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1. **Call to Order/Roll Call/Welcome**

President Henry Lorenzen called the long-range planning work session of the State Board of Higher Education to order at 3:12 p.m. and turned the session over to Director John von Schlegell.

The following Board members were present: Don Blair, Bridget Burns, Henry Lorenzen, Adriana Mendoza, Geri Richmond, John von Schlegell (via telephone and left at 3:30 p.m.), and Tony Van Vliet (via telephone). Directors Kirby Dyess, Tim Nesbitt, and Howard Sohn were absent due to business conflicts.

OUS staff present included: George Pernsteiner, Mike Green, Ryan Hagemann, Jay Kenton, and Susan Weeks.

Others present included: Presidents Dan Bernstine, Martha Anne Dow, Khosrow Fatemi, John Minahan, Ed Ray, and Elisabeth Zinser. UO Provost John Moseley was also present.

Meeting attendees also included OUS staff, faculty, institution representatives, the press, and interested observers.

2. **Discussion Item**

a. **Long-Range Planning Framework (von Schlegell/Weeks)**

Director von Schlegell shared that he would provide an update of planning and communications efforts before turning the floor over to Chancellor Pernsteiner, and Vice Chancellors Jay Kenton and Susan Weeks. He observed that he and staff were exploring a dual path of long-range planning and a communications or public relations plan. Director von Schlegell stated that he had met with the Governor and Dan Wieden of Wieden & Kennedy for ideas and offered the goal would be to expand the communications concept and present it to the Board. Director von Schlegell noted that a long-range plan required a communications plan, but a communications plan was not any good without a long-range plan. He noted that Weeks was in communication with a consultant to assist in the long-range planning effort.

Director von Schlegell also observed that there was effort to ensure the Governor's Office was informed of the Board's long-range planning work. He noted that the subject of the current work session would be to review funding scenarios that would set the
framework for the long-range planning effort. He stated that Weeks and Kenton would review three possible funding scenarios to spark discussion on long-range planning: a "business-as-usual" scenario, the Governor's "ten-percent" plan scenario, and a comparator plan using the state of Washington's higher education funding. Director von Schlegell shared that the motivation of examining different funding scenarios was to provide direction depending on assumptions the Board made in the long-range planning effort. He noted that there was a possible initiative floating in state government that would limit state expenditures and that, if passed, would have a tremendous impact on agency spending and the long-range planning work. Amid the examination of funding scenarios, Director von Schlegell stated that the Board would need to face three questions: to determine how much funding would need to change, to determine how much tuition or other revenue would need to increase, and to determine how much the cost of delivery needs to change.

Before Weeks and Kenton reviewed the funding scenarios, President Ray noted it might be possible to add an examination of alternative routes to funding. He cited the proposed OIT plan to fund to the Center for Health Professions as an example and Director von Schlegell agreed, observing that the routes to funding should include some creative thinking about the ways of getting things done.

Weeks reviewed the long-range planning work to date, stating that the Board had already discussed potential enrollment demands and the dimensions of enrollment's impact in the future. She observed that her goal would be to bring the discussion of funding scenarios together with the enrollment issues to identify issues that would be a part of the long-range plan. She stated that the two discussions should generate issues for more focused retreat communication. She asked Jay Kenton to review the funding scenarios and Chancellor Pernsteiner added that a definition of quality would need to be identified prior to the planning retreat. He observed that the student-faculty ratio was used as a surrogate in the funding models, but that a definition of quality would be developed for use in long-range planning in the future.

Kenton noted that the funding models were “works in progress” and thanked Ken Mayfield, OUS Office of Budget and Management, for his work on these models. Kenton shared several observations and caveats regarding the models, including extrapolations of the Portland Consumer Price Index (CPI) to 2025, extrapolations of the median family income to 2025, ratios premised on the 2004-05 Education and General (E&G) cost and revenue, and the assumption that OUS was operating at capacity. Kenton added that an allowance for facilities was not included in the model. President Lorenzen asked if the models considered the operating costs for facilities and Kenton clarified that operating costs were included, however, the hard costs of constructing facilities or paying debt on facilities were not included in the models. Kenton reviewed background work staff conducted in completing the models, including examining benchmark states for tuition rates, academic publications for average faculty salaries, and OPE costs (Other Personnel Expenses). Kenton observed that some of the benchmark states included salaries from medical centers. Director Burns asked if there was a comparison sheet
without the medical salaries included and Kenton replied that he could supply one to her.

