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MINUTES OF THE FINANCE/BUDGET/AUDIT/PERSONNEL/ REAL ESTATE COMMITTEE
SOUTHERN OREGON UNIVERSITY
STEVENSON UNION, ROGUE RIVER ROOM

JUNE 3, 2004

1. CALL TO ORDER/ROLL CALL

Chair Don Blair called the meeting of the Finance/Budget/Audit/Personnel/Real Estate Committee of the Oregon State Board of Higher Education to order at 1:38 p.m.

On roll call, the following Committee members were present:

Henry Lorenzen  John von Schlegell
Geri Richmond  Don Blair

Other Board members present included:

Bridget Burns  Tim Nesbitt
Kirby Dyess  Howard Sohn

System Office staff present: Tom Anderes, Ryan J. Hagemann, Dave McDonald, Ben Rawlins, Virginia Thompson, and Susan Weeks.

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

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

2. APPROVAL OF MINUTES

• FBAPRE Committee Meeting, May 7, 2004

Director Lorenzen moved that the minutes of the May 7, 2004, Committee meeting be approved. Those voting in favor: Directors Blair, Lorenzen, and von Schlegell. Those opposed: none.
3. **ACTION ITEMS**

   a. OAR 580-050-0001 Temporary Adoption of New Rules related to Contract Administration

**DOCKET ITEM:**

**Purpose:**
The Oregon University System is not subject to Oregon Revised Statute (ORS) Chapter 279, the statutes related to public contracting. Instead, OUS was given specific statutory authority to develop its own procedures for competitively procuring construction and related services. OAR Chapter 580, Division 50 sets out those procedures. It has not been amended since 1996. At that time, the rules were amended to incorporate the changes from Senate Bill 271, the first Higher Education Efficiency Act. The Facilities Directors from all the campuses have been meeting for about two years with Wendy Robinson, Department of Justice, to review and revise the rules to deal with problems that have arisen under the rules and to reflect actual campus operations. The rules went through six versions and at this point all Facilities and purchasing staff on all the campuses are comfortable with the changes. The changes also reflect the input from attorneys in the Business Transactions Section of the Department of Justice, who will be using the rules to review contracts for legal sufficiency.

**Summary and Background:**
Staff is proposing that the rules be temporarily adopted so that the campuses can take advantage of the changes during this summer's construction season. Temporary rules remain effective for a maximum of 180 days. A public hearing will be conducted prior to the expiration of the temporary rules so that the rules may be permanently adopted by the Board, at a later date.

The major changes to the rules are as follows:

1. In general, the rules were made clearly applicable to the campuses and the Chancellor's Office. Authority was delegated from the Senior Vice Chancellor for Finance and Administration to a person on each campus, the Institution Facilities Planning Official (IFPO). Each campus can further sub-delegate functions to other persons on campus.
2. OAR 580-050-0010: Added traffic signals, sidewalks, streetcars, and other items similar to utilities to the types of easements that can be approved by the Board President and Secretary without Board action. Removed the requirement that only easements for underground utilities could be approved by the Board President and Secretary. This reflects present practice.
3. OAR 580-050-0015: Added leases to the authority to purchase certain types of property delegated to the Senior Vice Chancellor for Finance and Administration. Increased the cost of property that the Senior Vice Chancellor can approve from $100,000 to $500,000 to reflect the increase in property values over the past ten years. Limit lease approval to those leases where the total value over the term of
the lease does not exceed $500,000. Rules still need to be developed and adopted for the process to be used to purchase and lease property.

4. OAR 580-050-0020: The definition of Consultants for design, evaluation, and management of construction projects or real property is expanded to include materials testing, hazardous materials evaluation and abatement, engineering, cost estimating, land surveying, appraisal, commissioning, and special inspections.

Subsection (1): Clearly states that Consultants will be chosen on the basis of qualifications, not price. This tracks ORS 279.057, which requires that price only be negotiated after the Consultant is selected and as part of the process for determining the scope of work. Although OUS is not subject to ORS 279.057, at the Legislative hearings on this statute, OUS represented that it chose its professional consultants on the basis of qualifications.

Subsection (2): The advertising process for Consultants wishing to enter into Retainer Agreements may be done electronically. The proposal may also be submitted electronically. The maximum term of a Retainer Agreement is extended from three years to four, the same maximum term as used for construction contractor Retainer Agreements.

Subsection (3): The maximum payable to a Consultant on a single project under a Retainer Agreement is increased from $100,000 to $200,000. The formal procurement process used for contracts in excess of $200,001 only requires a minimum of three proposals. This reflects the reality that often there are not five Consultants who submitted a proposal. Added specific authority to continue with the procurement process even if fewer than three Consultants submitted proposals if the purpose of the rule is still met.

Subsection (5): This new subsection permits sole source contracts in the following situations: (a) if the institution stops a project and decides to restart it and wants to use the same Consultant to continue professional liability insurance coverage on the project, or because a different Consultant will likely not want to do the work, or because the cost will be greater if a different Consultant finishes the work; (b) if the project is a phased project; (c) if the work is an addition or remodel to a project the Consultant has already worked on and there is likely to be a cost saving if the same Consultant does the new work; or (d) if the Consultant is the only person able to do the work.

5. OAR 580-050-0032(1): Distinguish between Construction Trade Services (those services not performed by a construction contractor, usually associated with maintenance or repair) and Public Improvement contracts (construction, reconstruction, major renovation costing more than $25,000 that does not include emergencies, repair, maintenance, or minor alterations).
Subsection (2): Delegates authority from the Senior Vice Chancellor for Finance and Administration to individual campuses.

Subsection (4): The maximum amount payable to a contractor for a single project under a Retainer Agreement is increased from $200,000 to $500,000.

Subsection (6): This new subsection permits sole source contracts in the following limited situations: (a) if there is only one firm that can reasonably do the work; (b) if the work must be done by a particular firm so as not to void a warranty; (c) if the firm is the only one authorized by a supplier to install a certain item; or (d) if the contract will not encourage favoritism or substantially diminish competition.

Subsection (8): Added requirements prohibiting contracts with a firm that is not properly licensed or which has been determined ineligible by the Bureau of Labor and Industries or OUS.

Subsection (9): Added a requirement for a 100 percent performance and payment bond on all contracts in excess of $100,000. This protects OUS in the event the contractor does not pay its subcontractors or suppliers or fails to complete the work and OUS has to have another contractor finish the work.

Subsection (11): Retainage (the withholding of 5 percent of each payment draw until the contract is completed) is not applicable to projects performed under Retainer Agreements.

Subsection (13): Omitted the incorporation, by reference, of certain 1995 Attorney General Model Rules regarding the contracting process. These are replaced by the new rules the Board will be temporarily adopting. This further distances OUS from DAS control in accordance with the Higher Education Efficiency Act.

Subsection (15): This new subsection creates exemptions from the competitive procurement process for the following types of contracts: (a) contracts with the federal government or another public agency; (b) emergency contracts; and (c) if the IFPO finds that an exemption will not encourage favoritism or substantially diminish competition and will result in cost savings. These exemptions track those in ORS 279.015.

6. Retainage Rule: Five percent retainage is required on all projects except those less than $500,000, where it is permissible. Retainage may be released on phased projects as each phase is completed.

7. Negotiation When Bids Exceed Cost Estimates Rule: This rule permits institutions to negotiate with the lowest bidder or best proposer when their bid or
propose exceeds the institution’s cost estimate. This saves an institution from having to go through the solicitation process all over again.

The following minor changes were made in the rules:

1. Changed references from OSSHE to OUS throughout the rules.

2. OAR 580-050-0005: This rule requires all conveyances of interests in real property to be approved by DOJ and executed by the President and Secretary of the Board. The change brings the rule into conformity with ORS 351.150. Interests in real property include purchases, sales, leases, and easements.

3. OAR 580-050-0020(2): Changed the rule to conform to the process actually used.

4. OAR 580-050-0032: In general, distinguished between Invitations to Bid, Requests for Proposals, and design-build processes.

5. OAR 580-050-0033: Changed the title to refer to amendments because the body of the rule refers to amendments.

6. OAR 580-050-0041(11) and 580-050-0042(10): Removed the requirement for the Board to review the effect of the rules regarding Emerging Small Businesses and Minority/Women Business Enterprises participation in OUS contracts because this review has not been occurring.

7. Definitions Rule: This rule defines terms used throughout OAR Chapter 580, Division 50. It will be placed at the beginning of the Division.

8. Deleted the rule incorporated by reference in OAR 580-050-0032(14) that referred to electronic data interchange because it has never been used. Instead, added references to electronic advertisement and submission of bids or proposals electronically to the rule regarding facsimile submissions.

Staff Recommendation to the Board:
Staff recommended the Board amend OARs 580-050-0001 through 580-050-0100, as described above and temporarily adopt the rules titled: Retainage; Negotiation When Offers Exceed Cost Estimate; Definitions; Bids or Proposals are Offers; Facsimile and Electronic Offers; Offeror Submissions; Pre-Offer Conferences; Solicitation Protest, Request for Change, Request for Clarification; Addenda to a Solicitation Document; Pre-Closing Modification or Withdrawal of Offers; Receipt, Opening, and Recording of Offers; Late Offers, Late Withdrawals, and Late Modifications; Time for Institution Acceptance; Extension of Time for Acceptance of Offer; Low Tie Offers; Rejection of an Offer; Rejection of All Offers; Protest of Contractor Selection, Contract Award; Disqualification of an Entity; Cancellation of Solicitation; Disposition of Offers if
Solicitation Canceled; Foreign Contractor; Contract Suspension, Termination Procedures; Institution Payment for Unpaid Labor or Supplies.

BOARD DISCUSSION AND ACTION:
Chair Blair asked Senior Vice Chancellor Tom Anderes to introduce the proposed temporary rules regarding contract administration to the Committee. Dr. Anderes, in turn, introduced Wendy Robinson, Assistant Attorney General of the Oregon Department of Justice, to provide a brief overview of the proposed rule changes. He noted the changes were designed to get OUS back to a more current state with facility ceilings and the marketplace. Senior Vice Chancellor Anderes mentioned Robinson had been working with the facilities directors on each of the OUS campuses for the past two years on the revisions to these rules.

Robinson noted the proposed rule changes were extensive revisions, and she would only be going over the highlights. She shared that the rule changes were another example of how OUS was trying to do things more, better faster. She offered retainer agreements as an example. Retainer agreements, as Robinson explained, “is a process whereby the University System gets a whole list of both construction contractors and consultants that are approved to do projects on retainer so that the universities can go out on certain kinds of projects and just take people off the list, ask them for a quick quote, get the price, and get moving on it.” She also noted that the rule revisions “brought us up-to-date on the electronic media...for electronic notice and electronic bidding.”

She continued by reiterating that she worked on the revisions for two years with the OUS facilities directors, and they were all in support of the changes after extensive discussion. She noted that the rules had not been revised since OUS was separated from the bidding requirements of Oregon Revised Statute Chapter 279 and the Oregon Department of Administrative Services in 1996. She further explained that the proposed rules also “clearly delegate authority from the Chancellor’s Office down to the individual campuses for making these kinds of decisions. First to the president and then it can be delegated down further to one of more persons as needed within that particular campus in order to carry on the contracting process.”

Robinson stated that the reason to do temporary rules at this time was the campuses were anxious to use the new rules over the summer construction season. She shared that temporary rules are only effective for 180 days. “Prior to the termination of that 180-day period, there will be a formal rulemaking hearing and we will adopt the rules in permanent form. There may be a few changes between now and then as we put these to work,” Robinson concluded.

Robinson then turned to outline the major changes embodied by the proposed rules. First, the revised rules propose to increase the value of property that the Senior Vice Chancellor for Finance and Administration may approve for purchase within the campus boundary. Previously, without the Board’s approval, the Senior Vice Chancellor could approve property purchases within the campus boundary of up to $100,000. The rule,
Robinson explained, changes this to $500,000 in order to more accurately reflect the marketplace and property prices. Second, Robinson noted, the revised rules increase the maximum amount permitted for a consultant under a retainer agreement. These changes, as the previous revisions, were designed to reflect the reality of the marketplace and the cost of projects. For consultants, the amount was increased from $100,000 to $200,000, and for construction contractors, the amount was increased from $200,000 to $500,000. Third, the revisions clearly permit sole source contracts for both consultants and construction contractors. This change addresses the situation when, for example, a manufacturer requires a particular firm to complete replacements in order to guarantee a warranty. The sole source authority in these situations, Robinson noted, tracks the statutory authority governing other state agencies, and is not unusual when compared to the rest of the state. Next, Robinson outlined various alterations on retainer agreement requirements. For example, Robinson explained, “retainage, which is the process whereby 5 percent of every construction or request for payment is withheld until the contract is completed, becomes voluntary on certain kinds of projects and similarly, certain kinds of bonding on small projects is made permissive and it is the decision of the university as to whether it will have that kind of bonding.” In addition, the revised rules “created specific permission to allow universities to negotiate with the lowest bidder or best proposer when the cost comes in greater than what the estimate was,” Robinson offered. Finally, the facilities directors, instead of incorporating the Attorney General’s Model Rules, decided to make some alterations. This is why, Robinson stated, the draft rules are so lengthy; the Model Rules are not merely incorporated by reference.

Robinson noted that she believed the rules would protect the System, but, at the same time, would give universities additional flexibility because, in her experience, disputes in the construction arena were rare. She stated that in the seven years she has been representing OUS, there had been no litigation in the construction arena affecting the System.

