Minutes

Committee members present: Tom Imeson (co-chair), Leslie Lehmann (co-chair), Roger Bassett, Jim Lussier, Geri Richmond, Don VanLuvanee, Erin Watari, Jim Willis, Tim Young

Chancellor’s Office staff: Chancellor Joe Cox, Tom Anderes, Shirley Clark, Robert Dryden, Nancy Goldschmidt, Grattan Kerans, Marilyn Lanier, Ben Rawlins, Diane Vines

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

Call to Order/Roll Call

The meeting was called to order at 9:01 a.m. by Mr. Imeson, and roll call was conducted by Board Secretary Vines.

Approval of October 19, 2001, meeting minutes

Mr. Bassett moved and Mr. VanLuvanee seconded approval of the October 19, 2001, meeting minutes as submitted. The motion unanimously passed.

Report Items

OSU Fiscal Report

Vice Chancellor Anderes explained that OUS has been working at developing a process in response to the OSU fiscal shortfall, in part because of concerns raised by the Board. He explained that the primary goal of the process is to ensure that the Board and the Chancellor can more effectively assess the performance of OSU’s financial management, not only to identify the problems leading up to the shortfall, but to emphasize preventing future problems. The goals are to establish clear fiscal targets and definitive reporting requirements and to create a structure through which OSU can manage its resources, yet be held accountable. It is not a goal of the System to manage OSU finances.

Dr. Anderes stated that the primary focus is on the financial reporting of planned and actual revenues and expenditures on a quarterly basis, and an examination of current
activities. The combined effort between OSU and the System will emphasize looking at appropriate targets, ensuring that management is aware of those targets, determining whether there are variances and, if there are variances, what the contributing factors are and whether those targets should be changed. Fiscal and financial reporting would be conducted on a regular basis.

One area of concern relates to the internal controls and structure of the budget process. Dr. Anderes explained that the actual development process would be done through the Internal Audit function. The auditors would be looking at the budget process, the decision making involved in that process and the way information is moved and communicated throughout the university. They plan to assess the structure of the process as well as implement appropriate controls to ensure that it is efficient and effective.

In January, 2002, Dr. Anderes will present to the Board an assessment of the present situation as it relates to the deficit, how it came about, and what possible solutions are available. Progress reports will be provided regularly regarding the development of quarterly reports and the audit review process. In March he will present a final report on the issues that have been identified and make recommendations to the Board.

Mr. Imeson asked Dr. Anderes when it would be appropriate to involve external auditors in addition to the internal audit division. He suggested to the Board that, given the issues and resources necessary to undertake the work, the ability to utilize external auditors to supplement the work of the internal audit process be considered. He noted that it is not meant to undermine the quality of work that the internal audit group does, but rather, to ensure that they have adequate resources and to provide the necessary independence to undertake that work. Chancellor Cox noted that there is a precedent for doing the combined approach and that it does bring the benefits of expediency and independence.

Mr. Lussier noted that he has been asked, as a director, whether he fully understands the nature of the issue, which he admitted he didn’t. He felt that, given the austere fiscal environment, if utilizing an external auditor could help identify some ways to improve the System, it would be advantageous to do so.

Dr. Anderes noted that the quarterly reports would be made available to the Board. The first quarterly report will be conducted later this month. Since there will not be a full Board meeting in January, the report will be made available then to the Budget and Finance Committee, along with discussion on the deficit and possible solutions.

Chancellor Cox stated that, given the level of Board interest and concern, a Joint Committee would be needed since all Board members need to be responsible for this issue. He urged a Joint Committee meeting be regularly scheduled. Vice Chancellor Vines stated that the next Joint Committee meeting would convene in February, 2002.
Dr. Richmond asked if they should convene a Joint Committee meeting in January. Dr. Anderes stated that he could have some preliminary information available in January but noted that the more comprehensive report would be presented in February. Mr. VanLuvanee stated that an interim report at the Executive Committee meeting should be sufficient and all directors were invited to attend.

Mr. Young asked Chancellor Cox whether there is a fund to address unanticipated systemwide expenses. Chancellor Cox noted that, at one time, there was a significant Chancellor’s reserve, but that reserve no longer exists. Mr. Young therefore concluded that along with institutional autonomy comes institutional responsibility.

Mr. Imeson pointed out, however, that President Risser has not asked the System for financial assistance. President Risser noted, for the record, that there is no deficit but rather a projected shortfall at the end of the biennium, and that there is a balanced budget for this year and there will be a balanced budget for next year. Mr. Bassett suggested the report include the strategic initiatives of OSU that might have led to the potential shortfall, what initiatives might be at risk as a result of a shortfall, and how those strategic initiatives relate to those of the Board.

**Capital renewal**

Vice Chancellor Anderes noted that this will be a continuation of a discussion that was started in a previous meeting with OUS Director of Government Relations Grattan Kerans and Deputy Vice Chancellor for Finance and Administration Marilyn Lanier moving us to a new initiative.

Ms. Lanier stated that, at the October 19, 2002, Board meeting, the Board was given a background on the size and severity of the capital renewal and deferred maintenance issue within the System. She recommended a major bonding initiative for Board consideration and endorsement. She noted that Mr. Kerans has conducted a great deal of research on this issue and on the receptivity of the proposal by the legislatures.