Kenton explained that staff used the 2004-05 E&G fund revenues and expenses for the projections. He added that the model also used OUS enrollment projections, CPI adjustments, and current student-faculty ratios. Kenton stated that the model had a number of user-defined inputs that could be manipulated. He observed, on the revenue side, the model grouped revenue into three large categories: enrollment-driven revenue, state appropriation, and non-enrollment-driven revenue. Kenton reiterated the three scenarios evaluated through the model were "business-as-usual," the Governor's "ten-percent" plan, and a comparison to the state of Washington. He noted that the model smoothed out state appropriations to account for 2.29 percent growth annually. Provost Moseley asked if it was 2.29 percent of FTE (Full-Time Equivalent) or total and Kenton replied 2.29 percent in total, per year. Kenton reiterated that it was in total, per year, and did compound and Moseley observed that FTE growth had been greater than that. Pernsteiner clarified that the model would ultimately drive off of FTE, but the 2.29 percent was in reference to total dollars. Director Richmond asked, for her interest, to see the numbers per FTE.

Kenton observed that, in the models, tuition was projected to increase based on changes in enrollment and median family income. He noted that any additional monies received from the Governor's proposed "ten-percent" plan were to be directed to an innovation and education stability fund, although the model did not account for the proposed fund. With these explanations, Kenton turned to reviewing the inputs and assumptions for each of the funding scenarios.

He noted the "business-as-usual" scenario assumed a 2.29 percent increase in state General Funds, tuition increase based on enrollment and change in median family income, increases in non-enrollment-driven revenue based on CPI changes, and maintenance of current student-faculty and faculty-staff ratios. Director Blair noted that the scenario was characterized as the status quo, but that the assumed tuition limitation was not part of the status quo. Pernsteiner explained that staff chose to use the median family income as its goal for tuition growth because the Board had expressed that goal in developing policy packages for the last legislative session. Director Blair observed it was a reasonable place to start, adding that the Board should recognize it was a conservative scenario because the previous policy package assumed some funding.

Director Richmond asked for clarification regarding Kenton's comments about inflating numbers as enrollment grew and Kenton stated that the faculty FTE, and not the ratio, would be inflated. President Lorenzen observed that there was a question as to which of the variables to pin down and which to keep variable. Director Richmond and Kenton noted that the value of the model was that the Board could manipulate different variables to examine various scenarios. Director Van Vliet asked if the proposed 4 percent increase in faculty and staff salaries was "gobbled up" by incoming faculty; Kenton explained that both salaries and FTE were inflated without regard to cost implications. Kenton continued by noting that all expense items were inflated by CPI,
although there was an ability to go into the model and apply differential inflation. He used PERS (Public Employees Retirement System) as an example, sharing the model assumed 2.5 percent growth but that in the last year, it experienced 26 percent growth.

Kenton turned to the second scenario, noting that all of the assumptions were the same, except for the proposed 10 percent General Fund increase. Kenton discussed the third funding scenario, based on the state of Washington and explained that the model use Washington’s General Fund per student multiplied by the OUS student FTE for the base year. He stated that the scenario used Washington’s tuition rates, inflated by CPI, and Washington’s student-faculty ratio of 19 to 1.

With the assumptions of each of the funding scenarios explained, Kenton turned to additional factors that would impact the examination of funding. He noted 2004-05 OUS enrollment was 71,494 and a 36 percent projected increase was the assumption moving forward. Pernsteiner explained that in previous discussions, the Board heard two numbers regarding enrollment demand: one number based on projections and a higher number based on the proportion of the population that ended up with a degree as driven by economic factors. Kenton moved on to discuss the outputs of state appropriation in each of the three scenarios: observing the 2.29 percent growth in the first, the 10 percent per biennium in the second, and Washington State’s funding per average student FTE in the third. Kenton noted that, at present, Washington's funding was roughly two times the funding per FTE than Oregon.

