Minutes

Committee members present: Tom Imeson (co-chair), Leslie Lehmann (co-chair), Roger Bassett, Jim Lussier, Geri Richmond, Bill Williams, Phyllis Wustenberg, Tim Young

Chancellor’s Office staff present: Chancellor Joe Cox, Tom Anderes, Shirley Clark, Robert Dryden, Nancy Goldschmidt, Mike Green, Grattan Kerans, Marilyn Lanier, Ben Rawlins, Loren Stubbert, 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 9:40 a.m. by Co-chair Tom Imeson, and roll call was conducted by Board Secretary Diane Vines.

Approval of December 21, 2001, Meeting Minutes

Mr. Imeson moved and Mr. Lussier seconded the motion to approve the December 21, 2001, Joint Committees meeting minutes as submitted. The motion unanimously passed.

Action Items

OSU Shortfall

Vice Chancellor Anderes explained that the Board previously directed the System to retain an external audit firm to assess the reported shortfall at OSU. The magnitude of the shortfall has been determined and solutions suggested by OSU have been reviewed. Vice Chancellor Anderes turned the meeting over to the audit firm of Talbot, Korvola and Warwick.

Shortfall analysis by Talbot, Korvola and Warwick

Brad Rafish, of Talbot, Korvola and Warwick, (TKW) stated that the objectives of the project were to determine if OSU management had adequately identified the decisions and factors that contributed to the budget shortfall, to determine if OSU identified specific solutions, and to offer to OSU and the System possible solutions and
preventative measures for eliminating future budget shortfalls. Mr. Rafish stated that the results of the analysis focused primarily on the makeup of the reported budget shortfalls and that TKW reviewed extensive documentation that was made available to them, such as audit and budget reports. He stated that the auditors interviewed individuals at OSU as well as other institutions and individuals within OUS.

He emphasized that they reviewed only information pertaining to the period from October 2001 and earlier, therefore, any information that became available at any time after the reported budget shortfall occurred was not used in their analysis. Mr. Rafish cautioned the information being provided today is still considered preliminary. He explained that they are working closely with OSU staff who continues to provide them with more information as it is made available, and TKW hopes to provide a final document (written report) for the Board at the end of February.

Mr. Rafish stated that one of the issues they focused on was differentiating between a shortfall and a deficit. He stressed that what OSU presented in October 2001 was a projected budget shortfall and not a deficit. He explained that a shortfall, from a budgetary perspective, does not mean that OSU had over-expended but, rather, it forecast a budgetary analysis of projected revenues and projected expenditures. Had it been a deficit, actual revenue would not have met actual expenditures. He stressed that a projected budgetary shortfall is an accounting exercise and does not reflect an actual expenditure of dollars.

TKW specifically classified the projected expenditures as either obligated, required expenditures, or as discretionary expenditures. He noted that obligatory expenditures could include items to which OSU has committed the campus based either upon current service level or targeted programs and to which it is contractually obligated, including those items deemed necessary or required by the university to operate.

The other classification of expenditures is desired or discretionary expenditures. He explained that these are expenditures that the university would have some discretion over and has some flexibility as to whether they spend those dollars. He pointed out that TKW did not determine in classifying expenditures as discretionary whether those dollars should be spent on specific programs or what would be the impact if they aren’t spent.

The analysis shows that the numbers originally provided by OSU suggested a projected shortfall of $19.18 million. Adjustments were then made to the projected shortfall which were primarily focused on miscalculations made by the university in the way they determined specific dollars from an expenditure perspective. He explained that those miscalculations resulted primarily from taking current service level dollars and using that amount plus incremental expenses rather than just using the incremental expenses in making certain determinations. Current service level amounts were recorded and provided for within a calculation. Thus, when those dollars were identified and the incremental cost was added, the result was a greater. By correcting the accounting errors, TKW was able to adjust the projected budget shortfall by
approximately $5.9 million reducing the total budget shortfall by OSU to approximately $13.2 million.

Once the true shortfall amount was determined, TKW classified and identified what specifically was obligated, mandated or required to be provided by OSU and identified that amount. In addition they identified those proposed expenditures that they believed to be desired or discretionary. The result is that $6.4 million was determined to be desired, resulting in a revised projected budget shortfall of $6.78 million.

Mr. Rafish explained that when TKW analyzed the information provided to them they did not include any numbers that were revised or could have been revised during the time period in which the information was provided. He pointed out that tuition dollars were estimations, based on rates defined in May 2001, and were not revised when the initial $19 million was discovered. He also noted that certain energy costs were expected to increase at approximately 30 percent. However, those increases may not have materialized, and those numbers also were not revised.

Mr. Rafish addressed the solutions provided by OSU. He explained that OSU looked at several items from the perspective of how they relate to compensating for the $19.1 million projected budget shortfall. OSU also adjusted the numbers based on a campus-based analysis they performed, primarily taking dollars out of the list of reconciliation items, a portion that would include the allocation of compensated absences and freezing of a carry over. As a result, OSU was able to decrease its number from $19.2 million by $4.1 million to a total of $15.1 million dollar level. However, Mr. Rafish cautioned, TKW did not specifically focus on determining whether these economies would actually occur or not. For example, they did not specifically analyze whether, by turning off lights or conserving energy an expected savings of $300,000 would actually occur. They did, however, review the methodology that was used by OSU and found that the thought process was adequate.

Mr. Rafish explained that TKW also was asked to specifically look at the budget process. The firm is currently still in the process of determining and identifying conclusions and recommendations regarding the budget process. TKW has spoken with individuals at the UO, PSU and OSU in addition to OUS to ascertain a better understanding of the budget process and to, in turn, be able to identify specific recommendations that may help improve or change the process in the future. Rafish expected that information will be provided in the final report that will be available at the end of February.

Mr. Rafish concluded by briefly discussing the reporting and monitoring mechanisms and performance specific to OSU and, in turn, the reporting and monitoring functions of the System as a whole. He stated that specific conclusions and recommendations will be presented in the final report.

