is contingent upon privatization. Dr. Yates verified that the $75 million gift is contingent upon privatization. He explained that state funding would continue for two more years in a transitional capacity and during that time, the donor has said that he would guarantee a 15 percent interest so that at the end of two years it would be approximately $100 million. As the state appropriation goes down, tuition would eventually go up, hopefully at a modest, reasonable rate. He noted that there is a point where the endowment would begin to grow again, and at that point OIT would become a completely independent institution.

Mr. Lussier cautioned that there are folks who think the Board shouldn’t even be looking at this proposal, but he felt that, as a Board, they should be looking at a lot of different alternatives to maximize choices and options. One of his concerns, however, is in how the concept is explored. He felt that they would be remiss to believe that this is an issue impacting only OIT. There are some System concerns as well. He felt that they should explore this, not only at the OIT level, but also at the System Strategic Planning level examining how it impacts budgeting in general for the System.

President Dow concurred that there is a lot of discussion and concern regarding the public versus private concept in terms of educational philosophy and policies, but she felt that the future of OIT is her greatest concern.

Mr. Imeson referred to the most recent major reconfiguration within the System when Oregon Health Sciences University became a public corporation. He agreed that it’s important for the institution to be able to consider the proposal and felt that it would be helpful if the Board had a member or two to act as a liaison to this process and provide feedback to the Board. He felt that, should the Board develop questions or concerns, it would be better to raise those questions during the process rather than wait to address those issues at the end of the process. Mr. Lussier agreed that would be beneficial and suggested the System Strategic Planning Committee look into it.
President Dow asked that the Board direct them on how to proceed. Chancellor Cox explained that, if it is the consensus and will of the Board to oppose pursuit of this proposal, it should say so, but that the Board should also say so if they thought the concept had merit in exploring. He emphasized that the Board was not approving an end result, but would only be approving the opportunity to investigate the viability of the proposal. Mr. Lussier emphasized that approval by the Board to pursue the issue should not be considered an endorsement of the proposal, but, rather that the Board agrees the concept should be investigated. He suggested that the Board defer to President VanLuvanee the suggestion that a member from both Budget and Finance and the System Strategic Planning Committee be liaison to the process. Ms. Lehmann stated that they should also consent to OIT’s request for access to the Chancellor’s staff and records. Chancellor Cox affirmed and noted that the concept is exciting enough that several of the largest consulting firms in the country are watching this. He noted that there have been several cases where private institutions have gone public, but this is the first time that he is aware of that a proposal has been made to go the opposite direction.

Mr. Bassett asked, in the process of exploring this proposal, that President Dow keep in mind the consideration of the community college district in Klamath Falls as well as the question of access for local students. He stated that those questions need to be defined within the boundaries of a privatized OIT, but also keeping in mind that the question is bigger than just OIT. He recognized that the General Fund future is bleak and as long as that circumstance persists, unpopular choices will have to be made. He expressed the importance of addressing policy work in the process.

Ms. Lehmann moved and Ms. Wustenberg seconded the motion to approve further exploration of the proposal and to have two representatives, one from the System Strategic Planning Committee and one from the Budget and Finance Committee, to serve as liaisons and to review both the institutional and System implications. The following voted in favor: Directors Lussier, Imeson, Lehmann, and Wustenberg. Those voting no: none.

Mr. Lehmann asked what reasons were provided by the donor for specifying privatization of the institution as a contingency of the gift. President Dow explained that the donor has first-hand knowledge of OIT’s history and challenges over the years as well as knowledge of
opportunities that never came to fruition. Because the donors were aware of OIT's financial limitations, they felt the State wasn't able to allow for entrepreneurial initiatives. President Dow opined that they need the opportunity to perform a market analysis to bring the proposal forward to more efficiently serve the economy of the basin.

Mr. Lussier cautioned that there is the potential for public perception that the System is "selling" the institution. President Dow assured the Board that the intention of the donor is strictly philanthropic and that the donor is not interested in managing OIT as a corporate entity.

### ADJOURN TO EXECUTIVE SESSION

Secretary Vines cited ORS 192.660(1)(a) for the purpose of discussing personnel matters as the reason for moving into Executive Session in Room 326, Smith Memorial Center. There were no objections to convening an Executive Session. Public Session adjourned at approximately 12:40 p.m. to discuss the presidential vacancy at Western Oregon University.

### RECONVENE EXECUTIVE COMMITTEE MEETING

Mr. Lussier called the Executive Committee back to order for the sole purpose of adjourning at 1:05 p.m. Ms. Wustenberg moved and Ms. Lehmann seconded the motion to adjourn the Executive Committee meeting. The following voted in favor: Directors Lussier, Imeson, Lehmann, and Wustenberg. Those voting no: none.

### ADJOURNMENT

The Executive Committee meeting adjourned at 1:07 p.m.

Diane Vines  
Secretary of the Board

Don VanLuvanee  
President of the Board