MINUTES OF THE MEETING OF FINANCE & ADMINISTRATION COMMITTEE OF THE STATE BOARD OF HIGHER EDUCATION
PORTLAND, OREGON
MAY 5, 2006

1. Call to Order/Roll Call/Welcome ................................................................. 1
2. Action Items .................................................................................................. 1
   b. Chancellor’s Office Fund Balance ......................................................... 6
3. Report Item ................................................................................................... 6
   a. EOU Financial Plan .............................................................................. 6
4. Discussion Items .......................................................................................... 8
   a. Certificates of Participation ................................................................. 8
   b. Staff Fee Privileges Benefit ................................................................. 9
5. Adjournment ................................................................................................ 11
1. CALL TO ORDER/ROLL CALL/WELCOME

Chair Donald W. Blair called the meeting of the Finance and Administration Committee to order at 8:10 a.m. Committee member present included: Directors Don Blair and Henry Lorenzen. John von Schlegell was absent due to business conflict.

Other Board Members present included: Directors Bridget Burns (arrived at 9:05), Kirby Dyess (arrived at 9:10), Adriana Mendoza, Tim Nesbitt (arrived at 8:31), Geri Richmond, and Tony Van Vliet.

Presidents present included: Martha Anne Dow (OIT), Khosrow Fatemi (EOU), John Minahan (WOU), Ed Ray (OSU), and Elisabeth Zinser (SOU). Other institution representatives included: Vice Presidents Lindsay Desrochers (PSU), and Frances Dyke (UO).

Chancellor’s Office staff present included: Chancellor George Pernsteiner, Ryan Hagemann, Jay Kenton, Mike Green, and Glen Nelson.

2. ACTION ITEMS


DOCKET ITEM:

The quarterly management reports as of March 31, 2006, are available at: http://www.ous.edu/state_board/meeting/files/ddoc060505.pdf.

After reviewing the Budget Projections Summary received from each university and comparing prior year results, we noted the following:

*Education and General – Limited*: Revenue collections are up 2.2 percent year-to-date above the prior year and are projected to be 4.2 percent above 2004-05 at year end. The increase in revenue is primarily due to increased tuition and state funding. Spending is up 5.7 percent year-to-date above the prior year and is projected to be 5.7 percent above 2004-05 at year-end. The increase in spending is primarily due to pay raises and increased benefit costs.
Revenue is projected to be $2.1 million, or 0.2 percent below the Adjusted Budget and spending is projected to be in line with the Adjusted Budget.

The ending fund balance of the Systemwide Education and General – Limited is projected to decrease to 10.5 percent of operating revenues compared to 13.0 percent at the end of the prior year. This decrease is primarily a result of the following: limited tuition increases; pay increases related to the SEIU contract; salary increases for faculty and administrative staff; benefit cost increases; and retirement plan increases. At 10.5 percent of operating revenues, the Systemwide projected June 30, 2006, fund balance of Education and General – Limited is within the Board directed reserve level of 5-15 percent.

While the Systemwide fund balance is projected to be fairly consistent with the Adjusted Budget (Adjusted Budget–10.8 percent and Projection–10.4 percent), fund balances at some universities are projected to change significantly. EOU’s fund balance as a percent of operating revenues is projected to be 6.7 percent, a decrease of 35 percent from the Adjusted Budget and a decrease of 50 percent from the beginning of the year. WOU’s fund balance as a percent of operating revenues is projected to be 7.3 percent, an increase of 40 percent from the Adjusted Budget and a decrease of 48 percent from the beginning of the year.

The Chancellor’s Office ending fund balance exceeds the recommended reserve level of 5-15 percent of Operating Revenue. The current year plan projects a 26 percent spend down of the Chancellor’s Office fund balance as a percent of operating revenues.

Auxiliary Enterprises: Auxiliary Enterprises is projected to have $10.2 million of expenditures over revenue compared to the Adjusted Budget of $10.1 million of expenditures over revenue. After projected net fund additions of $19.8 million, Auxiliary Enterprises’ fund balance is projected to increase to $196.0 million, a 2.8 percent increase over the Adjusted Budget.

