Minutes

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

Chancellor’s Office staff present: Chancellor-designate Jarvis, Tom Anderes, Bob Bruce, Shirley Clark, Bob Kieran, Bob Simonton, Loren Stubbert, Diane Vines, Susan Weeks, Marv Wigle

Others: Dan Bernstine (PSU), Phil Creighton (EOU), Martha Anne Dow (OIT), Dave Frohnmayer (UO), Philip Conn (WOU), Paul Risser (OSU), Elizabeth Zinser (SOU), Ian Ruder (Board nominee)

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

Call to Order/Roll Call

The meeting was called to order at 9:47 a.m. by Co-chair VanLuvanee, and roll was called by Board Secretary Diane Vines.

Approval of Minutes

Mr. Bassett moved and Mr. Lussier seconded the motion to approve the June 21, 2002, Joint Committees meeting minutes as submitted. The motion unanimously passed.

2003-2005 Biennial Operating Budget

Dr. Anderes explained that the purpose of the discussion was to come to arrive at decisions and move forward with the governor’s budget request due September 1. He invited Walden Rhines, Engineering and Technology Industry Council chair, to discuss the third priority, the ETIC initiative.

Mr. Rhines explained that ETIC is an organization established by Senate Bill 504, which called upon a group of industry leaders to make recommendations relative to the expenditure of funds for improving high tech education in the state. He explained that
the members of the council are purposefully selected from leading companies in high technology throughout Oregon. In many cases, where companies are headquartered in Oregon, he noted, the CEO or COO of that company serves on the committee. He explained that, because of their position within the company, they are authorized to speak on behalf of their companies relative to their priorities, and to project what their companies will need from the college graduates they will be hiring in the future.

Mr. Rhines stated that the eight schools affected by the funding include EOU, WOU, SOU, OIT, PSU, OSU, UO and the Oregon Graduate Institute. He said the Oregon economy is driven by high technology more than any other sector, with a 50 percent growth in employment in the last five years. The average wage for these positions is more than doubling. He explained that much of the technology business results in the export of products to other states and internationally. High technology also brings in research and development dollars which, he pointed out, have grown substantially in recent years and which require a level of education that the state infrastructure struggles to support. He went on to note that high technology constitutes more than 22 percent of the state’s economy and that, unlike other critical industries in the state such as forestry and paper, the growth continues to climb. Mr. Rhines noted that, of the college graduates hired by Oregon companies to work in high technology, less than 25 percent were hired from Oregon universities and colleges. He pointed out, by hiring from out-of-state, it takes high paying jobs away from Oregonians.

Mr. Rhines went on to explain that ETIC, through a long series of meetings both with university representatives as well as council members, has decided to put everything into a single program. In the past, he said, they had a very specific initiative that was dedicated toward doubling the number of graduates in technology fields and some special initiatives relative to attacking the issues of the quality of those graduates. Now they have one program that has measurable outcomes, clearly monitors on a regular basis the increase in graduates, and how they are performing, both in terms of output and excellence based upon national ranking and other quality metrics built into the plan. He expressed the importance of leveraging private donations and support for the program. He explained that the basic program in the $40 million funding proposal, which includes an industry match of over $100 million, would continue the existing investments to increase the capacity of the System to nearly double by 2007 compared to a baseline academic year 1999, and at the same time build centers of excellence at the technical universities and colleges. Over the coming biennium the program is projected to hire 61 new faculty members, expand specific laboratories, increase the quality and diversity of engineering and computer science students in the state, and enhance pre-college programs attracting people to engineering and computer science. It would invest in existing and new research centers and programs and would have metrics for national ranking of those programs whether they are a specific program, a department, or an entire college. He stated that there have been almost 46 faculty members hired as a result of the ETIC funding that has been provided in the past biennium and the proposed program would bring the total to 106.
Bob Kieran, OUS Director of Institutional Research, reviewed the enrollment trend patterns for the past 30 years and identified how external forces, such as the draft, the advent of community colleges, additional financial aid, and the changing economy have affected enrollment rates. He noted that when Oregon passed the higher education efficiency act in 1995, the state started to see a change in the economy, therefore the demand for higher education and particularly high technology grew. He further noted that the demand for education is now growing more rapidly than at any other point in the past.