Chair Blair had several questions for Robinson. First, he asked Robinson for clarification regarding use of the term retainer, and whether it meant “paid retainers or...just a list of approved contractors.” Robinson replied it referred to a list of approved contractors, and in fact, the contracts expressly do not guarantee any work. Blair continued with questions about the delegation of authority in the proposed rules and who the “Institutional Facilities Planning Official” (“IFPO”) was. Robinson responded the IFPO was an individual usually below the president, most often the facilities director on each of the campuses. She offered that the authority could be further delegated to another individual, a construction manager, for example, but it could be up to the president whether that delegation would occur. Blair stated that as he read the proposed rule, it appeared the delegation of authority was from the Board to the IFPOs, and not the institution presidents, to which Robinson replied, he was correct. Blair commented that he wanted to be sure that the institution presidents were accountable for the delegation. Robinson clarified that the IFPO was defined as the OUS Senior Vice Chancellor for Finance and Administration, who could delegate the authority to a university president or directly to the facilities directors on campus. Blair reiterated that it is “very important
that the presidents be in the line of delegation here as opposed to delegating to somebody on the president’s staff.” He stated that is was acceptable if the authority was ultimately delegated to facilities, but the presidents needed to be in the line of delegation in order to be accountable for their campuses. Robinson added it could be the Board’s decision to require the Senior Vice Chancellor for Finance and Administration to delegate the authority to the president, and the president could then decide how to further delegate on his/her campus. Director Lorenzen added that the proposed temporary rule appeared to delegate “authority to each OUS president to develop guidelines for overseeing practices regarding purchasing and procurement.” Chair Blair concluded that the delegation of authority to the presidents might be in the rule’s language, and not in the packet’s write-up, but his point was to ensure that the presidents were in the line of delegation.

Chair Blair continued with two additional questions of Robinson. First, he asked for clarification regarding competitive biddings. He noted the exceptions outlined for certain situations, but noticed a “catchall” exception that permitted the IFPO to avoid competitive bidding if the IFPO determined it would not lessen competition. Robinson replied his interpretation was correct, and added that the provision’s language comes out of statutes that are applicable to most other state agencies. She added that there was another provision in the rules applicable to OUS that requires no OUS staff show favoritism toward any contractor or potential contractor within the System.

Chair Blair followed up with Robinson, asking her, “how do we assure that we have good business practice around competitive bidding?” He added, “…essentially there is an exception here that says you don’t have to do a competitive bid if you don’t believe it’s going to be a problem, meaning the individual can decide whether or not they want to do a competitive bid.” Robinson responded, “The default is that you’re going to do a competitive bid.” She noted that the decision to proceed without competitive bidding under a scheme such as this is extremely rare, and it is a decision usually made at the level of vice president for finance and administration or the president. Blair recognized that these proposals were for temporary rules, and asked for some dialogue as the Board moved toward adopting permanent rules, noting “I’m not entirely comfortable that we should have those kinds of broad exceptions to competitive bidding practices when there are other exceptions for what I would say are at least outlined, objective reasons.”

Chair Blair’s last question addressed bidding from a price and quality standpoint. He asked for clarification of the material “that suggests that the consultant or contractor should be selected first before any discussions take place on price.” Robinson explained that this was the process for the selection of consultants, such as architects or engineers, and reflected “the statutory scheme in Oregon whereby those kind of consultants do not expect that they will be chosen on the basis of price. They are chosen on the basis of their qualifications first and then only after you have determined who is the best proposer, do you then get into a negotiation over the price for the particular project.” She continued that construction contractors could be selected purely by price, or under a request for proposals that would include a variety of criteria, including price. Chair Blair commented the approach was unusual considering his
Director von Schlegell, in response to Chair Blair’s request for additional questions, asked for clarification of the rulemaking process. Chair Blair explained that the proposal was for a 180-day temporary rule, with the goal of having rules in place for the summer contracting season. He added the Board would be going through a more formal process for a permanent rule. Director von Schlegell asked what would occur between now and then. Robinson explained the process would be relatively quick in order to prevent the temporary rules from expiring. She stated formal notice of the permanent rules would be distributed to all required parties, there would be a hearing, OUS may make changes to the proposed permanent rules based on testimony at the hearing, and then the proposals would come back to the Board for adoption as permanent rules.

Director von Schlegell commented that he liked the “more, better, faster” aspect of the proposal, and commended Robinson on it. He added, though, he wanted to make sure that there were no loopholes that the Board should address. He noted when moving toward flexibility, there was more chance for unintended loopholes. He asked how the process addressed those concerns. Robinson responded that the loopholes in the process are no greater than the loopholes for every other state agency. She noted that the only difference between the proposed OUS rules and the remainder of the state would be the retainer agreements that allowed the selection of a contractor from a pre-approved list. She concluded: “The University System is not way out of line from other state agencies.”

Chair Blair reiterated the expectation that the exceptions to competitive bidding be narrowly drawn and the presidents be closely engaged in the process as the proposals move to adoption as permanent rules. Director von Schlegell moved to accept the proposed temporary rules, and Director Lorenzen seconded the motion. Those voting in favor: Directors Blair, Lorenzen, and von Schlegell. Those opposed: none. Motion approved.

b. PSU, Northwest Center for Engineering, Science, and Technology—Bond Issuance Authority

DOCKET ITEM:

Summary:
Portland State University (PSU) seeks Board approval to authorize the Senior Vice Chancellor of Finance and Administration, or designee, to report to the Legislative Emergency Board, as required by Chapter 890, Oregon Laws, 2001, to allow a phased issuance of Article XI-G bonds for the Northwest Center for Engineering, Science, and Technology Project, prior to receiving 100 percent of the matching funds.

background, but the Committee would not “push water uphill for the approach here that the whole state is using” Robinson noted the scheme is “different from the private sector and certainly reflects the input into the legislative process of the unions and the licensed professionals as to public contracting.” She added OUS is subject to prevailing wage rates on all construction projects.
Staff Report to the Board

Background:
PSU has been in the process of raising the funds (through gifts, grants and contracts) needed to match Article XI-G bonds that were approved in the 2001 Legislative Session in order to begin the construction of the Northwest Center for Engineering, Science, and Technology. This facility will be a 130,000 square foot, silver (perhaps gold) LEED rated building that will include classrooms, faculty offices, 49 laboratories, and some ground floor retail space. This facility is to be built upon a pre-existing subterranean structure that houses the balance of PSU’s engineering programs on the PSU campus, creating a comprehensive engineering complex that will support teaching and research in this college. The design, construction, and furnishings for this tower are estimated to cost approximately $44.5 million and will be funded with $21.9 million in Article XI-G bonds, $21.9 million in matching gifts, grants, and contracts, and $700,000 in Article XI-F(1) bonds (to fund the retail portion of the facility).

The capital budget authorization for this project is for a multi-phased project that includes the tower (as described in the paragraph above), followed by renovation of space in the existing 4th Avenue facility that is currently either leased to third parties or is space that will be impacted by the construction of this tower. The final phase of the project, assuming the funding can be raised before the authorization expires in June 2007, will be to renovate and furnish this existing space in order to serve the growing space needs of the University.

Statement of Need:
PSU’s enrollment and funded research continues to grow to historic high levels and classroom, office, and research spaces are in short supply. This past fall term, PSU’s overall enrollment grew to approximately 24,000 students. It is imperative that PSU acquire facilities to accommodate this growth in students with concurrent demands for added classrooms, research, and faculty office space.

In accordance with the goals and directives adopted by the Engineering and Technology Industry Council (ETIC), PSU has been diligently striving to double its enrollment and engineering graduates, and to increase its funded research in engineering areas. Although the University is well on its way to meeting these goals, this facility is absolutely critical to the successful completion of these objectives, as it will provide the space needed to grow the faculty, teach the students, and obtain the laboratories needed to increase research. One key example is that this building will house PSU’s Intelligent Transportation Systems Laboratory. The region’s transportation agencies and leaders support PSU’s work in the area of transportation research and have worked with the University to gain funding for this new construction. The need is clear—agencies are challenged to solve complex transportation problems and look to PSU faculty and students for research assistance. Additionally, this new Laboratory will support the preparation of new transportation engineers and planners to meet the...
growing labor force needs. Estimates are that more than half of the transportation employees will retire in the next 15 years.

The 2001 Legislature approved Senate Bill 5525 (subsection 3[h]) that included an authorization to issue $26.5 million in Article XI-G bonds, $7.2 million in Article XI-F(1) bonds, and $26.5 million in other funds to construct the Northwest Center for Engineering, Science, and Technology at Portland State University. Section 15 of this senate bill states, “(1) Notwithstanding any other law, the State Board of Higher Education may not issue bonds for projects listed in section 2 (3)(h), (4)(f), (5)(n), (6)(j), and (8)(b) of this 2001 Act until the total amount of other revenues, including federal funds but excluding proceeds from lottery bonds, identified for the project in the expenditure limitation has been received by the board. (2) Notwithstanding subsection (1) of this section, the State Board of Higher Education, after reporting to the Emergency Board, may issue bonds for a project listed in section 2 (3)(h), (4)(f), (5)(n), (6)(j), and (8)(b) of this 2001 Act if the total amount of other revenues, including federal funds but excluding proceeds from lottery bonds, identified for the project in the expenditure limitation has not been received by the board.”

In order to proceed with this project, in accordance with subsection (2) above, a report to the Emergency Board must be presented and accepted, which acknowledges that bonds may be issued for the project even though the total amount of other revenues identified for this project in the expenditure limitation has not been received by the Board.

Today, PSU has either cash in the bank, been awarded federal grants, or has pledges sufficient to finance the construction of the tower. A current breakdown of funding for this facility is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Received and Deposited to Date</td>
<td>$8,338,237</td>
</tr>
<tr>
<td>PSU Foundation Gifts and Pledges</td>
<td>5,420,494</td>
</tr>
<tr>
<td>Other Matchable Gifts, Pledges, Grants/Contracts</td>
<td>8,607,000</td>
</tr>
<tr>
<td>Total Matchable Funds</td>
<td>$22,365,731</td>
</tr>
<tr>
<td>Other Non-Matchable Revenues</td>
<td>$ 124,392</td>
</tr>
<tr>
<td>Article XI-F Funding</td>
<td>$ 700,000</td>
</tr>
<tr>
<td>Article XI-G Funding</td>
<td>$22,365,731</td>
</tr>
<tr>
<td>Total Funding Available for this Project</td>
<td>$45,555,854</td>
</tr>
<tr>
<td>Funding Needed for Tower Design, Construction, etc.</td>
<td>$44,499,593</td>
</tr>
<tr>
<td>Funding for Phase II</td>
<td>$ 1,056,261</td>
</tr>
</tbody>
</table>
As many of the pledges for this project are to be paid over a multi-year period and the federal grants are cost-reimbursable, one of the challenges for this project will be to have cash available to meet the estimated disbursement schedule on this project. PSU officials, working with officials in the OUS Facilities and Controller's Divisions, have come up with a solution to this challenge by using inter-fund loans (or lines-of-credit) of other institutional cash balances to meet the expected cash flows of this project. Depending on the timing of the bond sales, these loans could reach a maximum of approximately $18 million by spring 2005 if a spring 2005 bond sale is used ($12 million if a fall 2004 bond sale is used). Institutional officials estimate that cash funds will be adequate to fund this line-of-credit for the duration of the project. Attached is a draft of an Inter-fund Loan/Line of Credit Agreement that could be used to document these transactions.

These cash flow challenges/risks can be mitigated by the following actions:
1. Asking the legislature to accept a report acknowledging a plan to issue bonds for the project even though the total amount of other revenues identified in the expenditure limitation has not been received by the Board;
2. Acknowledging the use of a reimbursement resolution to use future bond proceeds to repay line of credit advances used to meet the cash needs of the project; and
3. Authorizing multiple bond sales to comport with the pledge payment and grant expenditure schedules.

PSU believes that these challenges/risks are justified and can be overcome for the following reasons:
1. The bulk of the pledges are from blue-chip donors, such as the founders of Intel and Tektronix, the Miller Foundation, and Fariborz Maseeh, thus likelihood of payment is high;
2. More than $1.1 million in surplus pledges/funding is available to cover contingencies;
3. Fund raising will continue until the total Phase I and Phase II financing goals are met, thus there is a high probability that there will be additional funds for possible contingencies; and
4. Institutional unrestricted cash balances are more than sufficient to fund project advances (unrestricted cash balances have averaged $30.9 million since July 1, 2000 and the maximum advance is $12 million with an average advance of $3.5 million.

**Staff Recommendation to the Board:**
Staff recommended that the Board approve PSU’s request to report to the Legislative Emergency Board, to allow the issuance of bonds for the Northwest Center for Engineering, Science, and Technology Project, even though the Board has not received the total amount of other revenues identified for the project in the expenditure limitation.
BOARD DISCUSSION AND ACTION:
Chair Blair continued by turning the discussion to the Northwest Center for Engineering, Science, and Technology at Portland State University. Senior Vice Chancellor Anderes introduced Jay Kenton, PSU Vice President for Finance and Administration, but before his presentation PSU President Dan Bernstine offered brief remarks. He announced that after sixteen years at PSU, Vice President Kenton had decided to leave to accept the position of Vice President for Finance at the University of Idaho. President Bernstine shared his appreciation for Vice President Kenton’s valuable contribution to PSU, including his involvement with the Northwest Center for Engineering, Science, and Technology.

Vice President Kenton noted he had discussed the Northwest Center for Engineering, Science, and Technology before, but wanted to outline some changes in the circumstances of this project initially approved by the Oregon Legislature in 2001. One of the requirements included in the 2001 legislation, Kenton stated, was a report to the Legislature’s E-board if PSU was not going to sell all $26.5 million of the bonds. Because PSU does not have the $26.5 million match in hand, PSU proposes to break the project into two phases and develop a plan to focus on the construction of the 130,000 square foot tower in the first phase, and renovate pre-existing space in the second phase. Kenton stated, because of these circumstances, “we are asking permission for this Board to authorize us to go to the E-Board later in June to file a report that says we have a plan and ask them to accept that report.”

Kenton continued to explain the various reasons justifying this course of action, including “right now is a good time to build.” Kenton noted PSU has very favorable construction cost estimates. PSU asked the contracting community what the cost would be if the entire project were delayed six months, and Kenton offered that PSU’s current contractor estimated a six-month delay would cost $900,000. He continued that steel prices are quite volatile, including a 40 percent increase in the last three months. This project has between $4 and $5 million in structural steel. Finally, Kenton stated, “the programs that we have are at capacity today and we have goals established with the ETIC board and others to double our enrollment and grow our research programs to serve the needs of business and industry in the metropolitan as well as state region.”

