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1. **CALL TO ORDER/ROLL CALL/WELCOME**

   Governor Ted Kulongoski called the special telephonic meeting of the Oregon State Board of Higher Education to order at 7:55 a.m.

   On roll call, the following Board members answered present:

   - Don Blair
   - Rachel Pilliod
   - Bridget Burns
   - Geri Richmond
   - Kirby Dyess
   - John von Schlegell
   - Henry Lorenzen
   - Gretchen Schuette
   - Tim Nesbitt
   - Howard Sohn
   - Ted Kulongoski

   **System Office staff present:** Senior Vice Chancellor Tom Anderes, Dave McDonald, Ben Rawlins, Virginia Thompson, and Susan Weeks.

   **Others:** Presidents Dan Bernstine, Philip Conn, Martha Anne Dow, Khosrow Fatemi, Dave Frohnmayer, Dixie Lund, Ed Ray, and Elisabeth Zinser.

   Meeting attendees also included other institution representatives, members of the System Office, the press, and other interested observers.

   **Welcome by Governor Kulongoski:**

   Governor Kulongoski welcomed Board members and thanked them for their flexibility in dealing with the difficulty in making the phone connection. He observed that this was his first opportunity to work through the issue of the Chancellor’s Office reorganization. “I know you all recognize this both in your businesses and in other things that you have done, that whenever there is a reorganization, and I’ve been involved with a number of them, it’s very destabilizing to the employees. I would just remind everyone that this is about the idea of positions and not individuals and, as difficult as it is, I would hope that everybody would understand that I think it’s necessary to actually undertake a reorganization.”
2. **ACTION ITEM**

a. Chancellor’s Office Reorganization

**DOCKET ITEM:**

**Summary**

At the May 7, 2004, meeting of the State Board of Higher Education, a report of the Chancellor’s Office Review Working Group was presented (a copy of the document can be found at [http://www.ous.edu/board/dockets/hnd040507-COR.pdf](http://www.ous.edu/board/dockets/hnd040507-COR.pdf)). The proposal was designed to focus the Office on the development and implementation of policy, institutional objectives, management reporting and control systems, planning and analysis capability, and communications and government relations.

A proposed organizational chart accompanied the written report.

After considerable discussion by the Board, it was agreed to tentatively accept the report and proposed reorganization after additional information was made available. Specifically, staff were requested to: provide a “crosswalk” from the current organizational structure to the proposed one to enable a review of which positions/functions were being eliminated and what new ones were being added; and a cost analysis of the savings that would accrue from the proposed restructuring.

**Analysis**

The data provided by staff indicate that overall, with the current reorganization, 22 FTE (full-time equivalent) will be reduced; and 11 positions are undetermined at the present time, pending further study.

The total amount of permanent savings derived from the reorganization is over $1 million with $747,515 in undetermined savings. The estimated amount of temporary costs to provide support in a transitional period is approximately $528,000.

**Staff Recommendation to the Board:**

Staff recommended approval of the Chancellor’s Office reorganization as presented in the report of the Chancellor’s Office Review Working Group.

**BOARD DISCUSSION AND ACTION:**

Governor Kulongoski called on Vice President Richmond and Senior Vice Chancellor Anderes to review the proposal.

Director Richmond reminded Board members that the Chancellor’s Office Review Working Group had presented a proposal at the May 7th meeting. That proposal “was designed to focus the Chancellor’s Office on the development and implementation of policy and institutional objectives and to a reporting and control system, planning and analysis capability, communication, and governmental relations. At that meeting, an
organizational chart was proposed and, after considerable discussion, it was agreed to specifically address issues in the Academic Affairs, Institutional Research, Planning, and the Industry Affairs component. After considerable discussion, it was agreed to tentatively accept the report and proposed reorganization and to make additional information available.

“At that point, it was requested that staff provide a crosswalk from the current organizational structure that was proposed with the organizational chart to enable further review of positions that were being eliminated.”

Vice President Richmond directed the Board’s attention to a crosswalk that showed the number of staff before and after the proposed reorganization. She highlighted that in the area of Academic Affairs there had originally been 19 positions and in the new structure there would be seven.