Mr. Kieran explained that increased enrollments can be attributed in part to increasing transfer students and new incentives from campuses, including scholarship offers for new students, targeting for diversity, and putting together programs to improve the freshman-to-sophomore retention, which is the period of time when the System loses most of its students. He stated that the rise in non-degree graduate and undergraduate enrollments indicates that education is a lifelong pursuit and people will change careers many times in their lives. He noted that, for the first time in Oregon history, businesses are laying off people with bachelor’s degrees, which has contributed to the increase in applications to graduate and professional programs.

Referring to the “Where Have Oregon’s Graduates Gone” survey, Mr. Kieran explained that 75 percent of Oregon’s high school graduates have gone on to college. Of those students, 31 percent are attending an OUS institution and more high achievers remained in Oregon than in the past. He noted that OUS is requesting the same budget share, however, the budget request addresses the potential reductions in trying to serve this many students. He explained that the most important reasons students give for choosing an OUS school are academic reputation, affordability, and course offerings. He pointed out that, in times of fiscal difficulties, programs are eliminated, quality is reduced and tuition is increased and, since those are the three factors that feed the market of high school graduates, OUS needs to be careful about moving into a market economy if it can’t maintain program availability, quality, and cost.

Director Lussier asked how much of the enrollment growth is due simply to population increases. Mr. Kieran stated that the surveys indicate OUS is getting a greater percentage of high school graduates and, while some of the increase is due to population growth, the percentage of high school graduates attending OUS has increased from 18-19 percent to 24-25 percent of the freshman class, and community colleges have also grown in their percentage. He noted that 90 percent of the high school graduates are either talking about or are in college within two years of graduation. Mr. Kieran noted that WICHE projections for Oregon’s growth was for 7 percent over 10 years, yet OUS reached over 6 percent by fall 2001. He pointed out that the projection is for demand if growth is allowed unfettered. Director Barnett clarified that this projection assumes institutional capacity that does not exist today and suggested this could become an indication of unmet demand.
Director Richmond asked what percentage of the numbers are of 18-24 year olds in the state, and suggested that, if a large portion of the students migrate into the state, they may not have the economic status that current residents have, and that would make a difference with regard to the projections. Mr. Kieran noted that there is no input component from Oregon’s population in the projections themselves, but that the input is primarily from high school graduates. Mr. Kieran explained that the budget is an enrollment-based Resource Allocation Model (RAM). He explained that most of the money in the cells of the RAM is driven by fundable undergraduates. He said enrollments have become a richer mix of undergraduates and residents as requested by the legislature in 1999 when OUS agreed to fund the model.

Mr. Kieran explained that budget projections were made in May 2000 for the 2001-2003 biennium and, at that point, fundable undergraduates were projected at 53,803 for 2001 and 55,600 for 2002. He pointed out that OUS underestimated enrollment considerably and, in the first year of the biennium, enrollment was at 56,900. Over 60,200 is projected for the next year of the biennium, and he anticipated the rapid increase to continue into the 2003-2005 biennium. Responding to a question by Director Lussier, Mr. Kieran confirmed that the new figures indicate 7,700 students more than what the legislature funded.

Marv Wigle noted that during this biennium the budget has been unstable, and consequently the numbers tend to be volatile. Therefore, part of the request before the Board is to allow staff the ability to make adjustments as necessary as they move the budget forward to the Governor. He explained that the biennial budget is constructed according to instructions received from the Department of Administrative Services in the Governor’s Office in order for the state to align OUS’ budget request with the budget requests that come from other state agencies. He said the state requires that OUS develop and present its budget on the basis of the current service level and policy packages and he briefly reviewed the process. Mr. Wigle stated that there are two types of policy packages: one is a request for state general funds and the other pertains to other fund authority not within the state general fund. Unlike the current service level, the Board policy packages are constructed on a revenue base so they are consistent with the methodology used in the RAM for allocating funds to the campuses. He said the Board priority packages are presented in order of priority, with the first priority being access to quality programs meeting existing demand. He explained that, over the biennium, the cell values have corroded significantly as a consequence of the combination of enrollment growth and budget reductions.