Designated Operations, Service Departments, and Clearing Funds: The Projected ending fund balance of $24.7 million is $1.2 million above the Adjusted Budget and comparable to the Prior Year.

Staff Recommendation to the Committee:
Staff recommended that the Committee accept the Budget Projections Summary for March 31, 2006.

COMMITTEE DISCUSSION AND ACTION:

OUS Controller Mike Green commented that there had been a slight change in the state appropriations allotment plan, which for each institution shows as a realization lag of approximately 3 percent.

Eastern Oregon University – Total revenues and transfers-in were projected to be approximately $75,000, or 0.3 percent less than the adjusted budget, primarily due to
enrollment being under initial projections. Further discussions with EOU indicated that total revenues and net transfers could be approximately $430,000 higher than currently projected. Due to conservative budgeting and increases in overhead cost-recovery, student fees, and various other revenue sources, the other revenues may be higher by $340,000. Total expenditures and transfers-out are projected to be approximately $936,000, or 3.3 percent higher than the adjusted budget. Expenditures may be approximately $230,000 higher than projected, primarily due to unanticipated increased personal services costs. To ensure that expenses will be at or near the latest projections, EOU’s management will implement additional controls on review and approval of purchases. The potential impact of those items may result in an approximate $200,000 increase in the projected fund balance.

Oregon Institute of Technology – The FTE enrollment is projected to be about 4.3 percent below the prior year and about 5.4 percent below the current year projections. After several adjustments, the year-to-date realization rates are more in line with the prior year. The projected decrease in revenues is expected to be offset by reductions in spending. Positions have been frozen and authorized S&S (supplies and services) expenses have been reduced 10 to 12 percent. The ending fund balance is projected to be 10.6 percent of operating revenues compared to the adjusted budget projection of 10.3 percent and the prior year of 11 percent. The latest projections for auxiliaries have been updated to reflect lower than anticipated revenues and expenses.

Oregon State University – Total revenues and transfers in are projected to be $309 million, approximately $1.7 million, or .6 percent higher than the adjusted budget. The increase in projected revenues is due to increases in other revenue related to higher than expected indirect cost recovery and sales and services income, and a downward adjustment to tuition and fees related to lower than projected enrollment. Total expenditures and transfers-out are projected to be $320 million, or $2.1 million or 0.7 percent higher than adjusted budget. The ending fund balance is projected to be 8.6 percent of operating revenues, which is comparable to the adjusted budget at 8.7 percent.

Director Lorenzen noted a substantial increase in the other revenue and asked if it were projected to be a stable state. “That depends,” Mr. Green responded, “on OSU’s ability to continue attracting grant and contract monies. If federal research revenues begin to dry up, it will impact the industry nationwide. There is one other thing that can affect that, as well. OSU is in the middle of a new rate negotiation with the federal government on their indirect cost rate.”

In the auxiliary area, the year-to-date revenue realization rate is lower than the prior year, primarily due to the timing and the size of gifts from OSU’s Foundation for scholarships and the Reser Stadium debt service.

Portland State University – In the E&G Funds, total revenues and transfers-in are projected to be at $179 million, just 2.2 percent below the adjusted budget of $181 million. The projected net reduction of fund balance from operations of $2.2 million is consistent with the adjusted
budget amount of $2.3 million. The year-to-date burn rates for personal services and supplies and services are inconsistent with the prior year due to the recognition of payroll for certain facilities, personnel, and services and supplies expense in the current year. Ending fund balance is projected to be 10.8 percent of operating revenues compared to the adjusted budget projection of 11.3 percent and prior ending fund balance of 12.8 percent. The auxiliary area year-to-date realization rates for revenue and expenses are higher than the prior year primarily due to the timing of revenue from University Place and the Broadway Building.