Provost Moseley asked for clarification regarding the method of inflation and Kenton explained that even though 2.29 percent was the assumption in the first scenario, the actual numbers were known for 2005-2007 and were, therefore, used in the model. Kenton continued with tuition, sharing that the net tuition revenue was divided by the student FTE to derive an average dollar amount per student. He observed that it was based on the current mix of undergraduate, graduate, resident, and nonresident students. Kenton noted that the average tuition was multiplied by current FTE and then inflated by median family incomes in the first two scenarios and CPI in the third.

Kenton moved on to faculty salaries. He explained that the model took Oregon's all-rank faculty salary average and inflated it by 4 percent over the course of the model. President Ray added that the assumption was 4 percent this year and next year and Kenton noted that some institutions provided a 6 percent increase this year, but 4 percent was the assumption for the model. Kenton stated that for the third scenario, the model used Washington's faculty salary average and inflated it by CPI. Kenton reiterated the student-faculty ratio that was used for the model and observed that it could be changed if the Board would like to see what the model would produce. Kenton shared information about what would happen if revenues and costs were run based on the model assumptions and Pernsteiner added that the projected surpluses and deficits were based on conservative enrollment assumptions and the current state of business. Finally, Kenton noted enrollment, tuition, fee remission rates, faculty salaries, and the student-faculty ratio as key drivers of revenue, cost, and quality. He turned to the Board for discussion and questions.
President Minahan returned to the first scenario and asked if the assumed 2.29 percent growth was disconnected and if it would be better to look at the actual General Fund support for 27 student FTEs. Pernsteiner replied that the growing deficit in the current state scenario was due to the fact that the System was taking more students than the state was supporting and that looking at actual General Fund support per 27 student FTEs would mask that fact. Minahan also observed that the faculty average might hide some peaks and valleys in the faculty cycle and Moseley noted that it was probably the best way to make the model function. Kenton reiterated how the model worked by adding a faculty member for every increase of 27 student FTE. Director Van Vliet asked how growth in the use of graduate assistants was reflected in the model and Kenton noted that staff assumed the 2004-05 ratio of 114 to 1. Director Richmond inquired about the model assumptions regarding staff and Kenton replied that staff was added at the current ratio of 0.6 staff to one faculty and staff salaries were inflated 4 percent per year. President Ray commented that the model needed to account for the requirements of physical facilities. President Lorenzen added that growth and replacement needed to be considered. Kenton observed that if there were costs to replace or renovate physical facilities in the E&G base, those numbers were inflated through the model. He noted that a factor including facilities could be added to the model.

President Lorenzen noted the assumption of increased enrollment in the first two scenarios and asked what the impact would be if there was an enrollment cap at certain levels. Kenton answered that gross tuition, the faculty cost base, and the proposed physical plant allowance would not grow as much. Moseley observed that, even with an enrollment cap and the other assumptions, there would still be a deficit. Pernsteiner added that the biggest cost driver was faculty salaries and Kenton noted that one scenario could cap resident enrollment but not nonresident enrollment.

Director Schuette noted that she did not feel as if the Board was getting to questions that were important to the Board and asked what kind of action or policy decisions that Board could make that would have an impact. Director Blair added that the Board needed to narrow down the number of variables to policy issues; specifically mentioning physical facilities and embedded cost increases in items like PERS. Kenton asked about enrollment and Director Blair explained that he would nail down the environmental variables and then turn to the policy questions. He shared that the third scenario, in his estimation, was largely irrelevant because it used Washington's cost structure for faculty, but not anything else. Director Blair observed that Oregon probably spends less than Washington, as well. Pernsteiner noted that it might be helpful to know what it would take if OUS wanted to move to a 19 to 1 student-faculty ratio and Director Blair replied that it could be useful to look at that as one of Director Schuette's suggested policy questions but that he felt it unlikely that OUS would see Washington's revenue stream. Director Schuette observed that the third scenario might be something a little more than the second funding scenario.