Mr. Wigle reviewed each of the priorities and noted that, without adequate state funding for enrollment growth in the 2003-2005 biennium, the campuses are going to be faced with some very difficult choices including significant tuition increases, restrictions on funded enrollment, program eliminations, and reductions in class offerings. All of these options, he noted, would place a significant additional financial burden on the students. He emphasized that, without funding for enrollment growth, the cell values will be
further devalued and the only way that an individual campus could improve its position is at the expense of another campus. He explained that the System reserves have been eliminated, putting it in a position where it can no longer respond to the needs of campuses that have been disadvantaged. He briefly reviewed the mandatory PEBB increases and faculty and staff salary increases. He explained that the PEBB increases may be funded under the current service level as part of the policy package. It was pointed out that the PEBB increases are based on the PEBB Board’s projections of the ten percent increase each year over the next biennium and these are not discretionary increases. Director Wustenberg clarified that the PEBB increase would be 10 percent each year and the faculty rate increase will be 2 percent. Mr. Wigle confirmed, noting that the 2 percent is just a calculation but the 10 percent is a reality.

Mr. Stubbert confirmed that tuition is a major component of budget development and the amount of tuition revenue expected to be received is driven by the elements of enrollment levels and tuition rates. He discussed how tuition is designed into the RAM, noting that a balance of tuition and general fund revenues are required to adequately support and implement the model. Mr. Stubbert explained that, for those policy packages that do not relate to enrollment growth, such as compensation and direct costs, a rate increase in tuition is required to offset that cost.

Director Bassett asked what the projected relationship is between current service levels for all state agencies and the General Fund for 2003-2005. Mr. Wigle suggested that the term "current service level" is a misnomer. He explained that one of the things that happens in subsequent legislative action is they take money away and as a consequence, the base budget is lower, which suggests that OUS will not be able to continue its current programs and activities.

Director Lussier asked for a quick graph of historical and projected OUS cost per FTE and the historical and projected general fund per FTE. He also asked for a report to illustrate, if enrollment were capped at 100 percent of the cell values, how many students in each biennium OUS would have to eliminate. Director Imeson observed that, if OUS presents its budget and the legislature dictates that the System will take all qualified students, it inevitably has an impact either on access through tuition increases or on quality by reducing what is available to students. Director Wustenberg stated that it is the System’s obligation to educate and provide access and quality. How the budget is presented is extremely important, particularly since it represents part of the population that will not be served.

There was considerable discussion regarding how the System should present the budget in terms of the RAM model, which influences the perspective students get when making a choice as to which institution to attend.

President Frohnmayer expressed concern that, in the budget presentation, certain items will be presented as discretionary rather than as essential to the RAM. He felt
that, if OUS allows so much dilution by saying this is a policy package rather than an essential part of the CSL or the program itself, the System will lack the funding to sustain the model. He also stressed the reasons given by students for choosing OUS institutions: (1) academic reputation, which is the first thing to be eroded when there is a perception that you don’t have quality; (2) the availability of academic programs, which is directly related to the funding; and (3) financial assistance. He cautioned that all three of those reasons are what brought back the best and the brightest and gave opportunity to Oregon students who are at risk if quality is diluted.