Southern Oregon University – E&G total revenues and transfers-in are expected to decrease $420,000, or 1.1 percent from the adjusted budget primarily due to decreases in enrollment. Total expenditures and transfers-out are projected to decrease $564,000, or 1.4 percent, from the adjusted budget due to reduced S&S spending to offset revenue shortfall and increases in personal services related to the new faculty contract. The year-to-date burn rate for personal services is consistent with the prior year after adjustment for the projected impact of salary increases. Year-to-date burn rate for S&S is high compared to the prior year, partially due to the timing of expenditures and the affect of planned reduction targets for the fourth quarter as reflected in the $775,000 downward adjustment to projected S&S expenses in this report. The ending fund balance is projected to be 7.5 percent of operating revenues compared to the adjusted budget projection of 7 percent and the prior year ending fund balance of 9.9 percent.

Director Lorenzen asked how sustainable the level of expenditures for S&S was for the future. President Zinser responded that in a given year, these reductions are not too severe. “Over time, however, it can defer many of the things that really need to be done. So, sustainable – yes; but with real implications are about the quality and advancement of the institution.”

University of Oregon – E&G funds and projected total revenues and transfers-in have been reduced by $1.5 million or .6 percent from the adjusted budget. This is primarily due to decreased enrollment and various resource fees partially offset by an increase in other revenue related to cost recoveries and revenues from the sale of easement rights to the Lane Transit District. The ending fund balance is projected to be 11.9 percent of operating revenues compared to the adjusted budget amount of 12.5 percent and prior year ending fund balance of 11.7 percent. Year-to-date realization rate for revenue is above the prior year, primarily due to timing of recognition of revenue from Oregon Wide Area Network.

Western Oregon University – Total revenues and transfers-in for E&G funds have been reduced by $130,000 or .4 percent from the adjusted budget primarily due to decreased enrollment, partially offset by a small increase in other revenue. Total expenditures and transfers-out are projected to decrease $870,000 or 2.3 percent from the adjusted amount due to deferment of hiring to fill vacancies and reduced S&S expenditures. Personal services burn rates lagged the prior year due to retroactive salary increases that will be paid and recognized in the fourth quarter. Management has instituted spending controls and anticipates meeting projections. The ending fund balance is projected to be 7.3 percent of operating revenues compared to the adjusted budget of 5.2 percent and a prior year ending balance of 14 percent.
Chancellor’s Office – Total revenues in E&G funds are projected to increase $1.4 million from the adjusted budget due to the approval for funding for the integrated data transfer system and higher than anticipated centralized activities and indirect cost recovery from the universities. Total expenditures and transfers-out are projected to increase $1.2 million from the adjusted budget, primarily due to the previously unbudgeted expenditures for the Integrated Data Transfer System, the sustainability project, presidential compensation study, and technology support. The ending fund balance is projected to be 43.4 percent of revenues compared to the adjusted budget projection of 46.7 percent and the prior year of 58.3 percent.

Director Lorenzen asked for an explanation of the nature of the increased or unanticipated costs. Chancellor Pernsteiner explained that the IDTS Project was approved by the legislature and the appropriation was held in the Emergency Board, so it doesn’t show up in the beginning budget. That money, $2,076,000, was released in the January Emergency Board, some of which has been spent in the current year and the remainder will be spent the next year of the biennium to do work on that system.

In the ensuing discussion, Chair Blair pointed out that, as a System, regarding auxiliary enterprise funds, when the revenues aren’t realized, some of the costs are variable, and some are not. “We don’t talk about what the implications of that are, but, as a System, we have $5.2 million less of revenue in these auxiliaries, which means that we have to cut $5 million in expenses. What sort of activity has to take place to get that number down?”

Mr. Green explained that S&S expenses could be pulled back. The planning horizon for E&G funds is perhaps a little longer because the institution still has to provide services to the customers. “We will be coming back to the Board at a later date to talk about how we measure auxiliaries. One of the items that is having an impact is the depreciation that GASB 35 brought into play. The current manner in which auxiliaries are managed by the institutions are more on a budgetary cash-flow basis. Therefore, some of this has to do with the expenses that include depreciation. Part of what you are seeing is depreciation impact that hasn’t been reflected in the revenue stream,” Mr. Green explained.