Kenton moved through an explanation of the current financial status of the project. He noted the Northwest Engineering, Science, and Technology Center was originally a $60.2 million project, including $26.5 million in matchable gifts and other funds, $7.2 million in Article XI-F bonds, and $26.5 million in Article XI-G bonds, which require a one-to-one match. Kenton offered that PSU, based on bids, architectural costs and other permitting fees, knows it can construct the 130,000 square foot tower for $45.6 million. Kenton stated PSU has these funds in hand or secured from pledges or other sources. He estimated Phase Two would cost another $8.2 million, and that PSU was currently raising funds for this phase of the project. He concluded PSU would be in front of the Board with another action item assuming it could raise these funds with the seven-year authorization provided by the Legislature.
Kenton outlined the source of the $45.6 million for Phase One of the project. First, PSU has $8.4 million deposited in the matching account. Second, PSU, Kenton stated, has $14 million in pledges and grants that have been awarded. Kenton noted that there are written agreements in place with the pledgers and grantors regarding this $14 million. Article XI-G bonds, Kenton offered, would match this $22.4 million. In addition, PSU has another $100,000 in nonmatchable revenue from selling use of a turbine atop a pre-existing building to PGE and $700,000 from the renting retail space on the ground floor of the building to diffuse the debt on the Article XI-F bonds. With that, PSU has $45.6 million to complete Phase One of this project.

Kenton continued by noting PSU has spent $5.4 million to date on architectural costs, bids, and early work upgrading electrical service to the facility to have adequate power for the tower. He added: “there are remaining costs as outlined there for general contractor and architect and other permitting and supervision costs. You can see the difference between those two is $1.1 million. We actually have more pledges and revenue in hand than we had in cost estimated.” Kenton also noted that PSU had been awarded a $200,000 energy trust grant that would be matchable for the sustainability elements of the project.

After this, Kenton spoke to the challenges of the project, including challenges that accompany any project funded with Article XI-G bonds. He stated: “What happens with Article XI-G bonds, the treasurer, we tell them we would like to sell $10 million or whatever the number, in the next sale. Before that sale is actually consummated, they do a census of the account. They look in the account and see if the matching money has been deposited. If it has, the sale goes forward. If is hasn’t, the sale is cancelled. One of the challenges is we have cost reimbursable federal grants, there are actually five awards for this project that total $2.7 million that require we spend the money before we can actually get the money from the fed and put the money in the matching bank account. We also have timing of multi-year pledge payments. We have requirements, as I mentioned, that funds be on deposit before bonds can be sold. We have the timing of the bond sales themselves. Typically, the System sells bonds in the spring and fall each year. We have the construction schedule and the percentage of completion payments that most contractors will require, you know, as they build 10 percent, they want 10 percent. Then we have the fact that the legislative authorization for this project expires on June 30, 2007, although it is my understanding that we could ask that that be extended.”

Kenton next turned to cash flows on the project. Kenton noted both revenue and expenditure lines, stating there is a big spike in funds when there is a bond sale. With an eighteen-month construction time period and the fact that some of the pledges are out over the next three years, some gaps develop between revenue and expenditures, particularly in the fall of 2005 when “there is roughly a $12 million gap that develops between the cash on hand and the expenditure kind of outflow that is required to make these payments on a timely basis.”
Kenton concluded the presentation with PSU’s proposed solution. He stated PSU would like to “(1) ask the E-Board to accept a report acknowledging a plan that, although we don’t have all the cash, that would allow us to issue bonds on a periodic basis as we have money in the account, (2) to acknowledge the use of an interfund loan or line of credit from the institution other funds to meet the cash needs of the project, and (3) to authorize multiple bond sales to comport with these pledge payments in the spring and fall of each year over the next three years until the project is completed.” He explained PSU considered various risks to the proposal. He noted “the majority of pledges are from what I’ll call blue chip donors...We feel there is a low default risk.” He also added that, in addition to the quality of donors, there was a $1.5 million surplus at present. He continued PSU would continue fundraising for both phases of the project, adding a reserve in the unlikely event a pledge is not collected. He also offered PSU has sufficient institutional cash balances to fund advances, averaging $30.9 million from 2004. With the maximum advance ever necessary at about $12 million in the fall of 2005, with an average advance required at about $3.5 million, Kenton explained reserves were more than adequate. He stated: “We’ve looked out over the next three years and thought about what our expenditure commitments are, what are revenue inflows are likely to be and we feel that we are in good shape with this.”

Kenton also outlined actual cash balances plotted since June 2000. He explained cash balances go up at the beginning of a term when the institution collects tuition, and go down over the course of the term when salaries are paid out. Kenton ended his presentation and asked the Board if there were any questions.

Director von Schlegell asked for clarification what would happen at the E-Board if the Board approved PSU’s proposed solution. Kenton explained PSU would make a request to the budget analyst from DAS to discuss with the Governor in order to determine if PSU could get to the E-Board. At that point, Kenton offered, he would make a similar presentation to the E-Board, asking it to accept a report acknowledging that while all funds were not in hand, PSU could nonetheless proceed with a bond sale and the proposed plan to complete the Northwest Center for Engineering, Science, and Technology. Director von Schlegell asked if the real issue was whether the $8.6 million in matchable gifts were not in hand, and Kenton clarified there is actually $14 million not in hand, but there were written pledge agreements or written grant awards backing the pledges and grants up. Director von Schlegell noted these were from blue chip foundations, groups, and people, and Kenton confirmed that the majority of these pledges and grants were from blue chip sources. President Bernstine added the “we also have some representation from some of our donors that if the need really arose that they would likely escalate their pledge payments in order to help us get through it if things got tight so in light of the quality of the people who are making those kind of representations, we really feel pretty comfortable making this proposal and moving ahead.”

Chair Blair asked whether or not the foundation would be willing to backstop should the donors not come through. Senior Vice Chancellor commented that participation from the foundation had been discussed earlier, but because of “the integrity and the blue chip
nature of the donors and the cash balances that that really wouldn’t have been necessary.” Chair Blair continued with a question on terminology, asking whether cash balances could also be called fund balances. Kenton clarified cash balances were actual cash balances, explaining fund balances were net assets. He reiterated cash balances represented actual cash in the state treasury or other banks. Blair asked if cash balances were actual physical cash, and Kenton replied: “Yes, and it’s from unrestricted funds. There are no restricted funds included in those numbers.”

Director von Schlegell addressed Chair Blair, sharing that he spent some time, at Blair’s request, with the staff reviewing the proposal and that he would recommend it move forward. Director von Schlegell moved to accept the proposal, and Director Lorenzen seconded the motion. Those voting in favor: Directors Blair, Lorenzen, and von Schlegell. Those opposed: none. Motion approved. After the motion passed, Vice President Kenton stated: “Thank you very much. It’s been a pleasure to serve this Board for the last 21 years. I have appreciated the opportunity.”

c. Budgeted Operations Fund Balances Policy

DOCKET ITEM:

*Background*: Responsible fiscal management requires adequate reserves to mitigate current and future risks. Adequate reserves are essential to offsetting cyclical variations in revenues and expenditures and to protect against 1) catastrophic events, 2) unforeseen revenue declines and expenditure gaps, 3) unexpected legal obligations, and 4) failures and health/safety/code issues in infrastructure or major business systems.

These risks can result from a number of factors such as uncertainty in the economic or political climate and volatility in revenue streams and expenditure requirements. The appropriate level of reserves is likewise dependent on a variety of factors: liquidity, the predictability of revenues and expenditures, the availability of resources in other funds, and the level of bona fide commitments against the reserves.

Although resources in Other Funds should be considered in assessing the adequacy of reserves, the focus for OUS should properly be on budgeted operations funds, which are the primary operating funds through which all basic instruction and institution administration occur. Budgeted operations funds include state General Funds and Other Funds Limited, made up principally of student tuition and fees and also including educational department sales and services, indirect cost recovery, and other operating revenues. Particular attention should be paid to Other Funds Limited balances since campuses are prohibited by statute from carrying state General Fund balances forward across biennia. In other words, any state General Fund ending balances automatically revert to the state at the end of each biennium.

For the purpose of gauging their relative value, budgeted operations fund balances can be expressed either as a percentage of annual budgeted operations revenues or as
budgeted operations expenditures sufficient to fund a specified period. The Government Finance Officers Association, for example, recommends that fund balances be maintained at a level that represents 5 to 15 percent of operating revenues, or is sufficient to fund no less than one to two months of operating expenditures.

Obviously, the level of budgeted operations fund balance should be related to the likelihood of need. Given the timing of tuition assessments, revenue cycles at OUS institutions tend to spike quarterly while expenditures remain relatively flat. When combined with the volatility of state funding over the past several biennia—as well as fluctuations in enrollment and tuition dollars—the need to maintain fund balances sufficient to stabilize the operating revenue stream for short periods is clearly imperative. The institutions, for example, are particularly vulnerable to shortfalls in revenue collections during the first quarter of each biennium.

Responsible fiscal policy, then, suggests that the institutions should maintain ending biennial budgeted operations fund balances sufficient to stabilize the operating revenue stream and cover unforeseen contingencies equal to approximately one month’s operating expenditures, or about 10 percent of their annual budgeted operations revenues.

At the same time, because state General Funds are either spent down completely prior to the end of the biennium or revert to the state, the principal source of revenues available to provide budgeted operations fund balances is student tuition and fees, and any excess balances could be interpreted to represent unwarranted tuition and fee rates. Consequently, ending biennial budgeted operations fund balances should not exceed approximately two months of budgeted operations expenditures, or about 15 percent of annual budgeted operations revenues.

Budgeted Operations Fund Balances Policy Proposal:
OUS institutions shall develop budgets that target an ending biennial budgeted operations fund balance of approximately 10 percent of annual budgeted operations revenues. For purposes of this policy, budgeted operations funds are defined as all funds included in Fund Type 11 (Education and General) in the Oregon University System accounting records. Budget operations balances will be monitored as part of the quarterly projections included in the Managerial Reports provided to the Board; and institution presidents shall advise the Board in the event projected or actual ending balances for the biennium either fall below 5 percent or rise above 15 percent of revenues. Included in the information provided by the presidents will be an explanation for the variance and a plan to rebalance the budgeted operations fund balances over time to approximately 10 percent of annual budgeted operations revenues.

Staff Recommendation to the Board:
Staff recommended that the Board adopt the Budgeted Operations Fund Policy as proposed.
BOARD DISCUSSION AND ACTION:
After discussion on the Northwest Center on Engineering, Science, and Technology, Chair Blair turned to the proposed fund balance policy, asking Senior Vice Chancellor Anderes to present the proposal. Senior Vice Chancellor Anderes explained there was a staff report and additional information that he would review “in terms of the actual fund balances and some actions that we are considering in the Chancellor’s Office regarding our fund balances that will all come together as we look at this proposal.” He noted the first sentence of the report offered an explanation as to why it is important to have reserves in the first place: “Responsible fiscal management requires adequate reserves to mitigate current and future risks.”

Senior Vice Chancellor Anderes outlined his presentation, stating that he would explain what fund balances were, why they are necessary, how much might be necessary, the fund balance policy proposal, and what the fund balances were on each of the campuses. He added that he would use the term “fund balance” interchangeably with “reserves.” He explained: “It is called a fund balance because it represents a specific fund that the dollars are identified with, which in this case is the Education and General.” He noted: “The idea for the reserves is they’re available for support when something that’s unbudgeted, as suggested here there are failures in health safety code issues, unexpected legal obligations, unforeseen revenue declines, which we have certainly experienced over the last couple of years.” Dr. Anderes continued: “So there is a variety of purposes and the dollars that are actually used in terms of what is part of that fund balance are only tuition and fees, indirect cost to a much less degree, and to an even greater less degree is the educational sales and services.” He concluded: “General fund is not part of a fund balance, it’s not part of a dollar that can move forward year to year and be used for purposes beyond what has been identified with the legislative budget and, in fact, the dollars if not expended revert back to the state. As we talk about these balances, understand that they are funds that are largely tuition and fees.”

Senior Vice Chancellor Anderes offered the necessity of fund balances and that the exploration of a fund balance policy emerged from the review of various national, state, and local circumstances. He stressed the goal was to “identify a reasonable standard that we can work through not only among ourselves but at the state level to get a basic agreement, if you will, as to what is necessary.” Senior Vice Chancellor Anderes posited “the fact that a General Fund dollar may be declining and cannot be used relative to ongoing emergency needs means that the fund balances that are available through tuition and fees is extremely important, particularly if we are confronted with more of the issues that we’ve had over the last number of years.” Senior Vice Chancellor Anderes noted fund balances were about stability.

Senior Vice Chancellor Anderes discussed the need for a fund balance policy and what the standard should be. He stated: “What we have identified with is there is a major national association that provides financial information throughout the country in the public sector and we have looked at the standard that they have been talking about, which is establishing a range of 5 to 15 percent of operating revenues versus your total
operating revenues.” He continued: “one of the things that is worth noting, however, is that we are creating a policy that relates to every campus.” Anderes stated, over time, there might be differences between the campuses that may counsel different fund balance ranges. He concluded: “That’s an issue we won’t confront here but I think as we move along and take this policy and analyze it over time, we should look at that because I think there may be some logic to having differential ranges.”

He continued: “The proposal itself is relatively simple. What we are saying is we need to establish a range for our operating reserves in a range of 5 to 15 percent on each of the campuses. Again, this is the one- to two-month amount of funding that would be available given the whole host of issues that are out there that we have been confronting over the last many years.” Senior Vice Chancellor Anderes noted that a second component of the policy would be the fund balance would be reviewed on a quarterly basis. He offered: “Part of our management reports will include an ongoing analysis of these balances.” He shared, by reviewing fund balances on a quarterly basis, the System “will become more attuned with how the dollars are used, how they’re applied, and how they may vary over the year.” Dr. Anderes added: “the final part of the proposal is if you are below the 5 percent range or you’re above the 15 percent range, we would be looking for an analysis that would suggest why is there a variance.” He offered that the reporting would not be there to create a great deal of stress, but would present a red flag to the campus in order to permit to devise a plan for rebalancing.

Senior Vice Chancellor Anderes summarized: “So we’re looking at an establishment of a standard, looking at it on a regular basis, and then creating a reporting process back for further review and it will tie in right with our quarterly reports that you have right now.” Senior Vice Chancellor Anderes reiterated his opinion that the policy be revisited in order to determine whether it is working and whether the differences of the campuses would counsel revision of the policy.