Mr. Kerans advocated for a political statement to be made that illustrates the impact on the process and advocated that the budget document be a true and accurate reflection of the demographic and economic imperatives that are driving the enterprise. He noted that the economic imperative is not only driven by the ETIC concerns, but is also driven by every other discipline within the System. He stressed that the budget request should be for what is needed to serve Oregon, not the institutions. He stated that it isn’t the System’s place to make it easier for the governor and the legislature, pointing out that it might make their job harder, but may drive the issue if state departments receiving General Fund dollars were to do the same. He argued that the state fundamental process is dysfunctional and the System would be remiss if it did not provide the best picture of what it needs to make a contribution to the economic, civic, and social future of the state. He felt tuition should be the point of last factor applied and suggested that opportunity cost be calculated into the narrative.

President Bernstine expressed concern about access and which students would be accepted under this scenario. Director Wustenberg suggested that could be a campus decision. President Bernstine argued that it wouldn’t be a campus decision if they were talking about the System distributing students among the campuses. President Creighton pointed out that if a given institution takes additional students, it would dilute the cell values for everybody else and the smaller institutions would thus be put into jeopardy because they wouldn’t have the financial resources to attract the students and provide the assistance of the larger institutions. He said it would begin a spiral downward that the smaller campuses wouldn’t be able to pull out of easily.

Vice Chancellor Anderes reviewed the requirements of the Governor’s Office to provide additional feedback. He explained that historically there has always been a 10 percent reduction scenario, but OUS has been requested to provide scenarios for 10 and 20 percent reductions and will soon be requested to also present a 30 percent scenario. He noted that the reductions made in 2001-2003 were largely in targeted programs and not in instruction. He explained that the next step is for the Board to address some questions of whether state support for non-instructional programs, such as research and public services, be phased out in favor of maximizing resources for enrollment. Other questions facing the Board, he noted, are whether public service programs and research should be downsized, enrollments capped, tuition raised, and if we should move forward with ETIC. He addressed centralized services and asked whether they
should be moving some of those over to the institutions and if they in turn should absorb them, thereby realizing some cost savings.

Director Bassett agreed with Mr. Kerans regarding the presentation of the 2003-2005 budget, but felt the Board wasn’t asking the right questions. He opined that there is a difference between a 10 percent reduction and a 90 percent reality and that a relevant question would be whether each university should decide the best connection between quality and access. He expressed the need to have the questions framed in a way that relates to the strategic planning process. Director VanLuvanee strongly felt that lowering the cell values was wrong.

President Risser suggested that 10 percent and 20 percent reductions would be a good measure for the number of students who won’t be accepted, and those numbers should be translated into the narrative as future incarceration rates, decreased state revenues, and economic impacts. Director Imeson felt that the message must be based on what the System would really do and then we should stand by our decision.

Director VanLuvanee reiterated that opting out of the problems and cutting the funding per student is fundamentally wrong. He felt the variable should be limiting the number of students. He argued that the funding model is fundamental to the principles that OUS has set for education. Director Imeson observed that the decline in the percentage of General Fund over the years is very compelling. He compared the OUS share of 12 percent of General Fund appropriation in the 1987-1989 biennium to the present appropriation of just slightly over 6 percent. He stated that the national average for state General Fund contributions to public higher education is 11.5 percent, and OUS is having to make its reductions on top of something that is already dramatically lower; a point which needs to be stressed in pressing forward with the budget.

Director Young asked if there are plans to present possible alternatives for new revenue structures to the legislature. Dr. Anderes replied that OUS could be: looking at a local tax much like the community colleges; expanding the investment of auxiliary services; increasing instructional offerings through the internet; conducting private fund raising; increasing services within the community provided by institutions such as the use of facilities, consulting, and professional services; or institutions may chose to buy into a business.