Dr. Richmond asked Mr. Rafish to explain how they determined what was considered obligated and what was considered desired. Mr. Rafish explained that the auditors
and OSU representatives reviewed the actual line item expenditures to come to an understanding of intent for those specific fund lines, in order to determine what was specifically obligated and what they believed the university still had some discretion over. He provided as an example, a $1.1 million line item that was identified to provide scholarships to students. He explained that, of those funds, the university was only obligated to pay for Fall Term since school had already started. In the event that OSU had to cut costs, it could decide to not provide scholarships for the other two terms. With regard to the scholarship line item, the Fall Term was considered an obligated expense and the other two terms were not. He strongly stressed, however, that the finding does not make a judgement as to whether it would be a wise choice to cut scholarships; it only stipulates that it is discretionary.

Mr. Rafish clarified for Dr. Richmond that the figures provided reflect scholarships for current students already attending school this year. He pointed out that, while the figures do reflect non payment of scholarships, it isn’t TKW’s recommendation that OSU stop payment. The option is merely reflected in those numbers to identify those funds that are discretionary versus mandated expenditures. Dr. Richmond asked for a few more examples of expenses that would fall in the discretionary category. Mr. Rafish stated that one of the items in that category was the line item to provide replacement of electrical wiring throughout the campus. Projected was an approximate cost of $800,000 that was identified for the project, of which $400,000 was previously obligated through a contractual commitment. The other $400,000 was not contractually obligated and that amount has been identified as an expense to be held back until a later date. He said other projected expenditures that are not contractually required include some administrative staff support, faculty increases and salary dollars. He again cautioned that any comment on the wisdom of such a determination was not part of the exercise and was not provided.

Responding to a question by Mr. Williams, Mr. Rafish clarified that, in order to arrive at a figure of $6.7 million shortfall, TKW only reviewed the $19 million and did not examine the full university budget. Mr. Williams asked whether the rest of the budget would also be investigated. Mr. Rafish agreed that could be an option, but OSU elected instead to identify specific action items in their reconciliation plan and their solutions accounting for the budget shortfall. The focus was on the information provided related to the $19.1 million shortfall and the 22 action items provided by OSU to reconcile the shortfall. Mr. Williams noted that the total budget for OSU is several hundred million dollars and commented that, if 30 percent calculation errors were identified in the $19 million, there might also be calculation errors in the other $100 plus million.

Mr. Rafish reiterated that the only thing TKW focused on was the $19 million in question. Vice Chancellor Anderes noted that OSU is looking at the whole budget re-balance issue, but the auditors were asked only to look at the shortfall itself and try to understand it and explain it to the Board as best as possible. He pointed out that actions to address the issue of the budget itself are the responsibility of President Risser and OSU. He stated that once there is agreement on the final figures
identifying miscalculations and discretionary funds, OSU will need to examine its discretionary dollars and determine possible ramifications of not spending those dollars.

President Risser stated that OSU has reviewed its budget for 2002 and the budget for 2003 and now has a balanced budget. He stressed that OSU does not have a deficit and will not have a deficit in either 2002 or 2003. He noted that these numbers indicate that the challenge OSU faces to balance the budget is not as great as originally estimated. He pointed out that all institutions of higher education face the difficult consequences of the legislative session and will experience an impact on their budgets. Once the results of the special session are known and the final numbers and reconciliation from the auditor are received, OSU will then make decisions about its budget. Chancellor Cox noted that, in dealing with a budget of this size, even a minor miscalculation could have a significant result.

According to Cindy Granatir, of TKW, the main source of errors had to do with expenditures related to targeted uses. She explained that the way targeted uses were treated in the development of the budget was to include the current service level with the amount of expected increases in the fiscal year for which the budget was being developed. She explained that the incremental portion of the expenses was included as a gross amount rather than just the amount of the increase when figuring future service level expenses. Ms. Wustenberg asked whether the mistake was compounded or figured twice. Ms. Granatir confirmed compounding to be the case.

Dr. Richmond asked whether the same calculation errors could have been made throughout the remainder of the budget. Ms. Granatir explained that the shortfall was not comprised of individual amounts that added up to $19 million, but was the difference by which projected expenditures exceeded projected resources. She explained that part of the confusion was that the amount of the expenditures included current service level, or the amount of services that were provided in the prior year, adjusted for items like salary increases, plus a list of incremental expenditures. It is that list of incremental expenditures that they analyzed and classified either into mandatory expenditures and discretionary expenditures, but the entire budget was analyzed.

Mr. Lussier summarized, saying that the accounting has been corrected, but OSU is still looking at a $12 million deficit of which $6 million has been identified as expenditures that could be curtailed if they chose and $6 million that still needs reconciliation. He asked when the Board could expect to see a plan that illustrates how the $12 million shortfall will be resolved. President Risser said they already have a plan and that they have a planned budget for 2002. Mr. Lussier asked how the plan reconciles these figures.

Ms. Granatir explained that the first step in the analysis was to look at what made up the shortfall and to verify the amount. The second step was to evaluate the budget reconciliation plan that the university had already designed to address the shortfall.
The auditors determined that the amounts of the shortfall and subsequent reconciliation plan were roughly equal. Mr. Imeson asked how President Risser’s plan addresses the issue of scholarships. President Risser stated that the auditors were firm in suggesting they pay for scholarships for the first two terms, but not actually fulfill the commitment for the third term, although he felt that should not happen. He assured Mr. Imeson that the balanced budget includes fully funding the scholarships.

Ms. Lehmann expressed the need to identify those factors that caused the problem this time and to make recommendations that would ensure it won’t happen again in the future. She asked whether the nature of the problem that caused the miscalculation was narrowed down to one problem that could be identified and avoided in the future. Mr. Rafish stated that his recommendations will include specifically addressing some of the process issues that occurred.

Referring to a presentation made at the Budget and Finance Committee meeting regarding athletics deficits and targeted reduction items, Mr. Young asked where the general subsidy for the athletics program at OSU falls. Mr. Rafish explained that the athletics subsidy is in the current service level and considered committed funds, not discretionary. Mr. Williams asked whether this sort of thing happens every year and the Board only heard about it because it is a large amount of money. He also asked whether the Board should expect it to happen again next year.