Senior Vice Chancellor Anderes turned the discussion to the actual fund balances of the campuses, included in materials provided to the Board. He noted the System, as a whole, had a 15 percent fund balance, including a relatively high fund balance in the both the Chancellor’s Office and Western Oregon University. Senior Vice Chancellor Anderes stated: “You’ll see that it goes anywhere from 10 percent up to 58 percent in the Chancellor’s Office.”

Senior Vice Chancellor Anderes also drew the Board’s attention to an important $14 million deduction. He explained the process of fund balances and understanding where funds may be eventually dedicated. He offered: “They don’t simply sit there idly waiting for an emergency although a core component of that should be available for emergencies but they’re also being used for other planned purposes so when we see the 15 percent, one can being to redefine that almost as dollars.” He continued: “A primary example is this $14 million reduction. We have got, legislatively, a reduction of $14 million. The legislature said at the end of the session we’re going to be out of Other Funds Limited, which is basically tuition and fees, we’re going back to all state agencies and extracting dollars and then they literally became part of the General Fund budget in an offset. But it’s a $14 million that is not reflected in that initial 15 percent.” He stated if
that were to be considered, “we’re down 13 percent and again other commitments have been made.” Using the Chancellor’s Office as an example, he stated 58 percent, or $7.1 million, is what has been estimated for the end of the fiscal year. Anderes explained: “I guess as an example to look at when you talk about a proposal of 5 to 15 percent and you look how is that going to be reported, are we going to talk about a plan to rebalance, as you as a Board begin to look at your reorganizational efforts, there is already approximately about $2 million that has been defined out of that $7 million for reorganizational purposes. There has also been an additional in the range of $1 million have been identified for a variety of purposes that relate to the function that we have as an office right now. My point will be and I think you have to look at this for all the campuses, but in our particular case there has to be a real clear clarification of our role in the end.” Senior Vice Chancellor Anderes noted that if the Chancellor’s Office retained responsibility for various services, programs, or operational priorities, such as landlord support for the Capital Center or offsetting Department of Justice expenses, a 10 or 15 percent fund balance, from an operational aspect, may be inadequate. He stated: “All of that is to say is that it may be very appropriate for the Chancellor’s Office to get to that 15 percent level but just doing it with the understanding of how we being to break off fund balance, where they’re going, how they are going to be used because I know right now with the fund balances down to approximately $4 million, there is a lot of good uses at the System level and at the campus level for more, better, faster, and you can’t argue with that.” After acknowledging his focus on the Chancellor’s Office fund balance, Senior Vice Chancellor Anderes turned to the Board for questions.

Director Lorenzen asked for confirmation if the fund balances were used for the two-fold purpose of evening out cash flow and reserving funds for unexpected contingencies. Senior Vice Chancellor Anderes responded that Director Lorenzen was largely correct, although another purpose of fund balances would permit campuses, as funds came in, to evaluate and plan whether or not there was adequate state support for something on campus that might be a priority. Senior Vice Chancellor Anderes offered: “It may not be an immediate emergency but it may be something that is necessary.”

Lorenzen continued, asking Senior Vice Chancellor Anderes what would happen if a university was relatively aggressive in managing its fund balance by taking it down to the minimum amount it felt appropriate, and something unexpected occurred that left the university without the cash available to meet the needs of the contingency. Lorenzen asked, “What alternatives are available to make up that deficit?” Senior Vice Chancellor Anderes started by noting a relatively low fund balance would be apparent in the quarterly management report and the red flag would go up if the campus were at 5 percent and Lorenzen added “but what happens if all of a sudden the roof falls in or the boiler blows up and money is not available?” Senior Vice Chancellor Anderes responded that the campus would look at all resources and funds and the opportunities that exist over a long period of time. Lorenzen continued, asking what would happen if a campus did not have the cash at a particular level if there were “a source of fund to assist them in getting over that hump.” Senior Vice Chancellor Anderes stated there was not a central source of funds to assist a campus out of a situation as outlined by Director Lorenzen. Senior Vice Chancellor Anderes clarified that the campuses did fall
under a single source of authority, and “one campus can be held responsible for what's happening on another campus. If it has adequate resources, those funds can actually be used to offset a problem at another one if that became absolutely necessary.” Director Lorenzen asked if that meant there was a fallback position, and Anderes replied “certainly not one that we ever want to test…” Director Lorenzen concluded that if fund balances were only a cash management issue, from a theoretical standpoint, it might make some sense if one campus pooled resources in order to assist another, but, in fact, the funds have other purposes on the campus. Director Lorenzen offered: “but it still makes you wonder what happens if there is a catastrophe at one campus and whether there is a mechanism for borrowing from another campus to get it over the hump.” Senior Vice Chancellor Anderes added that the campus could also turn to the E-Board. He concluded: “There are funds at the state level that you can request and if you are really talking about an emergency of a significant proportion.”

Chair Blair entered the conversation with questions about the Chancellor’s Office. He observed Anderes used: “the word rebalancing as a way to articulate the way we might handle this going forward and I think the term balance is actually a very good one in the sense that I think we would all agree that prudent financial management means that we should hold some amount of money to deal with these contingencies.” Chair Blair continued, however, by noting that it was also possible for fund balances to be too large, particularly considering the funds used to build up fund balances come from students. He acknowledged the Board’s focus of issues of student access and rising tuition, and observed, “I think the concept of balance makes a lot of sense. There are numbers that are too small and numbers that are too big.” Chair Blair turned to the fund balance of the Chancellor’s Office, and using the target of 10 to 15 percent, noted that there appeared to be $3 million over 15 percent, even considering the reorganization and other costs discussed, and asked whether there were plans in place or commitments for the money. Chair Blair reiterated: “In other words, if we said our baseline is 10 to 15 percent is what the target is, that suggests that with the Chancellor’s Office and the other we’re probably in the $5 million range of excess fund balances over that 15 percent target. I guess my question for you is do you foresee items that are at there that are tangible, in view, that would put a claim against those funds.”

Senior Vice Chancellor Anderes stated that there were. He noted a portion of the fund balance committed to PSU amid the transition of the Capital Center and the Oregon College of Advanced Technology. In addition, Senior Vice Chancellor Anderes offered, OUS is responsible for re-roofing the Capital Center at a cost of approximately $1 million. He concluded: “So we’re probably looking in the range of $2.5 to 3 million of the other fund balance that would be committed.”

Chair Blair followed up with clarification regarding the responsibility to re-roof the Capital Center, and Senior Vice Chancellor Anderes stated as the landlord of the Capital Center, OUS was responsible. Chair Blair continued to inquire about uncommitted funds above the 15 percent level of fund balances, asking, “how much excess do you believe there is that is uncommitted?” Senior Vice Chancellor Anderes said that it was difficult to
determine, noting that he expected continuing draws on the fund balance from reorganizational efforts, including ITS components and consultants. He continued that there had been discussion for additional funds for more, better, faster initiatives. He estimated that there might be additional commitments for reorganization of between $500,000 and $750,000. He offered that excess fund balances might be committed to offset General Fund reductions or transitional costs with ITS. He reiterated the cost of some Centralized Services and subsidies of the Chancellor’s Office, including the Capital Center and excess Department of Justice bills. Chair Blair added: “I think you’re raising a philosophical issue here of whether or not the Chancellor’s Office should be standing between the campuses and the real cost that comes down the pipe. But, having said that, the surplus that is being generated in the Chancellor’s Office in some ways comes from the campuses themselves as well in some form.

Senior Vice Chancellor Anderes clarified that the relatively large fund balance was due in part to an accrued amount of tuition dollars that stayed with the System in order to facilitate transition when the split occurred in 1998 or 1999. He noted OUS does not receive tuition dollars anymore. Senior Vice Chancellor Anderes stated: “The only dollars that we receive now that will be going towards our balances are indirect cost dollars where we receive a portion for doing the indirect cost rate negotiations and services that we provide, some of the services which will be shifted now to OSU so that is an amount that will actually be diminished simply because we won’t provide the service anymore. I’m just raising it as something we need to think about and look at the role, responsibility piece and be clear that before we’ve gotten to that 15 percent level that we understand what it implies.”

Chair Blair offered that no one could argue with Senior Vice Chancellor Anderes’ stated position, but stated, “the thing that troubles me a little bit here, well more than a little bit, I think these fund balances at the end of the day, if we look at this as a System that’s funded partially by the state and partially by the students and we’ve got grants and various other funding sources, at the end of the day build up fund balances anywhere in the System at the end nets down to tuition and fees at some point.”

Chair Blair shifted his attention to Western Oregon University. He acknowledged President Conn’s presence, and recalled a specific conversation about a potential deficit at WOU. Considering WOU’s fund balance, Chair Blair asked: “But can you help me understand, President Conn, how did we get to this spot that we are now?” President Conn commented that he was not sure the level of detail Chair Blair or the Board wanted, but started by offering “the document that I was referring to when I talked about how tight we were and how there has been a total change in circumstances.” He continued: “Let me say, number one, that we are in the process of shifting to a fund balance concept in reporting our financial condition and we have tended to look more often at what I call unobligated operating dollars, meaning dollars that are clearly reserved, which is to say there are no contractual obligations against them, no specific plans, no earmarks, no set asides.”
President Conn continued his response by drawing the Board’s attention to “an item that was passed out that showed that at the end of this fiscal year—talking now about reserves as we defined them, unobligated dollars—that we were going to have about a million and until we took corrective actions by the end of the biennium, our reserve, our unobligated money would be depleted.” He added: “If you go back to the first sheet, the main thing that has happened in the last year is that we are in much better financial condition that we had projected. That’s a combination of good fortune and frugality.” President Conn noted WOU “thought and indeed set aside $1.2 million for what is known as settle down, the concept that when the relative shifts in enrollment take place, that some schools give up money, others pick it up. Settle down did not take place, largely because there are unfunded enrollments so there is a philosophical discussion so $1.2 million we did not have to come up with that we thought we would.”

Chair Blair asked for clarification on the concept of settle down, and President Conn asked Senior Vice Chancellor Anderes for assistance in explaining the concept. Senior Vice Chancellor Anderes explained the Resource Allocation Model provides funding based on enrollments, and the campuses receive a set of dollars based on those projections. He added: “The settle down is a point at which we made the decision if a campus was going to be below its targets that we would ultimately move those dollars out of the campus and actually look at a potential for a settle up. We’d probably have to redistribute the dollars. He’s just saying there was a $1.2 million set aside that they had thought, regarding the settle down, was going to be necessary and we had said no, each of the campuses are going to live with the dollars that they received. It was a change in the model.” Chair Blair asked if it was tied to enrollment, and Senior Vice Chancellor Anderes said yes. President Ed Ray of OSU contributed, “It was the money they thought they would get based on enrollment projections and they thought, since the enrollment projections were somewhat low, they would have to give money back and the System decided not to take the money back so he found out he didn’t need to do it.”

President Conn noted PSU would have been the beneficiary of settle up because PSU was exceeding enrollment. He continued that settle up explained $1.2 million WOU initially thought it would need to spend. He added that WOU students ended up taking heavier loads because of how the tuition plateau was phased out. He stated that WOU thought it would be assessed $643,000 to pay its portion of the loss from Measure 30. In fact, he offered, this was not assessed this year, and in fact, was reduced. He concluded: “To make a long story short, with good fortune and frugality, we have $3.5 million that we had no way of projecting when the sheet I gave you that is dated last October was passed out.”

President Conn noted the other materials offered were “a matter of us trying to reconcile, to make this shift, between what I call an obligated operating reserve, frame of mind, and fund balance.” He continued: “But, at this point, in literally going through line by line, we realize that we have significant monies more than we anticipated, we are pleased and we have a number of capital projects that we’ve been waiting to fund and we anticipate that by the end of the biennium much of what we show in excess of 15 percent will be used if we are allowed to use it.” He stated that WOU has a best-case
and worst-case scenario for fund balances, but that “it’s an interesting circumstance in that I’m delighted with our financial status on one hand, although admittedly it’s been quite awkward in the context of the emphasis on the fund balance approach.”

President Conn added: “I received information on fund balances last week that I had not heretofore as we were coming near the end of the fiscal year and number two, it became apparent that we were going to have this policy and that fund balance is the primary concept that we should focus on now rather than what I had been referring to as unobligated monies.” He continued that WOU had set aside, at the encouragement of System officials, funds related to the PERS litigation. He offered WOU has about $2 million in physical plant projects. He concluded: “It has been an uncertain time and reiterate the data I’d been given with regard to unobligated monies led me to believe that we needed to be cautious until we saw where we were. Frankly, I am surprised that our fund balances are as good as they are but I can assure you that the noise having been spread across campus, I have a long queue line of folks who have projects, some of which should be considered and some of which, obviously, should not. For the most part, the expenditures I envision would be capital expenditures, meaning facilities and equipment.”

Chair Blair asked if WOU had considering changing its posture on tuition given the new information on fund balances. President Conn replied: “Our posture on tuition, meaning our plan for next year is zero increase in rate.” He added: “We obviously continue to say that eliminating the tuition plateau is advantageous for a variety of reasons, not only financial but with regard to equity.” He offered, “But inasmuch that this is one time money and inasmuch as our tuition rates are comparable to the other institutions, I don’t really see that that is called for.” He stated that WOU has suffered most in its staff complement. He ended, “The totals that you are seeing here have accumulated over many years. It’s just that people were focusing more on unobligated monies and not looking at fund balances adequately and I reiterate during this past year, I will live with fund balances much more than I have heretofore.”

Chair Blair opened the floor to other Board members for questions, but noted his disappointment in how the situation at WOU could change so dramatically. He stated, “I just wonder on the decisions that we have made along the way whether we have been making the right decisions based on the information that was here.” President Conn accepted that, and reiterated that he had attempted to explain where the $3.5 million had been committed, and that WOU did not lament having the funds available, but would use them wisely.

