Minutes

Committee members present: Tom Imeson (co-chair), Leslie Lehmann (co-chair), Kerry Barnett, Roger Bassett, Jim Lussier, Geri Richmond, Erin Watari, Phyllis Wustenberg, Tim Young and Don VanLuvanee.

Chancellor’s Office staff present: Chancellor Joe Cox, Tom Anderes, Shirley Clark, Ben Rawlins and 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 9:35 a.m. by Co-chair Tom Imeson, and roll call was conducted by Board Secretary Diane Vines.

Approval of Minutes

Ms. Wustenberg moved and Mr. Young seconded the motion to approve the February 15, 2002, Joint Committees meeting minutes as submitted. The motion unanimously passed.

The Biennial Budget Process

Vice Chancellor for Finance and Administration Tom Anderes presented an overview of the operating budget including structure, priorities, and recent funding trends. He pointed out that state funding could change drastically and the amount that will be allocated to OUS can’t be determined at this time. Nevertheless, he noted the need to develop a benchmark from which policy packages and current services can be compared, keeping in mind what would be a realistic level of funding that can be expected. In developing a budget, he explained that there are state requirements and structures through which the budget must be built; there are Board priorities and policies; and there are university priorities, all of which come together to create the budget request.
The State / OUS Funding for 2003-2005 Biennium

Dr. Anderes stated that the projected expenditures for the state is $11.2 billion. He explained that the OUS share of the budget is $790 million or 7 percent, which has been allocated through the legislative fiscal office. He stated that the Office of Economic Analysis anticipates a revenue increase for the state over the next biennium of approximately $1.27 or 11 percent. Assuming that the OUS portion remains at 7 percent of the state revenues, the System could expect an increase of approximately $90 million, although considering current revenue expenditure issues and structural problems it will probably be less than that amount. He pointed out that as the System begins to look at funding from a prior biennia in assessing potential alternative packages and current service levels, that amount may not seem so high in relation to the System’s needs. He briefly discussed highlights of the budget history and illustrated that the System tends to fare better than other agencies during periods of a strong economy and is hit harder as the economy worsens.

The Operating Budget

Dr. Anderes discussed structure and requirements, current service levels, policy packages, and enhancements beyond current service levels. He noted that all state agencies are required to submit reduction plans and in this biennium there is an additional requirement for a 20 percent reduction plan, which significantly affects the planning process. He explained that current service levels are committed costs that are carried forward into the next biennium. Other factors that will affect the budget include inflation, salary increases spread over the full biennium, and costs associated with new facilities that will be coming on-line.

Dr. Anderes explained that policy packages are enhancements beyond current services and, in most cases, are discrete initiatives. He said that some of the packages are discretionary while others are mandatory. He noted that the 10 percent reduction plan requirement is typical of what has been historically required by the state, but the 20 percent plan for all larger agencies is a new requirement.

Chancellor Cox asked what is the base for the 10 and 20 percent exercises. Dr. Anderes explained that it is off of current services calculations. He explained that OUS will receive a new budget from the state in September. However, the current estimated figures are based on the current legislatively approved budget and he cautioned that there may be further alterations by the state. Chancellor Cox noted that this exercise has to be taken seriously and be approached as though the 20 percent reductions were a real possibility.

Dr. Anderes addressed Board priorities and policies as the basis from which the budgets are built, primarily in reference to policy packages, but also as they relate to current services. He explained that the highest priority in this biennium was in preserving current service levels. Other priorities were quality educational programs, expanding access for
all qualified undergraduates, and contributing to the current needs of the state and its communities. He noted that the Board has expressed goals that relate directly to those priorities. However, given the current budget crisis, he suggested the Board consider the possible need to modify its priorities to better address the current fiscal reality. He noted that the universities also have their own sets of priorities of which the common issues of compensation packages and growth affect everyone. He explained that there are individual packages that differ based on campus needs including engineering, the biosciences initiative, statewides at OSU, and small school allocations. These programs have a different impact, but are extremely important in terms of overall priorities.

Dr. Anderes explained that a major component of the budget is full funding of the model at a level equal to the average of the System’s peers. He stressed that fully funding the model doesn’t constitute an excessive amount. By fully funding the model, each institution would receive dollars based on their relative enrollment projections and course offerings. He noted, however, that the method by which campuses apply those dollars may differ. He explained that the state structure for current services defines the personal services roll-ups; debt service for buildings; inflation; roll-up and salary costs for OSU-Cascades; and the conversion of the veterinary medical school to a four year program, including an additional $6 million to the base during transition.

In presenting the budget to the governor and legislature, Dr. Anderes suggested the Board determine whether to consider limiting the budget request, or whether it should fully identify the System’s needs even though funding of those needs would require considerably more funds than the System can expect to receive. He noted there are pros and cons to either approach, but that it would be difficult to move forward in the future if the Board doesn’t make clear the System’s needs. He pointed out that fully funding the RAM would put OUS at the 50 percent funding level of its peers, but currently OUS is only at 40 percent funding. He expressed the need to identify what would have to be cut if the budget were reduced. He noted the dramatic effect of cuts at 10 percent and greater, pointing out that there are many cost increases, such as benefits, that are automatic. He discussed the challenge of increased enrollment and the inability of tuition to support those increases.