From his perspective, Chancellor Cox stated that he would much rather have the early warning notice from the institution in time to take the steps necessary to correct the problem than the withholding of information only to discover it in the last two months of the biennium. He noted that the institution was straightforward and provided early notice. Mr. Imeson pointed out that, as President Risser mentioned, there are still some questions about the size of the legislatively approved budget for OUS and said the Board may have additional issues in terms of revisiting this with all the universities once the final state budget has been determined. He reminded Board members that the reason they decided to engage an external firm to assist the internal auditors was because additional resources were needed in order to complete the task in an expedited manner. He wondered about the lessons drawn from that piece of the audit that refers to the mathematical errors.

Ms. Wustenberg referred to the comments made by the university as noted in the Fiscal Accountability Framework booklet wherein OSU indicates it will not follow through on the auditors’ recommendations. She noted that, as the Board works through issues of levels of fiscal responsibility and gives more autonomy to the individual institutions, if there are not some hard and fast rules, delegation won’t work for the Board. Mr. Imeson pointed out that, even as the Board moves more responsibility for programs and management to individual universities, the fiduciary responsibility of the Board and the Chancellor’s office is retained. He felt that responsibility may actually be strengthened by this exercise if appropriately implemented.
Ms. Wustenberg expressed her concerns that the Board might have a problem if the university isn’t willing to comply with the recommendation or if the university doesn’t perceive this as a problem. She felt this to be a real weakness in the Board’s role. Mr. Imeson disagreed, arguing that this specific issue is separate from issues related to practices with respect to expenditures or fiscal management. He argued that this is a case of incorrect projections and assumptions made, partly based on what legislatively approved budgets would be, and some miscalculations that he felt were honest miscalculations.

Chancellor Cox predicted that, as the System moves forward with greater autonomy, the Board’s relationship to the audits will change and they will become more interested in individual institutional audits. Ms. Wustenberg noted that when expressing her concerns they weren’t intended toward OSU in particular, but were concerns related to the issues in general. Mr. Imeson pointed out that budgets are typically readjusted to reflect actual revenues and expenditures as opposed to forecasted revenues and expenditures. Chancellor Cox noted that the $6.7 million number is significantly smaller than OSU’s share of the re-balance the System facing in relation to the state general fund which could necessitate 6-7 percent reductions throughout the System.

Mr. Williams argued that if the campus takes the approach that a revenue shortfall is not to be anticipated when putting together the budgets—and that is what created the problem and thereafter they were alerted of the problem—then the process worked because they were alerted early in the budget process rather than late. But if they take the approach that they missed the calculation by $6 million to begin with, then they should ascertain that something didn’t work. He asked how one can miss fundamental calculations in the budget by $6 million. President Risser responded that he is working with Vice Chancellor Anderes to make sure that they can figure their financial management in both the budgeting and the accounting in a way that they at least minimize that sort of thing happening again. Mr. Williams stated that he was not directing his concerns strictly to OSU. He expressed concern that there is a $6 million calculation error and questioned the ability for the current budgeting process to address those types of errors.

Chancellor Cox noted that the institutions create and manage their own reserves. What flagged this problem was the magnitude that took it beyond something to be managed simply with the reserves. Mr. Bassett stated that he is more concerned about consequence than cause. He asked whether there will be a summary for the Board at some point of what OSU has decided to do. His specific interests involve scholarships, access and the strategic initiatives of OSU. He requested a report on the consequences on those initiatives as a result of this shortfall.

Mr. Young concurred with Mr. Bassett, adding that if reducing scholarships halfway through the year is indicative of desired expenditures, he requested a line item consideration of what all that means. Mr. Imeson assured Mr. Young that the categorization of funds into desired and required classifications was only from an accounting perspective and not from the universities perspective regarding what was
desired rather than what was obligated. President Risser agreed and confirmed that this is an accounting distinction and not an institutional distinction, stating that they have no intention of not honoring the scholarships.

Mr. Rafish added that TKW looked at it truly from an accounting perspective. They didn’t look at the potential ramifications to the university from decisions to eliminate certain things. He mentioned faculty and staff salary increases and pointed out that institutions could lose faculty if salaries weren’t at market levels. He recognized that there are several items that may not be obligatory, but could be very detrimental to the university if not funded.

Dr. Richmond expressed frustration in not having a clear sense of what the true shortfall is and asked what the amount would be with those add backs put into place. President Risser stated that the numbers before the Board are only the audit numbers and not the budget numbers. The budget is a different set of numbers and they have a budget that includes all the salaries and increases as well as scholarships. Dr. Richmond felt it would be prudent to know how much that number would change so that the Board could have a sense of where the figure resides in that scale between $13 million and $6 million.

Dr. Richmond asked what the Board could do to assist in giving people confidence that they are doing what is best for higher education in the state and is helping in this process. Vice Chancellor Anderes stated that there are some areas on which they need to focus. If there are concerns about the miscalculation, he explained that the Board would have to identify and understand the problem, and communicate that understanding with the rest of the institutions. While it may not directly affect the other institutions, he said they need to be aware that the error occurred. He expressed the need to examine the structure currently being used to develop the budgets, determine what are the checks and balances and what is happening between an analytical budget function versus control, and how those things are working together. He noted that the desired expenses—in terms of what is committed and what isn’t committed—really does become an institutional prerogative.

Chancellor Cox noted that it is important that all Boards wrestle with the question of whether they are a governing Board or a managing Board and noted that, according to the statutes, this is a governing Board. He stated that how the institutions plan their budgets is something that the Board needs to hold the institutions accountable for, but not do for them. He reminded them that they have been talking over the past several years about moving toward greater autonomy for the campuses. He stated that they should observe whether the Board is focusing on governing and high policy questions or if the Board is focusing on management and he felt that to be a source of tension.

Mr. Imeson pointed out that the reason the Board started this discussion in the first place was because, if a given institution has a projected shortfall and doesn’t have a plan to deal with it, it could have implications for everyone across the System. He noted that there are certain fundamentals that are important to every university in the
System. He said it is necessary to address the budget in a way that is consistent with the System goals on how education is actually being provided. He noted that if an institution were to chose to deal with a shortfall solely by addressing it as a tuition issue, the Board has the responsibility address it, but he felt that this is a case that was identified early, was addressed in a forthright manner, and has proven to be a beneficial exercise.