With regard to personnel that were paid from Education and General monies, and were awarded and operating grants out of the Chancellor’s Office, those personnel have been shifted, as much as possible, to campuses. “In shifting that, we have eliminated staff positions that were associated with bill-paying and grant issues in Academic Affairs. Because we have less staff, and have reduced administration, clerical staff have been reduced to mirror that reduction in the effort that it takes to run those programs.”

Director Richmond walked the Board through the various units, describing what had been eliminated and what had been added. “The bottom line is, when you look at the pre-organization total of 39, the post-reorganization total of 21, and that reduction is $1 million and with some savings in services and supplies, it ends up being $1.1 million in savings.

“With regard to other programs that people are very concerned about, and there were issues raised at the Board meeting, this is where we are,” Director Richmond explained. “In terms of Southwest Oregon University Center, we’re working with the universities to see if we can transfer that entity onto another campus. Those discussions are actively going on. Over the next two weeks, we should have some resolution, but again, the idea is to get it transferred to a campus.

“OCATE, which is part of the CAPITAL Center, we’re talking about trying to see if we can send that over to a campus, too. Both are still under consideration,” she observed.

Provost Minahan added that some of the grants “would be moving to the campuses and there will be a transition year during which time Western Oregon University and the System Office will share salary and then, after that year, all salaries related to those grants will be paid out of the University’s budget.”

Director Richmond added that the estimated temporary costs would be coming out of fund balances and are for the salaries of temporary people such as Jon Yunker (Chief Operating Officer), a grant’s person, Neil Bryant, and several contract buyouts.
Director von Schlegell commented that, “to the extent that we can look into the Southwest Oregon University Center (SWOUC) transition and show some sensitivity to some of our more outlying, rural areas, I think that is something that we ought to do.”

President Zinser reported that SOU had been in communication with EOU and are fully supportive of their accepting responsibility for the Center under their mission and expertise in distance learning. She indicated that SOU has had a significant amount of work over the years with SWOUC with teacher preparation. “That has been the one area in which SOU has provided support and we would intend and welcome participation in that on an ongoing basis. To respond to Director von Schlegell’s question about the value-added of the Center itself, we have questions about that as well and I think the jury is still out on that.”

Director Sohn asked for clarification on the cost savings. “The temporary cost number of $528,000, I assume, reduces the permanent savings for the 2004-05 period.”

Director Richmond explained that the $528,000 would be put against fund balances. “There are several million dollars in fund balances right now and so what we are doing is using those fund balances to take care of what we call temporary costs.”

Continuing the questioning about fund balances, Director von Schlegell asked if there was a summary of what fund balances (a) are and (b) where they reside. Senior Vice Chancellor Anderes responded that he would provide it. “What I can do is get out both a very simple definition in terms of how we accrued our fund balances. In fact, the fund balances and the methods for gaining those will change substantially in the next couple of years. I can also identify the items that are being funded against that and the amount we are projecting by the end of the biennium.”

Dr. Anderes indicated that within the Chancellor’s Office, there are four or five fund balances, but one is really the substantial for the Education and General budget.

Director Blair further clarified Director von Schlegell’s question. “There are fund balances at the Chancellor’s Office, but there are also fund balances at each individual university. Senior Vice Chancellor Anderes indicated that his office is creating a fairly specific fund balance policy and it will be reviewed and approved by the presidents in June and then be brought forward to the Board in July, along with a complete assessment of what the fund balances are at each of the campuses.

In response to the question of whether this had been a source or issue with the System and legislature or part of doing business with the number of institutions, Dr. Anderes indicated it was “probably both. It became an issue at the end of the last legislative session when they were talking to all state agencies, particularly those that have Other Funds, and wanting to know what the status of those balances were. We looked at it fairly closely and right now I think when you see the policy and see each campus, we’re in a pretty good position as far as the justification for those balances.”
There was a request to accelerate the discussion of fund balances to the June Board meeting since the Board will have to approve the final budget submission to the Governor in September.