Director Nesbitt continued the discussion with additional questions. He commented that he anticipated the discussion on tuition to take place the following day, stating, “I would hope that we’d recognize it’s not a matter of tuition plateau or no tuition plateaus...It does make for some pretty severe impacts when there is an elimination of plateau, but I think we should talk more about that tomorrow morning.” He asked Senior Vice Chancellor Anderes to clarify whether the line item on his chart with campus revenue projections included all sources of revenues, including grants. Senior Vice Chancellor
Anderes stated it did not and only accounted for General Fund, Tuition and Fees, and Indirect Costs. Director Nesbitt asked for clarification on footnote three of the chart referencing the fund balance. He stated the footnote mentions a “$2 million ending fund balance as a result of Board review. I think we committed $1.1 million regarding Measure 30 backfill, but I’m not sure we took action to committing things.” Senior Vice Chancellor Anderes clarified, noting the footnote related to the reorganizational aspects that had occurred in the past two or three weeks. He added it did not relate to the $1.1 million resulting from Academic Affairs. Director Nesbitt asked if the $1.1 million was a factor on the chart, and Senior Vice Chancellor Anderes explained: “No, the $1.1 million itself is a reduction to the operating budget so it won’t have any impact on the fund balances.”

Director Nesbitt continued with questions about the “de facto retention of tuition at the Chancellor’s Office. Senior Vice Chancellor Anderes explained, “When the model was implemented, and I’m not sure if 1999 is the right year, but when the model was implemented in 1998-99, prior to that, every dollar, every tuition dollar, every General Fund dollar, I believe indirect cost, all of that came to the System and then the System redistributed it to the campuses based on a multiple level formula...So, we would actually retain dollars within the System and have that available to parse out to campuses as needed based on the formula...After the model was implemented, one of the major features of the model was that tuition and fees would reside on the campus...So, the model itself on one level was giving money to the campuses—General Fund dollars—on the basis of student enrollments, numbers, types of students, and every tuition dollar was retained at the campus.” Director von Schlegell asked if that meant projections, and Senior Vice Chancellor Anderes clarified “well, there’s projections, but then there was also revisions—the settle down, settle up process would revise that.” Senior Vice Chancellor Anderes added: “But at that point in time, there was an amount of tuition dollars that was retained in the System office, which I think was seen as transitional—if there were emergencies, if there were issues.” Director Nesbitt asked if Senior Vice Chancellor had “a sense of the magnitude of the retention or the residue.” Senior Vice Chancellor turned to Associate Vice Chancellor Marv Wigle for guidance, and Associate Vice Chancellor Wigle stated, “My guess would be about $14 million.” Director Nesbitt concluded with a comment about the detail of the presentation and the importance of documentation and transparency. He expressed concern about credibility, particularly with the legislature, and noted he thought it a good idea to have a minimum and maximum band in which all of the campuses operate with regard to fund balances. He concluded, “Otherwise, an outlier, one extreme example, can undermine credibility across the board when we are seeking more funding so I think that’s very important to have the information and to see the common policy.”

President Ray added that he wanted to return to a comment from Director Lorenzen, and asked the Board to look at OSU’s cash fund balance. He noted, “90 percent of that represents non-synchronization of revenues and anticipated expenses. Not all contractual obligations, but monies that we expect to expense that haven’t been realized at the point that this snapshot is taken. So when I ask my people, and this goes back to Phil’s comment earlier, what ’s our risk reserve, what are the unencumbered
balances out of this that we have, it’s $3.6 million. So, it’s on the order of between 1 to 2 percent of total revenues really represents free and clear money.” He stated that there were things consonant with OSU’s educational mission that the university intended to do with the money. He reiterated that it was important to realize that fund balances were a snapshot of a moment in time. He added, “The idea of maintaining fund balances 5 to 15 percent, most of it for non-synchronization of expenses and revenues, a little bit for risk reserve, makes sense. You shouldn’t be…it’s like receivables or payables.” He concluded, “For us, it’s 10 percent of the balance that you’re looking at here. Others could respond, but I suspect the bulk of what we have I know and what I would expect other have are, in fact, sort of mismatches between cash on hand and anticipated expenditures in the not terribly distant future.”

Director von Schlegell commented, “So, if you, if you’ve charted this over 12 months, it’s seasonal, is what you’re saying?” President Ray added, “There is just non-synchronization at any...June 30 is a magic date because by law and by custom we say it is, but when you pay for things and when you get the money is a function of what you’re payments and receipt activities are all about.” Director von Schlegell followed up, asking how much the fund balance might change over a 12-month period. President Ray noted that he did not expect it to change much more above or below 13 percent over an annual period. He added Mark McCambridge at OSU might have an idea of whether or not the number would change, but President Ray surmised the number would be fairly stable over the course of the year. Mark McCambridge, Vice President for Finance and Administration, OSU, concurred with President Ray, and President Ray reiterated that OSU could stay within the range fairly easily.

Chair Blair added, “I'm having a little trouble understanding the two statements together because if it’s timing related, I would suspect that at some point it’s going to get down close to the 2 percent number that you described.” President Ray replied, “Well, because you’re always anticipating things that need to be done...I mean they’re not the same anticipated expenses every year, but every year we have a recurrence of things that are going to have to happen when people show up, not necessarily when we get the money and we clear the books in a given year and another whole set of items crop up in the next year.” Chair Blair continued, noting that unless something dramatic happens, the campus would have revenue coming in at the same time. President Ray answered yes. Chair Blair stated if the revenue stream stopped, then OSU would get down to the 2 percent, but because revenue comes in, the fund balances is filled. President Ray responded that was accurate, and “it’s going to continue to get depleted as we makes these anticipated expenses. That's why I said I think somewhere in the range of 13 percent is where we'll stay.”

Chair Blair reflected on the policy recommendation of having the fund balances be between 5 and 15 percent, and stated, “The issue that we are wrestling a little bit here is that as a System we are above our target of 10 and we have some places, the Chancellor's Office, other than Western Oregon, where we are significantly above 10-15 and the issue there is whether or not we're out of balance, whether we've asked the students at Western Oregon to pay more than they needed to or we've made some
dysfunctional decisions at that university in terms of reinvesting in physical plant or faculty or whatever else we should have been investing that money in."

President Ray added he thought quarterly monitoring was a good idea. He stated, And I think that’s where the value of looking at this quarterly comes into play because there could be some idiosyncrasies that in fact Western is at 30 percent in June and it’s back down to 12 percent in September. That’s why you want to keep monitoring it to see if it is an aberration or it really is a consistent pattern of seeming to hold on to too much in the way of cash balances relative to operating." President Conn noted the example of enrollment and tuition to demonstrate variability of revenue. He stated that WOU had an enrollment reserve when application numbers and projected enrollment was down. He hoped that WOU would not need to use the reserve, and if so, WOU would be the beneficiary. He noted, however, “that then does raise the question, how do you do right by students and sometimes it’s a matter of doing right by them on balance and in relative terms, meaning what tuition rates are at other institutions. Revenues particularly as regard to tuition are variable, as well.”

Vice President McCambridge asked to correct his previous statement, noting two situations in which OSU’s fund balance would reduce. He stated, “In the fund balance that you’re seeing now, the legislature directed $3.2 million a year to the new Veterinary Medicine second and third year that we are bringing from Washington State. Those funds basically to higher faculty to support that two years’ worth of education. Now, those funds, if you look at the fund balance rise between last June 30 and this projected number, Vet Med goes up $3 million and that’s because they are hiring faculty and bringing faculty to campus right now so the payroll will start now for next fall when they begin teach classes. So that fund balance I would expect to go back to the $200,000 that it was prior to the beginning of this year but we distributed the budget as the legislature asked. There are funds in engineering, their fund balance going from $2.5 million to I think $3.5 million in this estimate and a fair amount of that are funds that came from the legislature to help with the ONAMI start up and again we’re hiring faculty and so in those two cases, we’ll burn funds on that side.”

Chair Blair stated that he wanted to make sure other Board members had the opportunity to ask questions because the meeting was far behind schedule. Director Lorenzen expressed his concerns, particularly regarding whether or not everyone at the table was talking about the same concepts. He stated, “I hope at some point in the future I can get straightened out because it seems if we’re looking at operating reserves, then we would have to make certain that we have some kind of standard determining what kind of obligations are counted against that operating reserve so that we know where we are and if it’s pure fund balance then I can see that we also have that problem. One campus may have a number of obligations that are hanging out there that may be coming due in six months and a high fund balance will give us a misleading indication of where we may be so I hope we can have further discussion of that in the future.” Director Lorenzen continued with a brief question of Senior Vice Chancellor Anderes. He asked what the anticipated percentage change under the proposed rate schedule would be in tuition on a per FTE basis, and whether it would blend part-time
and plateau students. Vice Anderes counseled that he believed it did. Chair Blair asked whether it was gross fund balance or if it was netted down against some anticipated expenditures. Senior Vice Chancellor Anderes replied that across the System, his understanding was that it was netted. Director Lorenzen asked whether it was “netted against our obligations or netted against this,” to which Senior Vice Chancellor Anderes responded yes. Chair Blair asked whether it was “obligations or the balance of the biennium?” Anderes replied “a year.” Chair Blair clarified, “So, same thing in this case but basically what we’re saying here is this is a projected fund balance available as of the end of the biennium so anything that would be after that would not be factored out?” President Conn noted, “There’s another year in the biennium so this is the end of the biennium because we have significant obligations that will come in the next fiscal year.” Chair Blair asked if it was for the 2004 fiscal year or the biennium, and President Conn replied, “And the biggest adjustment I referred to we’re making is trying to get right by fund balance.” Chair Blair asked if the provided estimate was what WOU would estimate in approximately one month, and President Conn stated he was correct.

Chair Blair asked if there were additional questions, and Director von Schlegell commented on the credibility aspect of fund balances. He stated, “The bigger mission this Board is on, we need buy-in, we need credibility on all these points, so we’re going to need to spend more time on this in my opinion.” Director Richmond added she thought the Board was doing a good job of asking questions, and Chair Blair concurred. Director Nesbitt asked if it were possible to get some assurance from Senior Vice Chancellor Anderes that the same methodology would be used by all of the campuses. Director von Schlegell added different CFOs could reserve in different ways and that there could be large swings in how the numbers played out. Chair Blair concluded, “I think that’s why we’re going to have to have a range but I think that’s a great suggestion so I’m afraid we’re going to have to hold this one over to the next meeting on the policy front. I guess the thing that I want to make sure that we address immediately are the outliers here and make sure that we understand where those funds are going to be needed legitimately and if they’re not going to be spent in that way, then we need to think about how else we deploy that money. Given all the agenda items we’re trying to address, as well as access and affordability.” President Conn noted he appreciated the counsel and understood the issue of credibility.

4. Consent Items

   a. OSU, Veterinary Medicine Small Animal Hospital—Revised Expenditure Authority

Docket Item:

**Summary:**
The Oregon State University (OSU) seeks Board approval to authorize the Senior Vice Chancellor for Finance and Administration, or designee, to seek an additional $3.2 million of spending authority from the Legislative Emergency Board and increase the overall project cost by the same amount. Funds from donations and grants are
currently available. The increased authorization will allow for reinstatement of project elements that were removed due to budgetary concerns and to allow some new elements to be added to the small animal hospital project to improve the overall effectiveness of the facility.

**Staff Report to the Board**

**Background:**
In June 2003, the legislature approved $10.2 million in spending authorization for the project. Based on budgetary concerns, many aspects of the project were either eliminated or reduced. However, fundraising efforts have been very successful and additional funds have been raised. The Veterinary Medicine program seeks to add back those items that were removed from the project scope due to an anticipated budget shortfall as well as add some new elements to the project that will allow the Teaching Hospital to operate more effectively.

The items added back into the project scope include a food preparation room, completing the “fit-out” of operating room #3 and a seminar/break room, and the relocation of administrative offices and research lab. Items not included within the initial project scope but that are now proposed to be added to the project include: a fluoroscopy room; necropsy cooler; an enlarged surgical teaching area; upgrades to the lecture hall, including an AV system and new seating to accommodate increased student enrollment; replacement of the Central Services autoclaves; remodeling of the pharmacy dispensing area to comply with current standards; and some additional interior work and safety improvements. Also, the City of Corvallis is requiring street improvements adjacent to the project site that were not part of the original project scope.

**Statement of Need:**
This project is to implement the legislative approval given in 2001 for the expansion of the veterinary medicine program at OSU to a full four-year program. In order for the program to provide for the full veterinary training, a treatment facility for small animals is necessary. Preliminary design identified a facility that was more expensive than available funds allowed. In order to meet budgetary constraints, a number of components were removed from the project, even though they were important to the quality of the program. Corporate interest in donating equipment and program support funds has increased substantially since the expansion of the Veterinary Medicine program was authorized by the legislature. The completion of currently shelled space will allow donations of imaging technology and surgical equipment to be placed into service, complete research space necessary to attract the top faculty to the College, and expand ongoing research in human/animal infectious diseases and surgical technologies. Additional fundraising has been very successful and private donations and grant funds have been secured to allow these components to be reinstated.

**Schedule:**
The project has been designed, bid, and construction is underway for those elements included within the $10.2 million dollar authorization. Construction is anticipated to be
complete in August 2004. Additional spending authorization is being requested to include the removed elements back into the project and add additional improvements to the small animal hospital facility to be more effective. If spending authorization is granted, then these improvements will be completed by December 2004.

**Financial Considerations:**
Funds for the additional work have been raised through additional private donations and grants. The College of Veterinary Medicine is asking for authorization to spend those funds already received.

**Staff Recommendation to the Board:**
Staff recommended that the Board approve OSU’s request to authorize the Senior Vice Chancellor for Finance and Administration, or designee, to seek additional legislative spending authorization for an additional $3.2 million to allow expenditure of monies received in gifts and grants for the veterinary medicine small animal hospital project and isolation facility.

**BOARD DISCUSSION AND ACTION:**
This item was part of the consent agenda. Final action noted on page 31.

**b. PSU, Millar Library Project—Revised Expenditure Authority**

**DOCKET ITEM:**

**Purpose:**
Portland State University (PSU) seeks Board approval to authorize the Senior Vice Chancellor for Finance and Administration, or designee, to obtain approval from the Legislative Emergency Board for an additional $268,000 of Other Funds expenditure limitation for the Millar Library Project. If this request is approved, the total Other Funds expenditure limitation will be increased to $1,905,766.