Mr. Lussier noted that if the Board is going to allow more autonomy then it needs to put a little more structure in place so it can rest assured that the governing responsibilities are being addressed. He stated that, historically, if one of the institutions ran a deficit at the end of the year, very often it was balanced across the System. He opined that such a scenario was not an issue of autonomy, but an issue of dependency. He felt the Board can play a role in building the infrastructure necessary to allow the autonomy. Mr. Imeson felt that the work gone into this study will be a very valuable tool. Ms. Lehmann agreed that the Board is in a better position now to answer questions from the public as a result of these actions. She noted, however, that it has raised questions about the nature of the Board’s responsibility and how Board will exercise that authority.

Mr. Williams felt that the Board hasn’t stepped over the lines from governing to managing. He felt that the discussion had been focused on policy and one of the policies includes access and student support. He felt that, if the actions of an institution have the implication of violating Board policy, it’s a legitimate discussion for the Board and is not micro-management. He felt that they will have more of these types of discussions as the institutions gain more autonomy and the Board struggles to redefine itself. He argued that it doesn’t make any sense to have a Board if it operates only as a sounding board. He stated that the Board has a policy-setting role, and the responsibility to delegate authority and to make sure that controls are in place to ensure that they do the best job possible.

In closing, Mr. Rafish stated that he will conduct an exit interview process and will provide the Board with hard copies of the final report. Secretary Vines noted that they could address this at the Executive Committee meeting in March and can make a delegation of authority as well.

OUS Six-month Financial Report

Vice Chancellor Anderes noted that this report is intended to supplement the discussion of the fiscal status and overall budget for OSU through the first six months of this fiscal year. This report was, in part, an outcome of the fiscal accountability process which will be presented to the Board on a regular basis.

Mike Green, OUS controller, referred the Board to the docket materials. He stated that in December OUS presented a plan to come before the Board on a quarterly basis to report the financial status of the budgeted operating funds at OSU, to compare those
results to targets that they have set for those quarters, and to provide and analyze the variances from those targets.

Referring to materials in the docket, he stated that the fiscal condition of the budgeted operating funds at OSU remains stable and, as in the previous year, revenues outpaced expenditures while cash and fund balances have grown. He stated that OSU's projections indicate that the fund balance will increase in the range of $1.9 million to $7.6 million, cautioning that the final amount depends significantly upon legislative action and actions taken by management between now and June 30, 2002. OSU also shows an increase in the projected fund balance for the end of the year. He explained that OSU made internal projections based on trend analyses from prior years and those projections indicate a positive result for year end. Therefore, based upon trends, and not taking into consideration legislative actions, it was projected that the year end results will be positive.

Mr. Green addressed the change in cash management relative to student activity funds, particularly impacting athletics, but noting that there are other funds on the university that operate out of that fund as well. He explained that in the past the account was shared across the entire System. That practice allowed a deficit in one account to be covered by surpluses in other accounts across the System. This year the process was changed such that each university has a separate student activities fund and, at OSU, the impact of that decision was that the athletics deficit required borrowing from educational general funds during the year to cover that cash deficit in the interim.

Mr. Green explained that as of December 31, 2001, there was an $8 million loan from the educational general funds to athletics to cover an interim cash shortfall. The expectation is that the majority of that loan will be paid off by the end of the year through PAC 10 distributions. His reason for bringing this matter to the Board is that pending legislative action may put an additional strain on the general funds cash balance at year end, causing the deficit to grow and affecting the ability for repayment. He stated that payroll, which is a significant expenditure, doesn't post until June 30, 2002, and legislative action is still unknown. He stated that staff will continue to closely monitor this issue and will include it in the next quarterly report. Mr. Green explained that as of December 31, 2002, the OSU athletics account was $3 million overdrawn. That amount includes the $8 million loan without which they would be about $11 million overdrawn in their cash account compared to $10 million overdrawn in the same fiscal period last year.

Mr. Lussier moved and Ms. Lehmann seconded the motion to accept the OUS Six-month Financial Report as submitted. The motion unanimously passed.

Budget Re-balance

Vice Chancellor Anderes noted that Chancellor Cox will report on the re-balance issue during the Board meeting.
Discussion Items

Review of OUS Tuition Policies

Ms. Lehmann stated that this issue relates to the ‘governing’ versus ‘managing’ Board question that Chancellor Cox raised earlier. She referred to the System Strategic Planning (SSP) priorities that were identified a few months ago, explaining that there are policy issues that SSP will present to the Board for consideration. She explained that the issues will address the current challenges facing the System and hopefully will guide the Board toward a more positive vision that will include the overall issue of governance and specifically the definition of campus autonomy and defining decision making responsibility. She stressed the need to look at alternate revenue models and related issues. Ms. Lehmann noted that the Board is currently facing some very significant issues which would ideally be considered in the broader policy context and would include discussion about raising tuition to offset reductions in state support.

Ms. Lehmann noted that the manner in which the Board views a decision about tuition can either be viewed as a way to balance the budget, as a way to set a market price for certain programs, or as a way of providing support for the broadest possible access to higher education. She pointed out that there are other variables as well that relate to the issue of autonomy and which beg the question of who will make those decisions. She felt it was important for the Board to develop the framework for looking at these decisions within that broader context. She noted that, when it was first introduced, everyone thought the RAM model was going to solve all these issues. However, that has not been the case. She asked the Board to allow SSP to move forward and start working on some of these issues and policies in order to bring them back to the Board so that they can develop a policy framework for beginning to look at some of these decisions.

Mr. Bassett offered his support for Ms. Lehmann’s suggestion, pointing out that there may be other future decisions that may necessarily become ad hoc in nature. He appreciated that there are policies in place but felt it was more important to develop a fundamental understanding of the policy frameworks. He referred to the OIT situation as a policy window through which other institutions might chose to go, but felt that, as Board directors, they should debate and decide on what is fundamentally right in addressing the future of the System. He stated that within the SSP rests the opportunity to develop new policies. Ms. Lehmann asked the Board to support SSP proceeding in this manner to address these issues.