Director Richmond reminded the Board that part of the Chancellor’s Office funding comes from indirect costs from grants that go to the universities. “As we reduce the functions that are in the Chancellor’s Office, we have to think about what our campus contributions are to the Chancellor’s Office. We look at that as overhead so that will be something we will have to factor into the equation later as the Chancellor’s Office does less functions for the campuses that have been contributing a substantial amount of indirect costs to the operation of the Chancellor’s Office.”

Director Nesbitt asked a clarifying question about putting in limbo the ending proposal about the University Center and OCATE (the Oregon Center for Advance Technology Education). Dr. Richmond responded that there had not been sufficient time to complete negotiations on the University Center and OCATE. It was agreed that the Board would have a proposal for the resolution of SWOUC and OCATE at the Board meeting in June.

Governor Kulongoski thanked all who had been involved in the Chancellor’s Office reorganization. “We come at this with our own concerns and mine, I will tell you, and this isn’t a negative comment, just the recognition and looking at the schematic is a substantial change in the function and role of the Chancellor’s Office with the Chief Operating Officer and the relationship to the individual campuses and their presidents. This is the piece that I focused on more because I’m always interested in the governance side of the System itself.

“I actually support the ability of the University presidents to have an opportunity to make direct contact with the Board on what their issues are. With this understanding, I think the Chancellor is in the policy role. It is assumed, I take it, that no president would appear before the Board absent the Board’s specific invitation, without the Chancellor being there and have knowledge and all the documentation that the individual president would be using before the Board. In other words, I think the Chancellor, whoever that is, must have the opportunity to participate fully. It’s good to have University presidents feel they can present their case to the Board but I do believe that the Chancellor must be given full opportunity to participate in useful discussion. So I’m assuming that’s all a given in this structure on the governance piece of this.”

Director Richmond indicated agreement with the Governor and pointed out that the rationale, on the organizational chart, of having the presidents connect both to the Board as well as the Chancellor underscored this fact. “In fact, the Chancellor is slightly higher than the presidents because the Chancellor does have a role in guiding. But the presidents still have access to both the Board and the Chancellor.”
Continuing, Governor Kulongoski underscored that it isn’t just notifying the Chancellor. The chancellor must get all of the information.

President Ray observed, “What we are really talking about is a policy of ‘no end runs.’ I think at some point it would be helpful to have a simple narrative that explains how this structure is intended to work so that no one can say that it isn’t perfectly clear to them what the nature of the working relationships are.”

Director Schuette indicated that both the Governor’s and President Ray’s comments related to the nature of the concerns that she raised at the Board meeting in La Grande. “It still is not clear to me how and where the authority really lies in the structure. I agree that the explanation that I hope that I can get at some point in person would also be supported by a narrative.”

Director Blair observed that the statute characterizes the chancellor as the Chief Executive Officer of the Oregon University System, which he said articulates very clearly what the Governor was saying.


Following the vote, President Ray said that he understood that the intention was to get an appropriate organizational structure and he agreed that there was a substantial change in an appropriate direction. “A secondary effect that was looked for from this action was to see what cost savings could be made in the System. The decision was made by the Board to try to find some offset in the System’s reductions and costs for the cuts that the campuses would have to take as a consequence of the failure of Measure 30. I just want to go on record as saying—and I don’t understand the thinking behind it, I understand the arithmetic—a decision was made pre- and post-Measure 30 failure to change the base that would count against universities for deciding how to apportion the cuts. The net result for Oregon State University, from $1 million of savings from System reorganization, is a net reduction in our bill as a result of the failure of Measure 30, of about $3,000 out of a million dollars in savings. As I say, I understand the arithmetic—it had to do with deciding not to use just instructional cost shares to apportion the reductions of the $6.5 million. We were pretty disappointed here when we realized that this really doesn’t do much for us financially. We applaud what has been done, obviously, in terms of trying to rationalize the System. But to the extent that there is a happy glow associated with cost reductions for the universities, we’re pretty much left out of that picture.”

Director Richmond asked Senior Vice Chancellor Anderes to prepare a memorandum to Board members to clarify what is happening with the $1 million to enable them to understand what is happening with the savings.
It was agreed that this was a step in rebuilding a vision of where higher education is going and rebuilding credibility—and it will take a lot of small steps in making the process more transparent and to communicate it with constituents.