Continuing, Chair Blair indicated that his concern was about the short-term and how revenue shortfalls are covered. These, according to Mr. Green, are the significant adjustments in the quarters.

It was agreed by Directors Blair and Lorenzen to approve the Quarterly Management Report.
b. Chancellor’s Office Fund Balance

DOCKET ITEM:

Background:

In November 2004, the Board authorized the Chancellor to approve commitments of the Chancellor’s Office fund balance up to $250,000 per item and up to an annual aggregate of $1 million with delegation of authority to the Finance and Administration Committee to approve items in excess of these amounts.

The descriptive table\(^1\) contains a report on the uses of fund balance for 2005-06 that has been updated to reflect the latest financial projections that appear in the Management Report for the third quarter.

Staff Recommendation to the Committee:
Staff recommended that the Committee accept the report on the status of the Chancellor’s Office fund balance.

COMMITTEE DISCUSSION AND ACTION:

Vice Chancellor Kenton reminded the Committee that there is a policy requirement to report to the Finance and Administration Committee expenditures for the Chancellor’s Office fund balance. Additionally, the Board must approve any individual items of $250,000 or more or an aggregate of items of $1 million. A few of the items highlighted included the ATLAS project that was approved in January for $728,000. It is anticipated that $360,000 will need to be spent on the CAPITAL Center to basically backfill the un-rented space in the Center. Additional expenses included: payment to Hyperion Financial Management for upgrades to the software, including the software license; working group activities; PEBB analysis; projection of $50,000 to the Marsh Consulting group working on risk management analysis; and employee transition costs in the base Chancellor’s Office budget for some positions that were eliminated and for which employees were paid for part of a year.

By consensus, the report on the Chancellor’s Office Fund Balance was accepted.

3. Report Item

a. EOU Financial Plan

President Fatemi began his report by addressing some of the major issues that Eastern is facing:

- Salaries – at EOU, as with all OUS institutions, salaries are significantly below market. A contract was negotiated with the faculty union for 2005-06 and that agreement resulted

\(^1\) Available at: (available at [http://www.ous.edu/state_board/meeting/files/ddoc060505.pdf](http://www.ous.edu/state_board/meeting/files/ddoc060505.pdf))
in a significant increase in salaries. Re-negotiation of that contract is underway and it is hoped an agreement can be reached in the next few weeks.

- Access and the low number of high school graduates who attend college – an extensive high school outreach program has been added in an attempt to reach more local students and, therefore, increase the number of freshmen.
- Retention – approximately 36 percent of the students who enter do not continue to the sophomore year. Several initiatives have been instituted to address this issue including the “first year experience” to counsel students.
- Affordability – a very high percentage of students are eligible for Pell Grants which means that they need financial aid.
- Academic excellence – President Fatemi indicated that what occurs outside the classroom is equally as important as what occurs inside. EOU has limited opportunities for students. Internationalization or globalization of the campus is limited as is the diversity of the campus. To address this, EOU has established partnerships with community colleges and there are 17 different centers and sites outside La Grande to address the needs of students.
- Funding – there isn’t enough diversity in the funding streams for EOU. Virtually all of the revenue comes either from tuition or from state contributions and only six percent of the current operating budget comes from other sources. An Office of Grants and Contracts has been created to enable EOU to seek more grants.

The budget projections for 2005-2006 were presented. A permanent 3 percent cut has been instituted this year and it is anticipated that the 2006-07 budget will have an additional 2 percent permanent cut totaling $595,000 per year. A temporary hiring freeze has been instituted and purchases have been slowed down.

The assumptions of the budget on the income side are:
- The legislatively mandated tuition increase of 3 percent for undergraduates and a slightly higher number for graduate and off-campus students.
- A 2.5 percent increase in enrollment. This year’s enrollment was 2.8 percent, so a slower rate of growth is predicted for next year.
- A $200,000 increase in indirect recovery.

The assumptions on the expenditure side are:
- A $700,000 increase in OPE as well as pay raises.
- A 2 percent increase in S&S, $100,000 in utilities, $595,000 in permanent cuts and $900,000 in temporary cuts, of which more than 50 percent has already been identified.