Mr. Imeson pointed out that tuition policy is part of several other interrelated things. He expressed concern that—in a time of tight budgets and declining state support—the idea which seems most popular is to expect the System to continue to produce at the same level but with fewer resources. He stated that there are several factors involved, including state support, tuition support and enrollment policy. He questioned the wisdom of admitting all students to enroll during a time of rapidly declining state support. Another issue that relates to governance, he argued, is the cost structure of
the System and how efficiencies can be improved for the universities and the System itself. He noted that UO is considering some different tuition ideas and pointed out that whenever people talk about tuition they usually assume it is to raise it, however that isn’t what UO is proposing.

Mr. Lussier agreed with Ms. Lehmann and recommended that SSP develop a schedule for addressing specific issues. Ms. Wustenberg suggested that perhaps the full Board should have more discussion on some of these issues and then, based on the priorities of the full Board, direct the SSP Committee to concentrate on those issues. She noted that some Board members have become concerned that certain issues have been addressed in committee meetings which probably should have had full Board discussion and argued that rehashing the such issues is not a very efficient use of time. She suggested that discussion should start with full Board meetings and, if there is a need based on those discussions to break up into committees, then the Board would direct the committees accordingly. She argued that they were doing themselves a disservice by not engaging in full discussions on serious issues from the onset.

Dr. Richmond appreciated Ms. Wustenberg’s comments and noted that she feels just as frustrated when certain things are covered in SSP, particularly as it relates to tuition. She cautioned only that they don’t end up moving toward unbearably long Board meetings. She felt that if there were a way to first capture the most important issues and send them off to committee she would be in support of that concept.

Mr. Lussier agreed, saying that some of the best ideas brought forth for deliberation came out of the Committee of the Whole. Dr. Vines asked whether the plan requested from the SSP Committee could include discussion about what topics should be dealt with in which committee and what topics required full Board discussion. Mr. Lussier suggested the Board adopt guidelines for setting the agenda with regard to topics that might necessitate change in policy or might require redefinition and full participation. He noted that the issue of collaboration versus competition, with regard to campus autonomy, has existed ever since the budget model was developed and he felt that it needs to be addressed in a meaningful way.

Ms. Wustenberg agreed, adding that the Board will continue to cover the same ground without resolving anything unless there is strong agreement from the full Board on these tough issues. Ms. Lehmann expressed the increased need for structure in addressing difficult issues given the current fiscal limitations facing higher education. She said that the System can no longer provide all the services being asked of it, therefore it is necessary to reevaluate the priorities and develop a plan implementing those priorities.

Mr. Imeson pointed out that when he first joined the Board there were no subcommittees. He explained that the two current subcommittees (SSP & B&F) were created to address specific issues. He explained that the committee he serves on was created specifically to develop a new budget model following a directive by the full
Board. That group met far more often than did the full Board and did a lot of work on this project over the course of a year. He said the Board retained those committees even after the project they were created for had been completed. He agreed that the use of the committees is something that should be reexamined, but also felt that the volume of issues currently facing the Board is far too immense to be adequately addressed by the full Board given the time commitments that would be required to succeed. He felt that it would be most efficient for the Board to first determine the assignment of the committee, periodically review and discuss the committees findings, and upon completion of the assignment, bring the final decision-making to the full Board for approval. He stressed that issues requiring the need for considerable technical work to be done should be referred to committee.

Ms. Lehmann noted that by resolving the autonomy issue, some routine issues currently being addressed by committees can be avoided altogether, thereby allowing the Board to focus on topics that genuinely require Board attention. Dr. Richmond agreed, noting that there was a policy issue discussed today in the Budget and Finance Committee regarding the use of G funds for athletics. She felt that, since this was a policy issue, the full Board should have been engaged in that discussion.

Vice Chancellor Vines noted that the Board does have a policy discussion schedule for the year but, unfortunately, issues arise throughout the year that precipitate other policy discussions, especially given the current reduction of resources from the state. Mr. Lussier directed the SSP Committee to develop an agenda to be in conjunction with Board leadership in general.

Vice Chancellor Anderes explained that OUS plans to present the Board with a set of principals that illustrate tuition options being reviewed by the institutions. He noted the time constraints on this issue, explaining that OUS must bring a balanced budget before the Board in July 2002 and the Board must submit its budget to the executive branch in September 2002. He introduced Loren Stubbert and invited him to approach the Board.

Loren Stubbert, OUS director of campus budget services, stated that current policies have continued to evolve over the last several decades and they reflect the financial environment which existed at the time. Since the adoption of the Resource Allocation Model (RAM) in 1999, the environment, he explained, has changed significantly from one in which state general fund and tuition income was pooled and allocated out centrally by the Board to institutions to an environment in which campuses now have much greater autonomy. He stated that the goal is either to reaffirm the current policies or to revise the policies to better fit current environment. He noted that some of these options may appear to be somewhat provocative, but they are intended only to foster and focus discussion on the issues and to present an opportunity to review what could be done with regard to tuition policy.

In April, Mr. Stubbert explained that OUS will return to the Board with a brief review of these policies and others that may come forward from this discussion which will
include a report on fee remissions and a discussion on financial aid. The Board will be provided with more specific background on OUS tuition rates, affordability, relative position of OUS rates within regional and national averages, and related background information. Mr. Stubbert said that OUS will then seek Board direction, noting that the fee book for 2002-03 will come to the Board in July for adoption, and there also may be issues on tuition rates pending legislative process that may need to be addressed.

After briefly reviewing the docket materials, Mr. Stubbert suggested that OUS would be in a better position to negotiate with the legislature and the governor on budget issues by refining and redirecting OUS policies in a way that would allow the Board to re-articulate its goals for tuition, facilitate institutional financial and administrative management decisions, and provide some predictability for tuition costs for students. Mr. Stubbert pointed out that the legislature, through statutes, sets the building fee and established a student activities fund through which incidental fees and house service fees are deposited and managed.

Mr. Stubbert explained that since 1999 and the adoption of the RAM, the Board has taken several steps in making decisions that relate to tuition policy. Most significantly tuition now remains on campus while the approvals process remains at a status quo. He noted that student building fees would remain pooled at a System level and indirect cost recoveries are shared. He said the Board had directed that fee remission levels to remain comparable to those in 1998-99, which was the year preceding the separation of distribution of tuition to the campuses. The Board has also directed that the plateau and per credit hour applications be studied and that a fee remission report be submitted to the Board for review.