Director Richmond asked how staff calculated non-educational revenue in the Washington model and Kenton replied that the model used Oregon's non-enrollment
driven revenue. Kenton observed that Washington’s average research per faculty FTE was sizably larger than Oregon’s.

President Ray asked if anyone had completed reasonable revenue projections to see if the guaranteed 10 percent increase per biennium for higher education proposed by the Governor was realistic and Pernsteiner shared that the Office of Economic Analysis determined that the growth per biennium was in excess of what would be required for the proposed period of time. President Ray asked if the proposal was a best estimate and Pernsteiner concurred. President Lorenzen asked if the assumed annual 2.29 percent growth in General Fund support was realistic, noting it was based on past appropriations. Director Blair stated that the discussion provided some bookends for future analysis, with one end being the set of questions of what tradeoffs would be required if OUS could not change the current trajectory and a 10 percent plan on the other end. Director Burns shared that the comparison to Washington’s commitment was depressing, noting that Washington also provided more student aid to its students.

Pernsteiner commented that the Board might consider adding student aid beyond fee remissions to the model and Director Blair noted that it should be a corollary model. Director Schuette suggested focusing attention on one model, which, in turn, would permit the Board to explore necessary policy questions. Expanding on Director Schuette’s thoughts, Director Blair asked Kenton to call out critical policy variables. Kenton shared that he would use aggregate enrollment, faculty salaries, and student-faculty ratios and Pernsteiner added tuition and aid. Director Blair clarified if Pernsteiner meant net tuition. Pernsteiner replied that the Board might have to address remission if it wanted to get to the concept of net tuition and Director Blair noted that he was only trying to simplify the term for the model. President Lorenzen observed that the Board tried to address many of the identified policy variables during the last legislative session with policy packages and was not successful. Director Blair responded that the difference might be in how the conversation was framed.

President Zinser inquired about the outcomes that would be correlated with the policy issues and Kenton replied that the staff had contemplated that as the model was developed. He observed they might include research dollars per faculty and degree versus total enrollment. Weeks added that the degree to total enrollment ratio was used in the previous month’s calculation as to what expected demand would be and was constant at about 14 to 15 percent.

President Lorenzen asked if the model was capable of examining a high tuition-high aid model and Kenton answered that staff could increase the tuition input of the model to see what would happen, making the necessary adjustments to remissions, as well. Director Blair mentioned cost productivity and asked Kenton if there was a sense as to where OUS compared to other systems on the cost side. Kenton replied that he could search for the benchmark data but that productivity was somewhat difficult to measure. Kenton commented that some of the forthcoming financial statement analysis to be presented to the Finance & Administration Committee would allow some idea of how
OUS is spending revenues on administration and core services. Director Blair stressed the importance of looking at the cost side of the equation.

Pernsteiner stated a cost productivity analysis had several dimensions. He observed some of the percentages might be higher simply because of the scale issues at some of the smaller institutions and that there were particular cost drivers in Oregon that were different than other states. Director Schuette reiterated that that would be a reason to examine the drivers and Director Blair noted that he was not suggesting OUS was inefficient; rather, it would be important to know and that it would assist in the development of the long-range plan because the Board could state that OUS was as efficient and productive as it could be. Moseley added that the previous Board Administrative Review Committee (BARC) determined that OUS was on the low end of administrative costs and that the University of Oregon had watched that ratio to ensure it did not gradually increase. Director Blair explained that there are both good and bad reasons to have low administrative costs. He observed that some granularity was necessary in examining the cost side and that the Board would need to answer cost questions authoritatively.

Director Richmond returned to salaries and asked why staff salaries were not featured as prominently as faculty salaries in the analysis. Kenton replied that while the staff salary number was significant, staff salaries were closer to market averages than faculty salaries. Director Richmond noted that it would be important to communicate that fact if it is what the data indicated. President Zinser added that it might be useful to explore how the different local economies around the state impact staff salaries. Director Richmond observed that she was not asking to change the model but that staff salaries might be a useful benchmark in addition to the others.