Dr. Anderes felt that, as the System moves toward a structure that is campus-based, they will need to look at a variety of different issues. At the System level, the Board should be concerned with whether there are benchmarks or ways of indexing what happens when state funding fluctuates and whether there are guidelines that should be used in determining what would be an appropriate share of costs to the student in relation to state support. He felt that other issues the Board should consider include determination of whether the RAM should continue as the primary vehicle for the budget; whether the required 20 percent reduction plan adequately defines impacts on the System; and whether the request sufficiently responds to the Board’s conditions for success.
Mr. Imeson felt that the budget developing process could be viewed as an opportunity for the Board to explain to the public what the System is and what it requires in order to be successful. He stressed the need for more public outreach on the part of the Board. He expressed frustration with the CSL and felt that the Board should look at what is happening at peer institutions. He addressed the dilemma the System faces when it is directed to accept all qualified students yet isn’t provided the funding necessary to support those students. He stressed the need to articulate clearly those issues with respect to priorities. He noted that, when compared to the actions taken by the governor and the legislature, it was clear that the Board’s priorities were not aligned with theirs. He suggested the Board develop a tuition philosophy that is more clearly stated and incorporated into the budget development process.

Ms. Wustenberg asked where the required 20 percent reduction plan originated. Chancellor Cox explained that it was part of the governor’s instructions to all major state agencies. He explained that it used to be a 5 and 10 percent requirement, but the 5 percent was dropped and it is now a requirement for a 10 and 20 percent reduction plan. Ms. Watari urged the Board to proceed cautiously in talking about tuition and access. She said, if the Board chooses to raise tuition, it is in effect defining what access and quality are. Mr. Young expressed the need to consider the whole context of what increased tuition means to the student and the chilling effect it has on possible career choices for students finishing college. He felt that students facing considerable debt upon commencement may feel pressured to pursue more profitable careers rather than careers, such as public services, which may be more important but less lucrative.

Mr. Imeson clarified his point that the Board needs to have a philosophy about tuition and what it is it is trying to achieve. He pointed out that, if one policy is to accept all qualified students and another policy leads to less funding per student from the state, and if neither of those factors are variable while costs continue to rise, the Board is then forced to consider other options for balancing the budget. He didn’t feel that it was anyone’s position that tuition be the solution, but felt that the Board needed to have a clear view about tuition and articulate what levels would be appropriate and acceptable. He stated that the bigger issue is the need to be able to clearly explain the cause and effect of all these factors to the legislature and the public.

Ms. Watari recognized that tuition will have to be raised, but argued that, as a source of revenue, it would only be a short-term solution. Mr. Imeson agreed, but noted that the Board will still have to propose a budget that somehow fits what is believable and realistic in terms of the issues the state is facing or it will not be given any consideration. Mr. Lussier said his greatest concern with regard to tuition involves student expense. Recognizing that a budget needs to be submitted in July, he suggested the Board divide the issues between the two subcommittees of the Board. He suggested the System Strategic Planning Committee take on the tuition issue and current service levels and that the Budget and Finance Committee review the funding model, how cell values change, and whether there are any other potential sources of revenue.
Mr. Bassett requested staff provide, on a regular basis, a chart tracking state revenues and current service levels to identify revenues and trends related to state funding, economic fluctuations and cut-and-cap measures. He expressed the need to be more in touch with the state revenue sources upon which OUS depends so heavily. He stated that the 20 percent reduction plan must be realistic and sustainable. He said they need to identify the changes such a reduction would necessitate and that those changes include system design recommendations and structural changes. Dr. Richmond suggested the Board move aggressively on this issue, possibly in May, but prior to having any detailed dialogue about the budget. Dr. Vines pointed out that there is an Education Joint Boards Working Group meeting scheduled for the same day as the May Board meeting, so the Board would only be able to meet in the morning.

Chancellor Cox cautioned the Board of the dangers in presenting a transparent budget. He recalled a recent legislative session wherein the legislatures ignored the base and focused only on the programs in which they had a personal interest. By itemizing, the Board risks losing funding for instruction. UO President David Frohnmayer pointed out that the budget will be significantly impacted by benefits increases and anticipated a serious budget crisis as a result. Mr. Imeson agreed and noted that the budget process could be an appropriate tool for illustrating to the new governor a detailed account of the options available to OUS.

Mr. Lussier expressed the need to clearly explain, without appearing threatening, the impacts of certain alternatives that may develop in the budget process. He suggested that the presidents and staff assist the Board in identifying what those cuts will mean at each level and to illustrate the impacts that would be realized at each level of reduction. Responding to a question by Ms. Wustenberg, Dr. Anderes stated that the System doesn’t have any control over debt service, funding for new operations, inflation, salary, and benefits. Mr. Imeson questioned the amount of the CSL and its true definition. He pointed out that the System’s budget model is inconsistent with the state government’s CSL approach.

The Board agreed to meet again on May 17, 2002, as a joint group with presidents at the table. Mr. Imeson said that, in advance of that meeting, they would need to come to an understanding. Mr. Lussier suggested they may be more productive dividing into two subcommittees and taking up separate issues rather than looking at a whole string of issues with the entire Board. Mr VanLuvanee suggested meeting when everyone is present to decide on how to proceed. Dr. Richmond suggested the Board develop a strategy for that meeting to decide what are the goals they want to achieve and what is the best strategy for achieving those goals.

Adjournment

The meeting adjourned at 10:39 a.m.