Mr. Stubbert explained that, under the current structure, tuition supports general instruction and is deposited into the education and general fund. Resource fees, which have been developed over the last several years, are also deposited into the education and general fund. He explained that they are mandatory enrollment fees that students must pay to be enrolled in the institutions, with the most significant being the technology fees that each campus adopts as well as a variety of programmatic fees. The building fee is deposited into the Plant Fund to support student building projects. Incidental fees support student government, cultural activities and intercollegiate athletics and operate as auxiliary enterprises as does the health services fee. He stated that, now with the adoption of the RAM, summer session and continuing education also provide a flow of state general fund monies to the campuses.

Mr. Stubbert noted that continuing education is more independent. It doesn’t carry the burden of some of the fees that the summer session and academic year carry. He explained that the Board has primary authority over basic tuition for the academic year but pointed out that the governor and the legislature have significant influence over those decisions through the budget allocation process. Incidental health service fees are approved by the Board as a result of campus and presidential recommendations and the building fee is the result of a legislative process as part of the capital
construction budget. Continuing education tuition is strictly an institutional approval process and is not presented to the Board. The continuing education policy has developed over the years as one of self support, which allows the institutions a high degree of autonomy in how they deliver those programs and in the rates they charge. He briefly described the summer session approval process and noted that OUS has complied with the allowable 3 percent rate increase for summer of 2002.

Referring to an overhead chart, Mr. Stubbert briefly compared the per-credit structure and the plateau structure of assessing tuition. He noted that UO and OSU have residency differentials all the way through on their academic rate structures. He explained that resource fees are assessed based on the cost and potential market value of the program. The OUS policy for resource fees requires that the programmatic fee be assessed to majors only and, therefore, it is not a course fee and is assessed based upon the declared major of a student. Mr. Stubbert explained that there is a total revenue cap on resource fee revenue not to exceed 5 percent of the state appropriation and tuition of the academic year. Currently most of the institutions are at about 2.5 percent or less with UO at between 4 and 4.5 percent.

Ms. Wustenberg asked where the 5 percent rule originated. Mr. Stubbert explained that it was in the original policy when the Board adopted the resource fee in 1994-95. There had been a resource fee for the law school for a number of years as well as for the nursing program when OHSU was still part of OUS. In 1994-95 the Board formalized the policy and expanded its use allowing the institutions to develop additional revenues that can be directed to instructional departments. He explained that state appropriations represent approximately 48 percent and other institutional income represents 9 percent of the total budget for OUS. The remaining 43 percent is made up of resource fees and tuition for academic year, summer session, and continuing education. He explained that the resource allocation model was developed based on discipline, the cost of the course and a combination of resident tuition plus the cell value (which is a targeted dollar amount calculated using the 50th percentile of peer cost estimates). The model was designed to cover the full cost of providing instruction. Non-resident tuition was expected to recover all of it’s associated costs individually.

Ms. Lehmann asked if the model was developed for both undergraduate and graduate programs. Mr. Stubbert confirmed that it was and explained that there is a set of qualified enrollments. He noted that funding in the model is also provided for Ph.D. students, both resident and non-resident, because of the importance and the excessive costs of Ph.D. programs. Mr. Stubbert expressed the importance of financial describing the different categories of aid available, which include scholarships and grants, loans, and remissions or tuition discounts.

He reviewed available policy options by addressing the philosophic basis of tuition, tuition structures, tuition assessment basis of plateau versus credit hours, and the long-term basis of how tuition should be increased. He noted that the examples are not intended to be a recommendation, but are being presented to reflect the options
available and to provide a focus for discussion. He stated that one of the most significant decisions the Board needs to address is the basic philosophical options of access versus cost-plus-market. This decision will drive most everything else and has to be determined up front. He stated that this represents a key policy issue, particularly when talking about access.

Mr. Bassett felt it was necessary to separate cost-plus-market as they are two separate considerations. He suggested that expressing it as cost-plus-market implies that the market simply serves as a calculator for an institutional revenue based tuition policy. Mr. Stubbert acknowledged that the differentiation between cost and cost-plus-market can be desegregated. Mr. Bassett said that he wasn’t so much concerned about differentiating it based on market place but that features of a tuition policy might actually look at the benefits received at increasing levels of degree or from particular programs as the pricing mechanism for that form of access.

Mr. Stubbert stated that in discussing tuition policy and philosophy it really amounts to allowing students to pursue any degree at the institution at the same price so that there is no cost impedance to the student as far as having any financial limitations placed on the student as to what kind of degree they might pursue. There are a number of tuition design options that can be considered that will provide the same tuition fee rate regardless of program and degree and still allow institution differentials and residency differentials without conflict. However, he felt it was of significance to note that some options would tend to preclude program differentials which are normally determined by cost and create the differentiation between individual degree programs.

Mr. Bassett felt there is a very narrow construct for access and particularly when the word philosophy is used in relationship to it. He felt the need for more discussion regarding these philosophies before the Board can consider this as a framework.

Mr. Stubbert stated that, looking at the cost-plus-market this has to do primarily with students paying for what they get on an individual basis and is more a business entrepreneurial model. The intent of this design would be to initially recover cost of the program, and then the plus-market would allow or facilitate differentials at what the market might bear based on overall demand and potential earnings of particular degrees. He noted that there are two very different sets of issues involved, explaining that this can be segregated and dealt with in two separate discussions. The issues here that correlate revenue production to the cost centers on campus involve the cost differentials that may have an effect on which degree choices students make. Thus, the tuition level at market may be more or less than cost because, especially in the continuing education area, institutions oftentimes have to underwrite a course because they need the course to fill out a degree program.

As an example of how this might be set up, he explained that if the Board wants to provide a very open process and a strong access orientation for resident undergraduates, it might then apply this philosophy to resident undergraduates. Graduate and non-resident students can often be looked at in more of a cost or cost-
plus-market orientation such that it is clear that resident undergraduates are prioritized differently from other student categories. Providing an access orientation for resident undergraduates and a cost basis or cost-plus-market basis for other student categories is a possibility.