Director Blair asked if it would be useful to develop some scenarios around different values of the policy variables and Pernsteiner noted that that was the path that the staff was hoping to take. Pernsteiner stated that the staff could take a first attempt at adding some values and bring the results back to the Board; Director Schuette commented that she was comfortable with the staff taking a first attempt at it but that that effort was where the long-range plan intersected the model. President Lorenzen stated that the scenarios and models put everything in perspective and commented that he was worried about the diminution of quality as reflected by the student-faculty ratio. Director Blair summarized the conversation, observing that scenarios could be driven by mathematical inputs, but that was probably not where the Board would like to end up. He stated that the Board could think about what outcomes it would like to achieve and to try to reflect those in the model as best the Board could.

Neil Bryant opined that the Board was asking appropriate questions. He suggested that the Board examine the proposed initiative that would limit state spending because it would greatly impact state government if it were to get on the ballot and pass. Bryant added that the legislative leadership thought that the "business-as-usual" model was a good scenario for the Board to weigh but that there was some resistance to the Governor’s “ten-percent” plan. He continued that some legislators suggested the policy
package approach and observed that the legislature wants outcomes and performance measures. Kenton added that the legislative approach would be short-term and Director Richmond observed that the measures on quality would certainly be longer-term than one biennium. Director Van Vliet reminded the Board that increasing faculty salaries did not have much traction with the legislature.

Director Blair offered whether the scenario was the Governor's plan or the first scenario plus $50 million, from the modeling perspective, the numbers would be roughly in the same ballpark. He stated that, given that funding level, the Board needed to figure out how to balance the policy variables. Bryant commented that the comparison to the state of Washington might of value and Director Richmond added that it would be a worthwhile exercise to model a scenario if the spending limitation initiative were to pass. Bryant concurred, adding that it could serve as an education exercise for the voters. Director Schuette asked if the scenario called the Governor's plan was different in that it added the 10 percent per biennium and Kenton said yes. Director Schuette asked if it should be labeled that way or whether the Board could simply model a scenario with a 10 percent increase.

President Ray stated that another way of thinking about the model and funding scenarios would be to use the balanced-budget requirement as the driver. He offered the Board could start with the balanced budget requirements in every scenario and then ask what it would imply for the variables that were drivers. Kenton added that the original model made tuition the "balancer." President Ray stressed that it would permit a discussion of the policy variables, as well. Director Blair stressed that there might not be any "silver bullets" with the cost side of the equation but the Board must be able to answer those questions clearly. Kenton noted that PERS and deferred maintenance were glaring examples of critical cost questions. Director Blair noted the importance of being realistic about costs. President Lorenzen asked how the model treated deferred maintenance and Kenton observed that OUS was falling behind every year. Director Van Vliet stated that PERS was a legislative tradeoff to save money with regard to salaries. Director Richmond agreed with Director Blair's assessment that deferred maintenance needed to be built into the model. Moseley asked if it would productive to try to balance the budget with the 2.29 percent annual growth rate, reasonable PEBB (Public Employees Benefits Board) and PERS estimates, and a deferred maintenance number. Perneistein noted that a shorter budget increment might force the Board to lose sight of major policy questions and Moseley replied that it would actually focus attention on the major policy questions.

President Ray asked the Board if it would like to see scenarios institution by institution and Director Richmond commented that the "30,000 foot" level was the most useful at this juncture and then, perhaps, a large and small school comparison after that. Director Burns returned to the conversation about a communication plan and noted its importance in demystifying assumptions about higher education.
3. **APPROVAL OF THE MINUTES**

President Lorenzen called for a motion to approve the minutes of the September 8, 2005, long-range planning session. Director Schuette moved approval of the minutes and Director Mendoza seconded the motion. All in favor: Blair, Burns, Mendoza, Richmond, Schuette, Van Vliet, and Lorenzen. Opposed: none. Motion passed.

4. **ADJOURNMENT**

President Lorenzen adjourned the meeting at 4:55 p.m.

[Signatures]

Henry C. Lorenzen  
President of the Board

Ryan J. Hagemann  
Secretary of the Board