**Background:**
Other Fund revenues received for this project have exceeded the approved legislative limitation. Due to the Article XI-G Bond and Federal Grant restrictions, revenues are locked in these plant fund accounts and cannot be moved elsewhere.

At this time, project construction is on hold until PSU receives approval to expend the remaining fund balances. PSU’s intent is to use the remaining fund balances for construction activities falling within the scope of this approved project, with no plans to request release of these funds for use on other projects.

Additional legislative limitation approval is required to expend the remaining $268,000 of gift and Federal Grant funds.
Staff Recommendation to the Board:
Staff recommended that the Board approve Portland State University’s request to authorize the Senior Vice Chancellor for Finance and Administration, or designee, to obtain approval from the Legislative Emergency Board for an additional $268,000 of Other Funds expenditure limitation for the Millar Library Project. If this request is approved, the total Other Funds expenditure limitation will be increased to $1,905,766.

BOARD DISCUSSION AND ACTION:
After noting two consent items from Southern Oregon University were deferred, Chair Blair asked if there was any discussion the remaining two items. Director Lorenzen moved approval of the consent agenda, and Director von Schlegell seconded the motion. Those voting in favor: Directors Blair, Lorenzen, and von Schlegell. Those opposed: none.

5. REPORT ITEMS


DOCKET ITEM:

The Board reviews university Capital Construction projects on a biennial basis and forwards a request to the Governor for his consideration. The Governor reviews requests statewide and submits a request to the legislature based on his priorities and an assessment of available funding. Legislative approval of capital projects provides the university the authority to initiate projects, with timing dependent on available resources.

The Finance Committee will receive presentations from EOU, OIT, OSU, and UO, covering their capital requests for 2005-2007. A preliminary summary of all projects by campus will be available. In July, the Board will review and approve the 2005-2007 Biennial Request. There will be a summary of projects by campus and a list of project priorities across the System. The priorities will be built through application of criteria, including the Board’s priorities, university priorities, cost savings, and planning objectives.

Process:
The Chancellor’s Office has established a process to review all capital projects and provides to the Board an inventory of all projects by university, by university priority, by fund source, and Systemwide priority. Each university will present a summary of requested projects with an emphasis on tax-supported projects or those funded by General Fund, X1-G Bonds, and Lottery Bonds. The Chancellor’s Office will present a summary of Systemwide priorities along with funding implications in June.

The determination of Systemwide priorities will be built on a number of criteria. Universities have developed requests based on master plans that are intermittently updated to reflect evolving enrollment management planning, program expansion, facility modernization requirements, and other student instructional and community
demands. Generally, the number of projects sought in support of student/auxiliary programs such as residence halls, athletic facilities, dining facilities, bookstores, etc., greatly outnumber tax-supported facilities, which are dedicated to instructional and academic support programs. The focus will be greatest on tax-supported projects.

**Funding: Sources and Capacity**
The 2003-2005 Legislatively Adopted Capital Budget Request consisted of $44 million in approved tax supported bonds and approximately ten times that amount ($402 million) in authority for projects through student fees, donations, and gifts. A funding strategy for 2005-2007 based on projected state capacity and potential non-state resources will be discussed following campus presentations. Implications of the funding requests on state and university debt will be outlined.

**System Evaluation and Establishing Priorities**
At the July Board meeting, System staff will present a list of projects prioritized across the System. As stated earlier, the list will focus on tax-supported projects. A set of criteria has been developed that will “measure” the relative merits of each. The following criteria represent the lens through which projects are viewed. Universities will be increasingly successful in competing for funding if they:

1) Address access/growth demand (more, faster)
2) Enhance program quality (better)
3) Support state/community priorities (better)
4) Increase energy efficiency, enhance sustainability (better)
5) Connect with community colleges (more, better, faster)
6) Reduce deferred maintenance backlog (better)

**Deferred Maintenance:**
One of the major components of the request will be the Systemwide request of $100 million from a variety of sources to address a deferred maintenance backlog of $600 million. This estimate is based on facilities audits and result from continued underfunding across the System.

The funding strategy includes a combination of operating savings dedicated to debt service, Lottery bonds, Article XI-G bonds, and federal grants. The focus of the strategy is to incrementally, over a number of biennia, reduce the problem and do so through a balance of cost savings and state bonding support.

**BOARD DISCUSSION:**

- **Eastern Oregon University**

President Khosrow Fatemi stated, “Thank you, Mr. Chairman. We have a request for a library and information center expansion and what I will do is spend the first 90 seconds or so providing a general framework for our request and then I will ask Vice President
Darlene Morgan to come up and get into the specifics. We also have Provost Miller in case there are any specific questions.

The request that we have, as I mentioned, is for the expansion is for our library and information center facility. The current facility is old, is obsolete, and is inadequate. Particularly when we look at our situation that, because of our geographical location and isolation, we are the only provider of education at the bachelors and higher level to eastern Oregon and for that, we need to have facilities that, at least in the case of the library, much more adequate than what we currently have. Furthermore, for the same reason of isolation, we need to play a more active role in economic development and community development in the region and again, for that we need to have a more adequate library facility than we have. That’s the general framework. As I mentioned, as this point I would like to call on Vice President Morgan to give you a detailed description and the specifics of the request that we are making.”

Vice President Morgan continued, “Thank you, chairman Blair and Board members. The EOU Master Plan was completed in 2000. I will just quickly go through how we determined the library and information center to be our next major project... In that planning process, we looked at the campus based a little differently than most master plans. We looked at the land we currently own and we determined, based on that current acreage, what our capacity for students would be as a residential campus, both based on the land we own and the qualities that we defined of a campus at eastern Oregon. We defined two phases of our plan – growing our residential campus to 3,000 was the first phase, growing our residential campus to 4,250. I can go into more detail later about the standards we used to identify how we came up with those numbers based on the land and value. When we did that, we involved the entire campus, the entire community, and our neighbors and some of the things that came out of that – we also were able to get a university district status, which enabled our planning to go better and also the buy-in with our local community and all the facilities and utilities that we use within the city and the county. Also in the plan was the timing of when we move to the growth part which building comes next. We also looked at academic buildings, nonacademic buildings, recreation fields and sports facilities.

“If I can talk about some of the issues that came about in our library in the last five years. We’ve had several studies and, as usual, with a building built in 1949, finished in 1950, I think all of us deal with life, health, and safety issues, fire codes. One of the things you have when you have a building built as a library in the 1950s is the space needs. You know, we have compartmentalized this building where we have shelving heights that are way above standards. As in any building, all of our campuses have the asbestos issue. Most of the steam piping that goes to this building actually goes through the walls, we monitor very closely, there’s no access to the steam plant in those walls. Again, ADA compliance. In 1990, we addressed a little bit of the ADA compliance by doing an addition to the building; we added on a new entrance to the back side of the building and at that time put in an elevator that serves all three floors. One of the consultants...who looked at this building really addressed the climate control issues in being able to provide humidity control for preservation of historic documents and
basically the building has probably one of our biggest energy issues that we are trying to address because of its effect on our operating dollars.

“When we look at a library and information center and most of the information we have comes from consultants, it’s really inadequate for student needs. By that, what I really mean is in a library today, traditional and nontraditional, there needs to be space for students to meet not only in study cells, but group meetings, where students can come together, either with faculty or whatever, to study as a group. We only have one room left in this building where it can be used either for a conference site or for students to get together. Limited access is also limited access to information. As our enrollment has increased, our needs increase. Our ever present and growing distance learning program is part of the library and information goal that we have. We have an increased demand in the region. One of the areas we have served regional Oregon is we have what is called the pioneer library services and it’s a system that we provide services to all the public libraries in eastern Oregon and also elementary and high schools throughout the region.

“You look at a traditional library and what a library needs to be for the future, technology will always keep us guessing. Technology designed yesterday may not be what we want tomorrow. We want to make sure that this library has the ability for on-line research for all of our students, our faculty, and also the region and their needs for information. Our current collection – in a library, we should be able to display our current collections. Some of those come from artifacts, some of those come from regional history. Right now, many of those are stored because we just don’t have room for them. Our space needs are critical especially in the breakout room. The idea of having centers where faculty and students can meet together on projects working with technology and testing technology. We have not addressed the archiving needs both at the university, the archives of the region, and other archives that need to be kept and accessed. Basically, many of the archives we have right now are located in other buildings and not even accessible on a daily basis. Many special collections come to us or we have been offered special collections, such as the Forest Service recently asked us to be a site that they could actually display early maps of the region and because we don’t have climate control and space, we asked to put that on hold until we had a building that we could do that.

“In this new center for library and information, we would see a student learning center. One of our undergraduate goals is the cornerstone that provides undergraduate research for all of our students and we can see this building and how it affects learning by having undergraduate research a focus in this building. This is research both on-line, data information, culture, anything that you would look at throughout all disciplines could happen within this building. Again, distance education and students learning on-line. It’s also testing new technology. This would be the center where students and faculty could test technology no matter what the discipline is. Again, as I said before, seminar rooms and work stations are very important in today’s environment in a learning center, a library and information center.
“We also look at campus and community. If we had a small business development center, which we have on our campus, maybe working with a student and the school of business and either a regional or local community small business to develop an inventory plan or whatever, we would have the technology in one of these seminar rooms to where all the campus and the community to come together and that’s probably what you might consider economic development, but it’s also undergraduate research and the ability to put a student in an intern situation with one of our local businesses. And the final part of the student learning, I’ll go back to technology infrastructure for the entire campus. That we’re looking at other ways to use infrastructure as those technology needs change.

“An important part of any library is professional enhancement for our faculty and the library would be the center point for that. What we have on our campus today is called the Eastern Oregon Center for Teaching, Learning, and Assessment and through that is a way to enhance our faculty’s needs as far as their own disciplines. We’re combining this into the building. But it also reaches out to the region in the fact that we have a relationship with our community colleges that this center can also help with their teaching and learning assessment and also K-12 because of our school of education. We see this Center for Teaching, Learning, and Assessment where we improve professional skills, we look at other types of technology, no matter what discipline, and we pull it all together in this Eastern Oregon Center for Teaching, Learning, and Assessment. Again, it’s back to the access to research tools that would be a testing site for those kinds of tools that would enhance learning, teaching, and assessment in the environment we live in.

“You can tie back a library and information center also to research. One of the interesting things that I think that Eastern Oregon University can provide for the region is to be a center for collection of information, both economic development information, cultural history, environmental and geographical history. This could be means that we aren’t the site, but the link to other sites within the region. Somebody wanting to explore the John Day Fossil Beds – there is a site for that. We could be connected through one center to provide information for anyone wanting to visit, recreate, or study, or relocate to the region of eastern Oregon. Again, this would be a cataloging, archiving, and provide for scientific research, which would also blend with our new science building and the need for research in that building.

“I would like to ask the Board today to include EOU’s library and information center in your request to the Governor, knowing if the Governor included that request to the legislature we can proceed with the project in 2005-2007. Of course, timing will be dependent on our ability to find the funding match. I’m assuming that the funding match would be available in bonds and we will through the next few months with our new president, define what that funding strategy would be. But now we are only asking for the bonding match. I don’t have a total dollar amount for you today. Back in 2000, things have changed, the projected dollar amount was $15 million. You’ll see it in the documentation that OUS has provided for you. So in that we would look for a $7.5 million match. Those could change as we look at and re-evaluate through
Chair Blair asked for clarification as to whether EOU had the matching funds in hand, and Vice President Morgan stated EOU did not, but was working on a plan.

- **Oregon Institute of Technology**

President Martha Anne Dow stated, “It will be a team approach. I'll do my best. I'll be on the fast track and Bob will be the slow drawl that will get it together. Thank you for the opportunity to present our capital budget request to you today. I would like to point out to you that we are developing this capital request around what we feel are OIT strategic planning goals as well the Governor’s and the State Board of Higher Ed. We feel that we have documented the expanding access to quality education in our presentation, productivity, the partnerships for more, better, faster, and also overall, an investment opportunity in academic excellence and economic development.

“I would like to show you where some of the OIT current facilities and locations reside. The first slide is from our main campus. This is the College Union, very recently renovated and we had a renovation, ribbon-cutting ceremony two weeks ago. This is a wonderful facility. The middle slide is showing the Metro Center in Clackamas and recently, took a couple of years to finish the transaction, but we have sold the footprint inside that building to Clackamas Community College so they co-habitate with us. The resources from that we put into the Capital center renovation so we also enhanced our laboratory space and our classroom space in the Beaverton location.

“We want to show you our top priority around our strategic goals of expanding access and also providing economic development and that is our Center for Health Professions, which is a partnership with community colleges and other higher ed institutions. A partnership with the health industry, hospitals, equipment suppliers, manufacturers, and currently developing some digital and, of course, a partnership with the state. Inside OIT’s current programs, which are our health professions, we have all the bachelors degrees that you see on the screen in medical imaging modalities, in brand new respiratory care therapy, which we will be offering at Rogue Community College in Medford this fall, and existing partnerships in clinical lab science and emergency medical technology with Oregon Health and Science University. We call this for the Center for Health Professions. This particular group of programs offered in various buildings at our current Klamath site and we also have it offered in Portland, the clinical lab science, the EMT, and this fall at Rogue, the respiratory care program.

“This is a rendering of our vision of the Center for Health Professions new building on the Klamath Falls campus. It is a master plan priority. It would be an 80,000 sq. ft. building. It would have the sustainable design, meeting LEED certification. We would request G bonds planning funds in the amount of $1.5 million and construction dollars really in terms of $10 million with a $10 million match, of course, which would be required. But we see the facility as being a $10 million basic infrastructure with another
$10 million in state-of-the-art equipment and also digital and distance learning capability. The estimated annual operating cost of this would be about $254,000 and the goal, of course, is to double the enrollment in the allied health professions by 2010. We think this meets some of the goals in the health care workforce initiatives and currently I’m working with the AEED Committee on supply of medical personnel, which would bring in the operations with other community colleges that have allied health as well as the nursing needs and the information technology needs. OIT’s current enrollment in the allied health professions is about 725 student. Very oversubscribed right now with our capacity and recently we renovated Semen Hall with some private dollars to increase the amount of students we can take in for access. We are already at capacity in doing that. So it’s both a capacity, an access, and an economic development issue.”