Mr. Williams clarified that market orientation implies that there is a price value relationship such that, as an example, a student could live at home and that has value even though the education received may not be as good as what might be available at another institution. Conversely, an institution might have a particularly high-ranked program that has a high market value because graduates of the program can expect to gain higher incomes upon completion of the program.

Mr. Stubbert stated that cost of delivery and the economic value of a degree program is more readily identified and calculated for a campus in making a recommendation than is the price value of living at home. Mr. Williams asked if some of these price value trade-off dimensions can be identified when the recommendation is returned to the Board. Mr. Stubbert said they would follow Board direction. He noted that there are many options available and staff needs to focus their energies based on the direction of the Board. He asked that the Board consider these things and raise any issues they would like to have addressed prior the April meeting. Mr. Williams asked if it is possible to get a hybrid philosophy with regard to individual programs. Mr. Stubbert said that would be possible, however, he cautioned that it could become somewhat complicated for administration to get focused on individual programs and try to assess what would be an appropriate market for each program.

Mr. Bassett felt it would be not so much a hybrid as a trade-off among a set of philosophies that point us to a particular policy or expression of how we want the decisions to be made. He stressed the importance of separating cost and market if one is going to develop the kinds of examples Director Williams is asking for because they must be separate from institutional costs if they are really to be good reflections of the marketplace.

Mr. Stubbert went on to discuss tuition structures and the issues of the current multiple node structure versus a more consolidated structure. He stated that the multiple node structure results in multiple tuition structures, tuition rates, policies, and approval processes, yet it is possible for a student to be engaged or enrolled in two or more of those at almost any time. He continued saying that a student could pay tuition for academic year programs but have other policies governing continuing education. He said they are not always consistent, especially given the current economy. He stated that having differing policies and tuition rates creates complications for students which may be in conflict with the policy of serving students and felt that a consolidated approach may be more desirable. As an example, he suggested that there could be a consolidated model in which there is a single tuition rate structure for all delivery methods for academic year, summer session and continuing education. A hybrid of this would be having a single tuition structure for the academic year and summer session and continue with a separate tuition structure for continuing education. He
said the Board might also wish to consider whether or not they would exclude continuing education from RAM funding given the more independent approach that institutions could take on pricing.

Mr. Stubbert went on to address the issue of tuition assessment methods. He explained that the System currently has multiple structures and combinations, including the tuition plateau, the per credit hour, student level and course level. He noted that the campuses have indicated a strong interest in blending academic year and summer session tuition policies and structures, but there is still an interest in having the entrepreneurial qualities of continuing education and some of the freedom that allows campuses to deliver courses in response to market conditions.

Mr. Stubbert pointed out that another major issue has to do with how tuition should be raised over time. He noted that this issue tends to be very political. Historically tuition increases have begun in the budget process as a means of maintaining a revenue fund split with the state appropriation, based on the percentage of allocations from the previous biennial budget. He suggested some options, including applying and establishing an accepted inflation index so that tuition grows at a prescribed and regulated level.

Mr. Bassett cautioned that tuition change doesn’t necessarily mean increase and recommended they use the word “adjusted”, not “increased”. Mr. Stubbert agreed and noted that an example of how this might relate is with resident undergraduate. The Board might want to set tuition rates at a fixed student share ratio of cost in relation to the RAM and have that at a more established ratio, whereas graduates and non residents may be adjusted independently on some other cost basis. Mr. Bassett again stated that in that example cost recovery is the driving variable. Mr. Stubbert noted that at some point the total revenue flow has to cover the cost and therefore is tied directly to the state general fund. Mr. Bassett noted that cost is also a variable and that the Board might conclude for one reason or another that a decision to hold tuition at a time when costs are going up has some purpose related to cost reduction. Mr. Stubbert noted that in recent years the legislature funded tuition increase offsets for resident undergraduates and OUS held tuition rates constant for resident undergraduates during that time. In contrast, resident graduates and non resident tuition did increase at a regular rate during that period. That issue has to be reviewed in the biennial budget process.

Chancellor Cox observed that cost and access have been addressed throughout the discussion but asked about the issue of quality. He felt that OUS is under tremendous pressure to raise the quality of the programs—whether it be high technology, pre-medicine, or nursing—and he felt that the issue of quality also needs to be considered. He pointed out that the System can’t achieve the quality levels expected in all programs under the current funding model. He felt that the pressure will intensify to produce in certain programs a high quality expectation, far above the mid range upon which the RAM was designed.
Ms. Lehmann requested a matrix be developed for the Board which illustrates the trade-offs. She noted that, in terms of access, the issue is not just about the equitable cost of different program options but is also about whether the System is going to try to educate every student in Oregon with a certain GPA. She felt that such a document would not only help the Board, but would also be a good tool outside of Board discussion for educating the public. Chancellor Cox stated that the System historically has operated on the idea that it would try to serve every academically qualified student who applies. But the time is coming when System will no longer be able to do all these things and the Board and institutions face some very hard choices and decisions.

Mr Williams complimented staff regarding this introduction to the task ahead, noting that it did a fine job of summarizing the Board's current thinking. He said it seems like there is an opportunity to think about innovation and paradigm-breaking, and breakthrough ideas welcoming innovative thoughts and ideas. He acquiesced that he doesn't have the answers but does have some questions. He noted that every time the System considers a tuition increase, Board members face students with banners and people on capitol steps. He felt that a discussion about income should be accompanied by discussion about how to better utilize resources and other possible innovative approaches. He addressed the issue of utilization of the classrooms and the hour frame for holding classes. He expressed the need for simplicity and predictability for the students. He also felt that people should pay for a superior product. He said that if residents can’t afford that then we should think about how we could make it accessible for those who are deserving by their performance or potential to get into the program.

President Creighton stated that he hoped the tuition policy could be combined with, for example, performance indicators. He said there is currently a ceiling for tuition occurring at 12 hours. If campuses encourage students to graduate in a timely matter perhaps the ceiling should be raised to 15 hours.