The net result for the next year is that the fund balance will increase by about $30,000, even though the percentage goes down because of a higher revenue amount.
Assistant Vice Chancellor Nelson offered that, from the Chancellor’s Office perspective, the assumptions of revenues and expenditures are attainable and President Fatemi’s presentation accurately reflected shared understandings and agreements.

In closing the discussion, Chair Blair pointed out that one of the obligations of the Board is to assure that the resources provided by the state are well managed. “It is entirely appropriate that we’re looking at this very carefully. I want to make sure that President Fatemi stays closely connected with the staff.” He requested that the president meet or talk with Chancellor’s Office staff on a monthly basis to assure EOU is staying on track to achieve the goals. Additionally, Chair Blair asked EOU to be ready, on a quarterly basis, to talk with the Finance and Administration Committee.

4. **DISCUSSION ITEMS**

   a. **Certificates of Participation**

   **DOCKET ITEM:**

   Certificates of Participation (COPs) are tax-exempt government securities used to raise funds to improve and construct buildings or purchase equipment. COPs are used to finance capital costs related to construction or acquisition and may not be used to finance ongoing operating costs. Under Oregon law, the authority to use COPs financing agreements is established in a single agency, the Department of Administrative Services (DAS). For the Oregon University System, COPs are typically issued to finance technology projects.

   Unlike general obligation bonds, which are secured by the full faith and credit of the government issuing them, the certificates are not secured by the issuer but by the buildings constructed or equipment purchased.

   Approximately $19.8 million in COPs authority was granted to OUS in 2001-2003, $5 million in 2003-2005, and $20 million in 2005-2007 to finance various projects, most notably instructional technology equipment, classroom upgrades, and technology upgrades for instruction, research, and administration combined.

   The biennial budget process requires agencies to submit an estimate of COPs projects on May 15, 2006. After DAS review, the agencies may be asked to reduce their request. For 2007-2009, the campuses have submitted the following requests for COPs borrowing authority.

   **COMMITTEE DISCUSSION:**

   Associate Vice Chancellor Glen Nelson advised that it has been OUS’ practice to limit the use of COP for just financing equipment, technology needs, and renovation purposes. The COP requests, totaling $18.2 million for the next biennium, are consistent with past practice.
b. Staff Fee Privileges Benefit

DOCKET ITEM:

The purpose of this report is to provide review and update of the Staff Fees Privileges Benefit. The administrative rules authorizing Staff Fee Privileges and Transfer of Staff Fee Privileges require review and amendment to reflect updates related to tax laws, clarification of eligibility, and cessation of Oregon Health & Science University participation in Staff Fee Privileges. These changes are housekeeping in nature and do not change current practices or operations.

Recommended amendments to OAR 580-022-0030 and OAR 580-022-0031 update provisions of the staff fee rules. Updates to OAR 580-022-0030 include specifying that staff fee privileges apply only to employees of the Oregon University System; changing the term “Centralized Activities” to “Chancellor’s Office;” removing elapsed effective and review dates; and correcting a typographical error.

OAR 580-022-0031 is amended to remove reference to an affidavit used by the Public Employees’ Benefit Board; clarifies that the benefit may not be parceled out to multiple family members during a single academic term; clarifies that the benefit may be transferred to dependents of domestic partners; eliminates reference to employees of the Oregon Health & Science University, which has not participated in OUS staff fee privileges since 2001; and removes elapsed effective and review dates.

580-022-0030
Staff Fee Privileges
Employees of the Department of Higher Education may register for class work at special rates, subject to the following conditions:

(1) Graduate teaching and research assistants may register for credit hours during any term of their appointment and during an intervening summer term under the terms and conditions approved by the Board and described in the Academic Year Fee Book. Graduate assistants are students admitted to a graduate degree program and appointed to an assistantship while working toward a graduate degree. Appointment as an assistant may not be for less than .15 FTE for the term of appointment. Institutions may establish minimum and maximum numbers of credit hours for which graduate assistants may register, provided that the president's approval is required prior to registering for credit hours in excess of 16 in any one term.