Director Lussier moved and Director Wustenberg seconded the motion to approve the operating budget request and priorities as they were outlined with the proviso that reduction plans be revisited with the emphasis on enrollment management. The motion was approved unanimously.
2003-2005 Biennial Capital Budget

Bob Simonton, OUS Director of Capital Construction, presented the 2003-05 capital construction request. He noted that capital investments in higher education protect and enhance the value of facilities. He explained that the focus of this request is in the education category, however, there are also projects in the remaining categories of auxiliaries which are self supported buildings and the student building fee projects. He said that each project within these categories also relates to a goal, either quality facilities, enrollment growth, or program needs, and briefly reviewed the requested projects on each campus. He noted that OIT's top project requests funds to modify the potable water system to meet the federal standards for arsenic content and OUS has until the year 2006 to comply with new government regulations. He said that, while the focus for projects at PSU is enrollment growth, the top priority project there deals with a quality issue to construct a hazardous waste treatment storage facility. The types of funding OUS will be requesting, he explained, are general fund dollars, XI G bonds, and Article XI F bonds.

Director VanLuvanee asked what the capital budget was for the current biennium. Mr. Simonton responded that the requested amount was approximately $800 million and OUS received approximately $400 million. Director Lehmann asked if this was all new construction. Mr. Simonton stated that there are some deferred maintenance-related projects for buildings that campuses anticipate replacing. Director Lehmann noted that, in a previous discussion, the Board talked about describing the needs in a way that people could get a picture of what the problem was rather than just names of projects and numbers. Responding to a question from Director VanLuvanee, Mr. Simonton noted that there is some overlap between capital construction projects and deferred maintenance. He explained that, typically they would have the deferred maintenance request in the biennial request. However, for the last four biennia OUS did so and didn't received any increase in funds, so it is separating the categories in this request.

Director Lehmann moved and Director Young seconded the motion to approve the capital construction budget as submitted. The motion carried unanimously.

Clarification of 2003-2005 Biennial Operating Budget Discussion

Dr. Anderes asked for a point of clarification. He pointed out that currently the budget request is focused on building the cell value to 90 percent. He asked if the Board wanted to do a reduction plan that is built on maintaining 100 percent of the cell value or whether it wants to tie those two together. He opined that, with the current funding of 80 percent, it is important to make a statement that the goal is 100 percent, but OUS is willing to get to 90 percent. The basic element of the reduction plan would then be to determine the level of cell value and that will drive many of the decisions in terms of access and specific reductions that would come out of targeted programs. He stated that how he would do this, by using 90 percent as the reduction level, and then look at
different scenarios as to how it will affect instruction, research, campus public services, etc., but the basic tenant would be maintaining quality and access to the extent that it is linked to a high level of quality. He felt that adhering to the value of the cell automatically puts quality first.

Director Young asked if the 90 percent cell value drove all of the discussions, would that influence some of the more centralized functions like statewide public services, of if there would be a detailed examination of what is required as far as tuition levels, enrollment caps, or increasing GPA requirements. Dr. Anderes explained that OUS has been asked to present to the governor a reduction scenario only. Therefore this proposal doesn't incorporate any offsets through tuition, although ultimately tuition increases will take place. Director Bassett said he subscribed to the idea of holding what we have, but argued that OUS needs to take whatever that current cell value, build on some of the strategic planning initiatives, and clearly illustrate the consequences of the final budget decisions.

**Strategic Planning Process**

Director Bassett expressed satisfaction on the interaction, quality and productivity of the discussion the day before. He noted that an outline of a work plan has been established and a work group selected to focus on the requests in the presidents' letter and what actions would be necessary to empower institutions to make decisions to assure a sustainable University System. He noted that there are larger questions of affordability, mission differentiation, and access that are linked to that work, but the central focus will be how to get from the ideas that are on paper to something that would propose legislative action.

Director Lussier noted that Director VanLuvanee will be relinquishing the chair of the Strategic Planning Ad Hoc Committee to Director Bassett to provide the opportunity to coordinate between the SSP Committee and the work group. He stated that the Ad Hoc Group members are Director Bassett, President Creighton, President Frohnmayer, Chancellor Jarvis, Director Lehmann, Director VanLuvanee, and Dr. Vines. Director Lussier noted that any president or Board members who wanted to attend the work group meetings would be welcome.

**Adjournment**

The meeting adjourned at 12:45 a.m.