President Zinser agreed with President Creighton’s suggestion about looking at the impact of any potential models, including out-of-the-box models, on the expected performance and results. In thinking about the Board’s strategic plan, she said, there are many issues all campuses are trying to examine in light of what might impact access and quality, and in making a distinction between quality and value because value can be a market perceived thing and not necessarily the same thing as actual quality. She said that the issue of equity may not necessarily reflect differentials in tuition. She felt the System could still preserve access, and at the same time put in place differentials by program, while not necessarily compromising access, noting that the Board may not chose to do so for equity reasons. She said other issues that need to be addressed are cost and different delivery methods, revenue enhancement, and relative institutional capacities for providing services, noting that, with regard to remission programs and scholarship programs, some institutions have more capacity than others. Additionally, she felt the System has to make a distinction between the tuition price and the effective cost to the student after remissions and scholarships are layered in as well as subsidy issues.
Mr. Lussier felt that the Board also needs to determine its level of involvement and determine at what point should the policy issues be delegated to campuses. He felt that under the current framework the Board is involved in the full process and felt it didn’t need to be quite that involved. Ms. Lehmann agreed, stating that should be included the matrix. Board Secretary Vines asked whether that was a suggestion that the Board agreed with in terms of the April discussion, framing it a little more on the first couple of items plus what the Board’s involvement should be. Mr. Imeson noted that presently the Board has complete involvement as the tuition regulator. Mr. Williams felt the Board couldn’t make a determination on tuition without considering the cost structure. He felt they should be looking at everything, including cost structure, to keep tuition low and argued that businesses can’t continue to pass the cost of inefficiencies to the customer.

Referring to HB 2015, Ms. Lehmann stated that, at some point, the discussions would need to include the community college structure as well. Mr. Stubbert suggested the Board might benefit from a review of costs and cost models in relation to tuition and the resource allocation model.

Chancellor Cox pointed out that in designing the new budget model the Board made an assumption that it was reasonable for the University System, given the resources, size and population, to put together a financial structure that would be based on the midpoint of public university peers. He noted that the policy can be changed, but that it is the principle the System has been operating on and the legislature has approved.

Mr. Williams felt this a slightly different issue. He said that what they did was to look at peer institutions and their costs. But the question now is more whether there are more fundamental and structural that could be made to alter the costs or provide new access to different revenues, he said. He recognized that it is difficult for the Board to come up with such a policy because it is hard to explore all the possibilities, and he felt it would be good for the universities to explore alternatives and develop their own ideas. He suggested that another way to approach this is to look at best practices or to develop a competitive advantage. He felt that the Board is a long way from having those kinds of discussions and is basically saying OUS universities are average, but this is a different economy and we need to be competitively superior.

Mr. Williams said that to determine best practices they might want to learn how many hours a professor or teaching assistant spends in the classroom and how that fits into the cost model. Mr. Imeson noted that when the model was developed it was based on equaling the services of peer averages but using 90 percent of the resources. However, the System is no longer receiving 90 percent of the resources of its peer averages.

Dr. John Moseley noted that what might work well for one campus might not work best for other campuses in the System. He argued that different institutions have different needs, different physical facilities, different opportunities, different markets at different times. He particularly appreciated President Zinser’s outline of the complexity of the
tuition and the access issue and the points that Directors Bassett and Williams made in that regard. He stated that access is not simply a question of a uniform tuition, and he argued that a uniform tuition actually works against access. He stated that UO is calling its plan an access-based tuition plan because they believe in many dimensions that will lead to additional access to the UO, both because of access to a larger number of students and because of a tuition benefit to provide access for those students for whom cost is the primary barrier to a higher education. He pointed out that the proposal is not a single tuition model. He stated that UO currently has the highest enrollment in history on campus and is in a situation where, during the traditional classroom hours, the classrooms are being 100 percent utilized. Because UO classrooms are available in the late afternoon, UO intends, as part of its plan on trying to address this enrollment pressure, to make better utilization of classrooms in the late afternoon.

Dr. Moseley noted that the space issue is exacerbated by the fact that a large classroom building will soon be taken offline for renovation. He said that the first problem UO faces is how to serve this wave of students that will arrive next year when at a time when it is facing a classroom shortage. He also felt that, in the face of a decline in state support, and even with best practices, it is inevitable that tuition is going to continue to be an issue. In an attempt to resolve the problem of maintaining affordable tuition in the face of reduced state support, UO proposes to spread the classes and students more evenly throughout the day and in some cases into the evenings and weekends, thus making better use of the physical resources. This will keep some of the fixed costs constant which will have an overall effect of slightly lowering the cost per student. He referred to the current plateau model versus the credit hour model and said that UO is proposing a hybrid of these models as the kind of model that would best support access. UO is also looking at providing some lower cost tuition alternatives, specifically by providing some incentives for taking classes later in the day. He stated that the net result is an increase in choice to the students because classes will be offered at more times during the day, they will be offered at a lower rate in order to provide incentives for students to move into those classes, and the total number of classes available will be expanded to meet this demand rather than simply putting more students into the number of classes currently available.

Dr. Moseley stated that UO is considering narrowing the plateau, but not doing away with it. Under the current plateau, a student taking 13 or fewer credit hours on campus is subsidizing the one who is taking 14 or more. On the other hand they want to encourage students to take 15-16 credit hours on average to make timely progress toward a degree. He argued that a straight per student credit hour model would have a negative impact on student progression toward a degree. He cautioned that this doesn’t mean that every student is going to pay less in tuition. A model, he said, can be designed so that it is revenue neutral for the university as a whole. He stated that if tuition goes up by 3 percent this can be re-balanced to generate the same amount of revenue but still provide different choices for different students.
Ms. Wustenberg asked whether PSU provides lower tuition rates for students taking night classes. President Bernstine stated that PSU provides classes from 7 a.m through the evening hours and Saturday, but their students chose those times because of pressures on their schedules. Dr. Moseley noted that PSU is in an entirely different situation and has a much higher classroom utilization than UO does.

**OSU Redesign**

Dr. Vines asked that President Risser provide his presentation at the end of the meeting of the Committee of the Whole and immediately prior to the Board meeting due to unforeseen time constraints.

**Adjournment**

The meeting adjourned at 12:29 p.m.