Chair Blair asked President Dow if OIT was currently at capacity at 725, and she replied yes. She explained, “Yes, what we have is a regular classroom facility called Semen Hall, Don, and it has dental hygiene and medical imaging, which includes nuclear med and radiologic science, sonography, and so on. And in what I would call very dated classrooms and labs.” Director Dyess noted she had toured the facilities and they were very dated.

President Dow continued, “We have expanded…dental hygiene. It’s looking really good but we need to build beyond that. We are a campus that built most of our existing classroom buildings at one time in the 1960s when we moved from another location and much of that has reach not only capacity but the physical structure leaves much to be desired. I will turn this over to Bob and he may have to talk faster because I’ve talked slower.”

Bob Nettles, Vice President for Finance and Administration, stated, “Director Blair, you’re question about capacity. Campus-wide, based on industry standards and an architectural assessment, we’re 40,000 sq. ft. behind now based on the number of students that we have. This facility is really the cornerstone of our facility master plan. We need to build this so that we can finish our master plan and renovate the other buildings that Director Dyess has mentioned.” Chair Blair asked the capacity of the 80,000 square foot facility, and Vice President Nettles replied, “About 1,400. The industry standard on that is 120-140 sq. ft. per student. Very quickly, this is a chart based on our current operating expenditures, what we would project it would cost to operate this facility at $3.17 a sq. ft., about $250,000 a year. You’ll note as you hear other institutions present that is an extremely low figure due in part to the fact that we are able to utilize geothermal heat and we don’t have a huge heating bill.”

Vice President Nettles continued, “Our second priority for the 2005-2007 biennium is our library addition and renovation. This one rose very quickly to the top of our master plan list when our accrediting body told we needed to provide more study space and reserve material space to maintain our library accreditation.” President Dow interjected, “This slide I put up because I think it’s important for all of us to understand where the collaborations are with some of our partners. This involves not only some of our medical partners but also with Clackamas Community College at the Metro Center in Portland.
We share duel enrollment opportunities among other programs as well. Some of our new, interesting developments in collaboration are also at the Clackamas Community College, Wilsonville facility, where we will have activities of a renewable energy center and we will be offering academic programs jointly on that site and that will emphasize the energy-related curriculum, which I think is unique and needed. Rogue Community College has asked us to participate at their Table Rock campus, particularly beginning with manufacturing but expanding into other technology programs. They have Article XI(F) bonds that I believe they have already acquired. They are asking us to participate with about a $500,000 contribution. So far, we have not raised that money but we are wanting very much to do that so that we can, in the southern Oregon region, I know along with Southern Oregon University, who also has a relationship with Rogue, to build out laterally across the southern part of Oregon these opportunities with our southern region community colleges. So, I put that up there just to show you that’s not our capital request but it’s an avenue of where we want to co-habitate."

Vice President Nettles proceeded, “A quick summary. We have two projects for 2005-2007, total of $23.5 million request and that is our Center for Health Professions and the library addition and renovation. In closing, I would like you to know that we are thinking and working outside the G bond world on a couple of projects for our students. One is a new residence facility. Our goal for the facility is that it be a net zero energy consuming facility and that it achieve top LEED certification. I'll step out and say we are shooting for platinum and we just had our architect selection process and three out of the four said that platinum was doable. So we’re really excited about that and we think for an institution of technology and especially one that houses the Oregon Renewable Energy Center, that this will be a great addition and complement to our campus.

“The second project is our physical education renovation. Students currently have a fitness facility that they would like to renovate and to expand. We did this facility in 1992, I believe, and the student population has just outgrown it. I think they’re willing to look at their student building fee to do this. Thank you."

Director von Schlegell inquired of OIT had a feeling from where the nursing students would come. President Dow responded, “In this center? Well, right now, John, we have a partnership with OHSU, we have the program at OIT, OHSU, and obviously with the situation in the nursing workforce, we would want to expand that. We’re looking at inside the Center for Health we would obviously place the nursing program as well. Where would they come from? They would come from the whole south central Oregon region on our side of the Cascades. In this side of the Cascades, I think Southern Oregon is taking the lead in partnering with Umpqua and with Rogue and SWOCC. We also have KCC who is redeveloping an LPN program where those students could come on over into the associate degree and I think we would also pick up some students from Bend and from that whole region. I think there is plenty of nursing prospective students for both of our campuses.” Director Dyess added that during her visits to the campuses and talking the community colleges in the region, all of the programs were oversubscribed. Director von Schlegell explained that he was thinking about the justification to the legislature, and whether or not the initiative would be able to supply nurses to other
communities, such as Coos Bay and Bend. Director Dyess postulated that because the students were coming from those communities, they would probably return. Director von Schlegell wondered if the project was big enough, and President Dow commented that she would love to make it bigger. She continued, “And I think right now, John, Kirby has allowed me to chair the subcommittee for medical personnel and I have a good committee. We’ve met once but we’re already looking at capacity and what is big enough if you want to talk about because I think the field now includes, you know the technology evolution is rapidly occurring too and as we strategize about that we have to be able to say what is the future 10-20 years down the road and what kind of educational programs do we need for the health care industry. So that’s all part of it. I think in the digitization area and the medical information systems, that’s another area that so far we haven’t tapped that we need to get into this concept.”

- Oregon State University

President Ed Ray started, “Thank you, Mr. Chairman. I would like to ask Mark McCambridge to come forward. Let me just give you the quick summary of what we have done. We’ve provided information on five projects in priority order that we’ll be seeking G bond funding support for. The criteria that we used effectively starts with the student learning experience, providing better access for students, an increased quality learning environment. We’re concerned with issues of enrollment growth, increasing the impact of our research and the compliance needs that we have to respond to. As a general matter, the projects in priority order are, the new utility plant, the Pauling Research and Education building, Snell Hall replacement, COAS expedition support center, and a multipurpose animal sciences teaching facility Let me turn it over to Mark to give you some of the details.”

Vice President McCambridge continued, “Our top priority project is the new utility plant and we did have discussion with this group earlier so I won’t dwell on the details of the project other than to say that in the financing package, at least the one that exists today, we do hope for a $10 million contribution in General Fund obligation bonds, but we’re also still working on it and Director Lorenzen has agreed that sometime in the near future we will be getting together to get his thoughts on that as well. It is a critical need. It’s our priority one because the rest of our priorities can’t move forward unless we accomplish this because we are at a point where, as I left this morning, we have five boilers that have been in that building. One has been decommissioned because it does not operate and two more were taken offline last night because of plumbing between two boilers. It’s ok today because it’s a lovely 65 degrees but if it was 25 degrees, the university would be in a much more difficult situation. That is our first priority.

“Our second priority is a first phase of a two-phased plan in a development project for the university we are pursuing funds to support the Linus Pauling Institute, which moved to the university three or four years ago. The project is a $50 million initial project that would include the Linus Pauling Institute, the Environmental Health Sciences Center, and the Marine Freshwater Biomedical Sciences Center. The new building will allow an interdisciplinary approach to both research and education in these arenas. At present,
these centers are spread out in a number of different locations on campus. It would also include instructional laboratories, which is, again, our biggest limitation on campus in terms of physical infrastructure to expand our program in increasing access is laboratories for physical sciences. Again, that is our biggest hurdle. As we attempt to schedule, that is our roadblock at this time. The first phase we’re asking for a match of $25 million. We intend to raise $25 million and have begun that process already. Then in phase two, which is in the 2007-2009 plan, a matching number of square feet to really create and finalize our needs for the next 20 years in the area of laboratory science.

“Our third priority is Snell Hall. This is an existing facility that was built in the 1960s and presently holds a number of student services and student-related activities. We’d like to demolish this building and construct a 157,000 square feet. This project would be $40 million. In this space, we plan to put the university learning center. This space designed to create collaborative learning environments, something that is a strong initiative on campus. We’ve made a commitment in our strategic plan to expand our honors program and, again, they are in very limited space and we would move the honors program to this facility, as well as creating a number of classrooms.

“Those are our three truly major requests. We also have priority four, which is part of the ever growing College of Oceanic and Atmospheric Sciences and the space the demands of the institution. We’ve put that program at capacity from a storage space standpoint and their research activity is growing tremendously. What we are asking here is, it’s a small project, but it’s an important project. We believe we have $3.5 of $4 million in place to be able to move forward on this project if the state could just come up with a half a million dollars.

“Finally, a multipurpose animal sciences teaching facility. Again, this is a development project that is underway at present. Students majoring in animal science increased 263 percent from 1992 to this year and have become the ninth largest undergraduate major at OSU. Much of the coursework utilizes wet labs and animal laboratories as you would guess. The animal science curriculum is designed to provide students exposure to many animal species and for career opportunities in related areas. The demographics of the program make it imperative for the students to have a hands-on exposure to all kinds of farm animals and, at present, these locations are spread out over our 440 acres in many different locations, making it very difficult and more expensive to teach those students.

“So, those are our five priorities that require any commitment on the part of the state for General Funds.”

Chair Blair asked how much the deferred maintenance offset was for the Snell Hall project and Vice President McCambridge stated $225,000 as an incremental increase. Chair Blair clarified that he was asking whether or not the request eliminates the need to renovate Snell Hall, and Vice President McCambridge stated yes. Chair Blair inquired as to how much deferred maintenance was on the building, and Vice President McCambridge answered that he did not know how much money was in deferred
maintenance, but that the conventional wisdom was that the building needed to be removed. Director Lorenzen asked why OSU did not touch on priorities six through nine in the presentation. Vice President McCambridge replied, “Well, there are slides in the presentation that are basically requests for revenue, bond related. Again, I would hope that the Board would approve. The only highlights in there – a good number of housing and dining projects, renovations of dormitories or food service facilities, as well as our research park is recognized there. Again, we are not asking for any Article IX-G bonds funds in that $105 million.” Senior Vice Chancellor Anderes asked whether the Gilbert remodel or west greenhouse involved G bonds. Vice President McCambridge noted, “But those are being recognized only with deferred maintenance funds. We’re not putting those two projects forward as priorities of the institution for General Fund match funds. It’s part of the deferred maintenance efforts.”

- University of Oregon

President Dave Frohnmayer presented, “Thank you, Chair Blair. I’m very pleased to proceed now. I’m accompanied by Dan Williams, the vice president for administration. I’d like to first of all thank you for the opportunity to give you the overview of our University of Oregon capital fund request. I’ll provide that general overview and I hope to do so briefly but directly and then ask Dan Williams to provide a more detailed review of each these projects.

“Our request consists of nine projects, four of them will be auxiliary projects that use fee back bonds and gifts funds, five projects will require state General Obligation bond fund matching. These five projects on which we will spend some time this afternoon with your patience are the cornerstone of our capital campaign and they will, therefore, be the focus of what we present today. They’re first of all transforming K-12 education in the form of a new education building and education complex and alterations. The second one of these is the theater complex expansion and alterations, with teaching and performance facilities renovation. The third shows that we are open, quite literally as well as figuratively, for business – that’s phase three of the Lillis Business Complex construction, the final phase. The fourth are classroom and research laboratory expansions in the form of Condon Hall and the fifth is phase two of the integrative science complex. Full descriptions of these proposals are before you in your written materials. Obviously, I can only touch the highlights but they describe how each of these fully meets the criteria that the Board has already established and how each of them is to be funded.

“As I mentioned, each of these projects and all of them taken together are the cornerstone of our Campaign Oregon and that’s why they are expressed as one priority. The University of Oregon is currently in the initial phase of the largest philanthropic effort for any known cause in the history of the state, public or private. We call it Campaign Oregon Transforming Lives. A key part of this campaign obviously is to raise funds for capital and other projects but we bring you today the part that involves raising funds for capital facilities and it’s absolutely dependent upon your support and that of the state legislative assembly and the Governor. It’s a critical component of the
University of Oregon in fact meeting its own strategic goals. The campaign, if successful, will allow us to raise substantial new funds for student scholarships, double the number of faculty endowed positions, and raise significant philanthropic investment dollars to match state projects for capital construction that will truly make a difference in the lives of students and the citizens of Oregon. As evidence of the progress we’ve made to date, I simply point to the $12 million that we have raised in private support for student scholarships. A $10 million gift announced several weeks ago for the new College of Education building. That $10 million is not the cost of the building but it’s one of the reasons why it is on our capital construction list. We have considerable confidence that with your assistance, we can reach that goal.

“Some people might ask if you can raise private money so successfully, why do you need these new buildings. The answer is that the donors don’t wish to give their funds to substitute for support that should be forthcoming for a public institution from public funds, but rather they want the institution to help it meet a level if excellence that is possible only with state funding, but with the additional drive to excellence that is given by state support...Both to us and I think to some of you, they’ve said so directly because I overhead that conversation to the Governor of the state of Oregon as recently as last fall that their philanthropic desire is lessened to the degree that they believe that the state will not, in fact, be a successful partner. It’s heightened to the extent that they believe that the state intends to help them, on behalf of the public, leverage private funds to make a difference in public higher education. They want to help but they want to see what we can do. In fact, we have been doing that. Just in terms of historical perspective, over the last 15 years, the university has built over $405 million worth of construction. Of this amount, only about 15 percent, less than $57 million, was funded with state assistance or state authorized Article XI-G bonds. This is a tragic retransformation of something I know my friend and your colleague, Jon Yunker, remembers from the days of the 1970s when the state believed it’s obligation to pay in cash for 100 percent of capital construction. Nonetheless, this is not a trend that we believe is healthy or one that should continue and certainly one that at least in terms of matching funds we are trying to abate.

“We fill strongly that the presence of the donor match in every one of these proposals to some degree all ready, and by that I mean signed commitments or cash in hand, should be a strong rationale for funding these projects because it allows the state to construct these strategic facilities essentially for 50 percent of the funding cost. It makes it a highly leveraged and effective use of state investment dollars. Private philanthropy has never been more critical to public higher education especially at a time when the state has not been able to make its full share of the investments. We have sufficient and significant donor funds committed to each of these projects, which I believe differentiates them, in many respects, from other requests that come to you.