Ms. Lanier pointed out that about 40 percent of the buildings within the System were constructed between 1960 and 1975. She explained that a major update to the systemwide facilities baseline was recently conducted and this report summarizes those findings to reflect the new data. She pointed out that the average annual capital renewal need is about $40 million per year for buildings in education and about $6 million per year for auxiliaries, which brings the total needed for the System to $46 million, however, the backlog of deferred maintenance is $488 million for academic and administrative facilities systemwide.

Ms. Lanier acquiesced that, on the surface, most facilities appear to be in good condition, but at least half of the subsystems and electrical systems are in need of replacement. She noted that the individual institutional needs vary, not only based on
size of the institution, but also on the age of the facilities. As an example, she noted that PSU inherited many old buildings in the late 1940's such as Lincoln Hall, which was slated for demolition in 1947 but is still in use today by PSU for classrooms and performing arts. One major concern for PSU is that the City of Portland has given the campus a maximum of five years to bring certain buildings up to code, including Lincoln Hall, and if the requirements are not met, the City may deny an occupancy permit; a potentially serious ramification of neglecting the issue of deferred maintenance.

Ms. Lanier explained that college campuses across the nation follow four steps in addressing capital needs: assess the needs; build support among decision holders and key stakeholders in the state; identify funding strategies; and present the strategies to legislators. As part of the OUS capital budget request for the 2001-2003 biennium, OUS completed a six year review of the capital program, not only to assist in obtaining State funds, but also so that the System would be well positioned should a major bonding initiative become a reality. Campus master plans were updated for all institutions and several years ago the renewal study was updated and presented to the State Debt Advisory Commission.

Mr. Kerans stated that the System has addressed the issues presented by the legislative session, and in this round came forward with a coalition led in the interim by Education and Workforce Policy Advisor Jean Thorne of the Governor’s office, with representatives of OUS, K-12 and community colleges. The governor introduced a bill and it was advanced, but given the fiscal situation at the last session, there was little interest in finding a new revenue source. Mr. Kerans explained that the partnership developed in hopes that a concentrated coalition of public education sectors together would be effectual, but unfortunately, there was a uniform resistance by the legislature to accept responsibility for local government debt, and consequently the bill failed. Chancellor Cox pointed out that the concern exhibited by the legislature was in respect to the partnership and not the System.

Mr. Kerans noted that the last session approved a $500 million general obligation bond measure for the November 2002 ballot, of which OUS would be allocated approximately $100 million. The bond would be used only for seismic rehabilitation for all public sector education facilities.

Ms. Lanier noted that they have looked at a number of funding strategies deployed by campuses and systems nationally as they relate to Oregon. She reviewed the pros and cons of direct state appropriations, bonds, student fees, auxiliaries maintenance reserves, education general funding, reallocation through costs reductions, dedicated tax, and business energy tax credits (BETC). Ms. Lanier proposed the referral of a general ballot measure to the voters for 2003 to approve General Obligation Bond issuance in the amount of $500 million to be spread over ten years. The purpose of the measure would be to address both the capital renewal projects and the deferred maintenance back log. These would be dedicated dollars not available for new
construction, renovation projects or any other expense.

Mr. Kerans pointed out that the deferred maintenance backlog has climbed to 400% of what it was when Ballot Measure 5 passed, which is a direct inverse ratio to the reduction in State support for OUS. This is a crisis which has developed over more than ten years and the System has repeatedly approached the legislature seeking additional funds to address the issue. He requested the Board consider a limited term, ten-year general obligation bond dedicated to reduce the backlog to the manageable size it was prior to Measure 5.

The proposal, according to Chancellor Cox, would be to ask the legislature to approve a two-part request to fund Oregon enrollment and to address the renewal challenge. He noted that the next biennium will be a challenge and that, the simpler the message is and the more it relates to core needs and values, the greater the chance for approval.

Mr. Kerans added that the proposal would require the Board to become engaged in a broad-based coalition that would include the campuses, students, alumni and advocates, the business community, and other associations to forward the proposal as an issue to be addressed by the legislature.

Mr. VanLuvanee requested a report that would illustrate prioritization of the top ten issues. He expressed the need to identify specific problems with which the public can identify. He felt that, rather than simply telling the public that we have a deferred maintenance problem, the word should get out that there are tangible issues, such as broken windows, leaking roofs, etc. Mr. Willis added the importance of stressing the long-term problems that could occur due to neglecting the buildings, noting that, if a leaky roof isn’t repaired, over time not only would the roof need repair, but so would the walls, foundation and electrical wiring. Mr. Young observed that energy costs have precipitated an energy surcharge and yet most buildings are not energy efficient. He also noted that the aesthetic appeal of the campus contributes to the decisions prospective students will be making in deciding where to study. Mr. Lussier pointed out that it is an asset degeneration issue more than simply deferred maintenance. Dr. Richmond warned against appearing too gloomy in presenting this issue, cautioning that it could backfire if the issue appears to be too overwhelming.

Adjournment

The joint committee meeting adjoumed at 9:46 a.m.