Senior Vice Chancellor Anderes agreed to put some information in a memo. In addition, he would be appearing before the Legislative Emergency Board in June to discuss what has occurred. “The original legislation specifically identified instruction. That was the focus of the original apportionment of the $7.5 million related to that and the Chancellor’s Office was not a part of that. In fact, we were specifically excluded. So when there was the shift to make the decision that some of the reductions would come out of the Chancellor’s Office, it frankly opened the door to have all Education and General considered. That is the difference between any kind of original apportionment and where it ended up,” he concluded.

3. **DISCUSSION ITEM**

a. **Tuition Issues**

**BOARD DISCUSSION:**

Director Nesbitt indicated that the reason he requested this item be on the agenda arose from hearing the testimony from the Oregon Student Association at the May Board meeting. He had two questions/concerns as a result of listening to the student perspective and studying the materials.

“One is that there is still a lot of new information about the impact of eliminating the plateau or even a moderate version of the plateau. I believe there is a legitimate concern about the fact of further modification or actual elimination of the plateau on the ‘More, Better, Faster’ agenda. Secondly, there is the added concern that, with the legislature having given some direction and legislators having some expectations about keeping tuition within an agreed ceiling, and if adjustments to the plateau are made, tuition increases for the full time student with 15 or 16 hours will be, in some cases, far above the ceiling suggested by the legislature. I just want to make sure we take a further look at this at the June meeting when we are scheduled to make the final decision with some alternatives on the table.

“I would suggest that we ask each of the University presidents to bring a Plan B and a Plan C forward in addition to this plan that has been submitted. Plan B would be no further moderation or elimination of the plateau from where we are—I know that might mean a revenue-neutral scenario. Plan C would be making sure that the tuition increase for a full-time student is not greater than the ceiling,” Director Nesbitt offered.

President Ray observed that nobody is talking about anything above what was put in the Budget Notes for FY 2005. “That would be the tuition plus the plateau increase that the campuses have indicated they are going to do. Our understanding from the last discussion we had about tuition and tuition plateaus (and MardiLyn Saathoff was there) was that even though you could argue technically that the budget notes are saying that,
in fact, we can’t go above what is in Plan C. Ms. Saathoff’s advice was that we should treat those Budget Notes as binding. So the options that we have are to do the increases up to the increases we proposed in the Budget Notes last year.”

Senior Vice Chancellor Anderes indicated there is a Systemwide ceiling on the revenues for the Other Funds Limited and there are also notes relating to not increasing beyond the rates that had been approved by the Board that went through the last session.

Director Blair asked Senior Vice Chancellor Anderes to “summarize what you believe the legislature has asked us to do specifically and stack up all the campuses against that directive from the legislature in identifying what the issues are. It would help to get that out to us within the next week or two.”

Director Nesbitt underscored that he would like to have an alternative that “does no further restructuring of the existing plateaus in 2004-05, even if the constraint is that we have to be revenue-neutral and that the costs are distributed differently.”

Director Burns indicated that she wanted to propose another option. “I would like to see if there is a concern about revenue generation, perhaps another option that people could bring to the table: that is, if we lifted the plateau to that level so that we weren’t stopping people from graduating on time while at the same time generating the amount of revenue that we needed. If that is possible, I wanted to voice that as another option.”

Governor Kulongoski asked, “If the Board adopted a policy in 2003 and the legislature relied on that policy, and I think the legislature was looking at an overall System number, and now the campuses have come up with an individual approach it is saying we want to change the policy. Is that correct?”

Senior Vice Chancellor Anderes pointed out that it appeared that “we are getting this interrelationship between changing the plateau and the tuition rate increases confused, which had not been contemplated in 2003.”

It was agreed to continue this discussion at a Board Work Session at the June Board meeting.

4. **ADJOURNMENT**

The meeting adjourned at 8:50 a.m.

Virginia L. Thompson
Secretary to the Board

Governor Ted Kulongoski
Board President