“Finally, I want to say I’ve spoken to Chair Blair. These projects are presented to you today without prioritization because they actually represent the comprehensive nature of Campaign Oregon and like the campaign itself, we hope they are seen as a whole, as
an integral part of what we are attempting to do with private philanthropy. I’d like now to
turn to Dan Williams for further explanation of the projects, one by one."

Vice President Dan Williams proceeded, “Before I begin, I would like to introduce to the
Board three people that really staffed this project and the presentation that you are
hearing today and, if we get the proper authorization, they will be the people on our
campus responsible for their implementation. Chris Ramey, who is the director of
planning and university architect; George Hecht, director of operations and manages all
of our capital construction projects; Michael Redding, our director of governmental
relations will smooth the path with the legislature so that we can achieve our common
objective. They are the people who staffed this presentation and I thank them for their
good work.

“If you withstand the temptation to ask penetrating and complicated questions, this
piece of the action will take about 17 minutes and it will be accompanied by the
appropriate slides. I’d like to begin with a word or two about energy conservation. The
University of Oregon has a four-decade experience with energy and sustainability and
has long been recognized for its innovative energy and sustainability ideas. This
experience began with our recycling programs in the 1970s and includes innovations in
curricular offerings, award winning transportation programs, and energy savings in the
millions. I’d like to take a minute now to show you several elements of our recently
opened Lillis Business Complex, which is extraordinary for its energy and sustainable
design strategies. You may recall you had your May meeting in that particular building.
In addition to being constructed with many sustainable materials, this building uses
photovoltaics to provide about 6 percent of the electricity and has a nighttime cool air
flushing. Its design and construction illustrate how these practices have become part of
the university’s way of life. They’re not something we have just begun to consider. I
might add that we recaptured over $200,000 by selling tax credits on a part of this
building to the private sector. We believe this building is the first Oregon University
System building to be LEED-certified under the US green building council program. In
recognition of the institutionalized nature of these practices in energy sustainability, we
will not take time to discuss the energy saving implications of each project or how we
design, build, or operate them in sustainable ways because these practices have
become part of our every day way of doing things and will be strongly represented in
each of the projects I describe to you today.

“I’d like to talk first about Condon Hall, its expansion, and its alterations. This three-
story, 15,000 square foot addition and 5,000 square foot remodel of Condon Hall is
expected to add laboratory and office space for archeology, physical anthropology, and
geography. Additionally, in response to a critical lack of space in the building, the map
library was moved to the Knight Library several years ago. This expansion will allow its
return to the building where its use will be greatly enhanced by its proximity to the
primary users. The departments directly affected by this project, Anthropology and
Geography, are known for their excellence in faculty/student collaborative research
projects. By simply adding more space, greater student access to this research will be
achieved. Additionally, moving the map library to the building will allow for more efficient
and effective teaching of the course in this facility. The Atlas of Oregon continues to win national and international awards and is illustrative of the quality of programs housed in Condon Hall. I believe each of you have at your seats the latest incarnation of this work, a CD edition of the Atlas. More students are able to access better teaching in the new facilities planned for this building. Condon Hall was constructed in 1925, expanded in 1966, and currently has in excess of $5.5 million of identified deferred maintenance items. The project will attempt to address half a million dollars of those items. The project is estimated to cost $6.9 million, half of that amount will come from state issued Article XI-G bonds and half from other funds. We have either in hand or pledged $1 million of the $3.5 million we will need to make the match.

“I would like to turn to our Education building, which will be an expansion and alternations in that complex. This project that you see a diagram of will include a new 100,000 square foot building and renovations to about 18,000 square feet of the existing facility. The additional space will allow the college to consolidate programs and departments that are currently fragmented due to insufficient space within existing buildings or placement in off campus locations. The new facilities will include labs, studios, a resource center, several large...flexible classrooms, new facilities for clinical research and opportunities for expanded technology in offices. The building will support increased faculty effectiveness by reducing the current 21 separate sites that the research is performed to date. This consolidation will also reduce the associated duplication of staffing and equipment now needed to run the various off campus facilities. The college of education provides ongoing professional development for many of the teachers in K-12 teachers across the state. The new facility will allow the college to expand its current efforts to enhance the capabilities and capacity of the state’s public education system. Through its institutes and centers, the college of education works with the most challenged agencies to improve their capacity and performance results. Although through these centers and institutes, it provides direct services to the citizens of the Oregon in the areas of rehabilitation, hearing and speech, and counseling. The new facilities will enable the college to continue and expand on these services throughout the state. And that’s not all. In a recent ranking of education research, faculty members at the university’s college of education were ranked number one in the nation for their productivity. This building will significantly contribute to sustaining competitiveness and the success of this national ranked college in retaining its number one ranking. Some of the college’s programs have been temporarily housed in trailers since the 1970s, which brings a whole new definition to the word temporary. The entire college complex has deferred maintenance totals $6 million and this project will reduce that amount by about a half million dollars. The project is projected to cost a little over $46 million, half of which is expected in the form of proceeds from the sale of Article XI-G bonds. The other half will be raised from private donations and grants. Approximately $10 million of this money is already in hand. It’s important to note here that the extraordinary results that the college has been able to achieve over the last few years will only be sustainable if its facilities will be expanded and upgraded.

“I’d like to turn now to Gilbert Hall, which is again an expansion and alteration project. This is our third phase of this particular building. This winter, the university opened its
new $39 million Lillis Hall, a major component of the Lillis Business Complex. All but $4 million, as the president said, was privately funded. The final and essential part of this project is the renovation of the complex’s two oldest elements, originally built in 1916 and 1921, into facilities that will support contemporary education and business. The renovations will include seismic upgrades, classrooms, resource rooms, faculty and administrative offices, a graduate student center, and a computer lab. With enrollment at a new high, classroom resources are strained. Creating modern technology equipped general university classrooms in Gilbert and Peterson Halls will help ease the shortage of the 25-40 seat rooms that are in most demand. The Lillis Business Complex is built around learning centers designed to increase interaction with faculty with other students. The project will allow two additional centers to be added to the four new centers established when Lillis Hall this fall. With the current shortage of university classrooms, classes are sometimes relegated to inconvenient locations and set at difficult times, negatively affecting a student’s degree of completion effectiveness. Adequate modern classrooms and learning centers will provide the means for the timely completion of quality education. A key element in this project is strengthening of the two historic wings to make them earthquake resistant. We have deferred maintenance totaling about $3 million and this project will reduce that by approximately $2 million. It’s expected to cost $6.6 million, half of which will be state supplied Article XI-G bonds. The required $3.3 million in matching funds, of which $2 million has already been identified.

“The Integrative Science project – we’re talking about phase two here. This new building will include 100,000 square feet of space and containing laboratories, lecture halls, meeting rooms, classrooms, and major research instrumentation facilities. Researchers studying bioscience, information science, and neuroscience will be housed within them. The academic disciplines of psychology, biology, computer science, and education will participate. The academic foundation for the project is the University’s brain, biology, and machine initiative that has recently been awarded more than $11 million of congressional funding and $10 million in private gifts, in addition to approximately $20 million from agencies such as NIH and NSF. The goal of this initiative is to address fundamental questions related to human thought and behavior and it builds on the University’s signature research strengths of bioscience, psychology, and education. The Integrative Science complex will dramatically expand available advance laboratory and instructional space. The facility will provide undergraduate and graduate students enhanced access to curricula and expanded research programs. The proposed facility will combine three of the five areas identified by OCKED as top priorities to connect research to Oregon’s future economic development. These include neuroscience and the brain, education and behavior, and information to knowledge. The project will create opportunities to apply advancing knowledge of brain organization and development to enhance K-12 curricular policies and practices. New evidence on brain function is already helping to improve methods to enhance children’s reading skills and reduce reading disabilities. The project is expected to cost in excess of $58 million, of which $29 million we would hope to come in the form of state bonds. The remaining amount, almost $5 million, is already pledged and in hand.
“The Theater Complex expansion and renovation. This project will add about 23,000 square feet and renovate approximately 19,000 square feet in Villard Hall. The addition will consist primarily of a flexible studio theater to seat 150 and the needed supporting spaces. The project will also add or renovate spaces for teaching, acting, theatrical lighting, and costuming. Majors in the theater arts department have almost doubled in the last few years and are now close to 200. Enlarged or better facilities will allow for increased student involvement in productions and will be a strong recruiting incentive. By constructing a state-of-the-art flexible studio, called a ‘blackbox’ theater, and its accompanying support, production, and teaching spaces, the department will improve the quality of work of that students are able to do during their time in school. In 2002-03, students won first place awards in short play competition and lighting design, as well as becoming finalists in acting and performance contests. I should say the image at the top of the screen is essentially the blackbox theater we referenced to but this is one that is here in Ashland right now and was recently constructed by the Oregon Shakespearean theater. We would aspire to have something of the same quality. The new spaces will allow the department to expand its much-appreciated connection between the university and the larger community, showcasing the University’s role in the development of excellence in artistic endeavors. One example of this is the very popular Mad Duckling Theater, a series of children’s theater performances that we have on campus in the summer months. Villard Hall is one of the oldest buildings on campus and has some of the most worn out building systems. The identified deferred maintenance in this building totals about $3.2 million. This project can reduce that amount of deferred maintenance by about a half million dollars. The project is expected to cost $7.9 million, half of which will be state supplied Article XI-G bonds, with the required $3.9 million of matching funds. We have in hand already in excess of $3 million. Some of you who may remember our last round of project proposals will recall that this project was approved by the 2003 legislature as a $6.3 million project funded entirely from gifts and grants. This current request increases the total amount of the project and includes the state funding match component.

“Finally, just a word about auxiliary projects before I return to the president for his summary. They include a renovation to the international area within the Erb Memorial Union, which is to be partially funded from student building fee backed Article XI-F(1) bonds and partially funded by private gifts and other funds. They also include three projects related to housing on campus, the tennis court replacement project, accessibility project to the Earl residence hall complex, and an upgrade to the food service operations. Thank you for your attention and at this point I’d like to ask the president to summarize the presentation.”

President Frohnmayer summarized, “Ladies and gentlemen, we very much appreciate the opportunity to make this presentation today of our capital projects. There is much more detail in your materials about how specifically each one of them meets the detailed criteria that the Board has set out for all capital projects to be evaluated by. I want to close by emphasizing the strategic importance of each of these projects and of these projects collectively. Simply stated, we’re committed to doubling the value of the state’s investment through bonding by private and other funds and I’m proud to tell you
today that with respect to these five projects we have in hand over $21.6 million now. I may add parenthetically that we have at least some donors, two I can think of in particular—one an individual, the other a foundation—asking where the state’s participation is because they have already made their commitment. So these clearly are matters that are very much in the minds of those whose philanthropic generosity we count. This is not an effort to replace the private support with state funds. It’s simply a way of leveraging the private support that we are able to find. So obviously we encourage this Board to approve these projects with the matching bond funding in your capital budget presented to the Governor. We very much appreciate this opportunity to conclude what I’m sure is a long day and many presentations with these and we would be very happy to try to answer our questions if you have them.”

Chair Blair asked for questions, and with none, turned to Senior Vice Chancellor Anderes to provide a brief sense of the process on the consideration of capital budget requests. Senior Vice Chancellor Anderes explained his office would try to have a set of Systemwide priorities for the Board the next meeting. He offered, “Beyond that, we’re just hoping to have a lot of discussion because we see that as the point for approval so if there are any questions or concerns, that’s the time to put it out there.” Chair Blair asked when Board members could expect to receive the documentation, and Senior Vice Chancellor Anderes counseled, “I think what we would like to do is share it with the presidents, get any input, kind of have that dialogue in the next week and half and I would say within two weeks we should be able to get that. There is awful lot of material that comes out of this. There’s also the six-year plan and I’m not sure how much people will want to look at that but we will be putting out every project that you’ve heard of here, both auxiliaries and E and G we’ll be putting out in a document that I think would be valuable and we’ll have a discussion paper on the funding strategy for the deferred maintenance proposal.”

Director von Schlegell asked if there was a total summation of all of the capital projects. Senior Vice Chancellor Anderes responded, “We do have that. We are actually, at this point, we are looking for an additional amount on E&G from where we were last time and I guess I don’t want to be too precise in terms of 2005-2007. We are looking at right now for E&G facilities, we’re looking for Article XI-G bonds, General Funds, approximately $320 million. We’re looking for a total of other revenues – gifts, grants – of $535 million. There is also within this Article XI-F(1) bonds or auxiliaries, $237 million.” Chair Blair asked if that was part of the $535 million, or in addition to it, and Senior Vice Chancellor Anderes replied in addition to. Senior Vice Chancellor Anderes summarized, “So that’s just over a billion dollars that we’ll be looking at. That’s E&G and auxiliaries and really the majority of this that we are talking about is auxiliary services, facilities.” Chair Blair inquired if it included deferred maintenance, and Senior Vice Chancellor offered that it included reserves, but did not include deferred maintenance. Anderes stated, “It includes the ongoing deferred maintenance component but not the separate proposal. That will end up being about $100 million, the majority of which will not be Article XI-G bonds or state support.” Chair Blair asked for a comparison of the last budget request, and Senior Vice Chancellor stated it was right around $300 million and was close.
Before adjourning, Chair Blair recognized outgoing Board Secretary Virginia Thompson. He shared, “I have one other thing I want to cover before we adjourn. Virginia Thompson tells me this is her last Finance Committee meeting that she is going to be running here as the Board Secretary and she actually does run the show so I just wanted to thank Virginia very much for the help that she has given the Committee. I’m sure we are going to be recognizing her again tomorrow so you’re going to have to put up with this again. Certainly, for someone who is very new to the process, this wouldn’t work very well without Virginia so we certainly appreciate your help.”

He added the incoming Board Secretary, Ryan J. Hagemann, was present. Chair Blair noted, “We are extraordinarily lucky to have Virginia’s successor waiting in the wings and I wanted to introduce him. He’s Ryan Hagemann, who’s sitting over here at the front table.

6. ADJOURNMENT

The meeting adjourned at 4:40 p.m.

Ryan J. Hagemann
Secretary to the Board

Donald W. Blair
Chair