(2) On approval of the president or designee, employees of the Oregon University System, appointed at half-time or more (not including temporary classified employees, graduate assistants, and other student employees), may register for a maximum of twelve (12) hours of credit per term at the staff fee rate under the terms and conditions approved by the Board and described in the Academic Year Fee Book. Chancellor’s Office Employees in Centralized Activities must have approval of the Chancellor or designee before registering for credit at the staff fee rate. This policy is effective fall term 2002. The Board of Higher Education will review subsequent to fall 2004.
(3) Auditor privileges are accorded to employees under the terms and conditions approved by the Board and described in the Academic Year Fee Book.
(4) For purposes of this rule, the term "employee" may include persons will with full-time courtesy appointments who provide a benefit to the institution in the form of teaching, research, or counseling, under the direction of the institution and using the facilities of the institution.

Stat. Auth.: ORS 351.070
Stats. Implemented: ORS 351.070
Hist.: HEB 3-1978, f. & ef. 6-5-78; HEB 8-1979, f. & ef. 8-22-79; HEB 1-1981, f. & ef. 6-4-81; HEB 4-1982, f. & ef. 7-14-82; HEB 10-1986, f. & ef. 7-16-86; HEB 1-1993, f. & cert. ef. 2-5-93; OSSHE 4-2002(Temp), f. & cert.ef. 5-28-02 thru 11-15-02; OSSHE 6-2002, f. & cert. ef. 7-30-02

580-022-0031
Transfer of Staff Fee Privileges
Employees of the Department of Higher Education eligible for staff fee privileges (as defined in 580-022-0030) may transfer such privileges to family members or domestic partners consistent with the following terms and conditions:

(1) Persons eligible to receive a transfer of staff fee privileges must be either:
(a) A family member, to include spouse or dependent children, in accordance with the applicable Internal Revenue Service (IRS) code; or
(b) A "domestic partner," as defined per in Section One of the Public Employees Benefit Board Affidavit of Domestic Partnership— or dependent child of a domestic partner.

(2) Staff fee benefits:
(a) Are usable only once per academic term by either the employee or transferee;
(b) May not be subdivided among family members during a term;
(c) Are limited to one transfer per term; and
(d) Are limited to twelve (12) academic credits per term.

(3) Employee qualification is verified through Human Resource System Records at each institution; recipient status (spousal, dependent, or domestic partner) must be established no later than the first day of classes of the term of enrollment.

(4) Recipients of transferred staff fee privileges may utilize credit at any Oregon Department of Higher Education institution, subject to policies of instructing institution. Institutions reserve the right to exclude programs from eligibility for the privilege.

(5) Mandatory enrollment fees including, but not limited to, Resource, Health Service, Building, and Incidental, will apply.

(6) Transfer of staff fee benefits is not available for retirees of the Oregon Department of Higher Education, or employees of Oregon Health Science University participating in the OUS/OHSU intergovernmental agreement.

(7) This policy is effective fall term 2002. The Board of Higher Education will review subsequent to fall 2004.

(8) For further reference to applicable policies and procedures, see "2002-2003" edition of the Academic Year Fee Book (and subsequent editions).

Stat. Auth.: ORS 351.070
Stats. Implemented: ORS 351
Hist.: OSSHE 2-2000, f. & cert. ef. 6-23-00; OSSHE 5-2002(Temp), f. & cert.ef. 5-28-02 thru 11-15-02; OSSHE 7-2002, f. & cert. ef. 7-30-02

COMMITTEE DISCUSSION:
Associate Vice Chancellor Nelson pointed out some housekeeping changes that were proposed regarding the staff fee privileges benefit. There are two major changes reflected in the language presented. The changes are made to reflect current practice. The first deals with rewriting the definition of dependent to clarify the current practice of extending the benefit to the dependent of a domestic partner. The second is the elimination of language that extended the benefit to OHSU faculty and staff. This item will be presented to the full Board for approval.

5. **ADJOURNMENT**

With no further business proposed, Chair Blair adjourned the meeting at 9:21 a.m.