## MINUTES OF THE REGULAR MEETING OF THE
STATE BOARD OF HIGHER EDUCATION (#769)
EASTERN OREGON UNIVERSITY, LA GRANDE, OREGON
JUNE 2, 2006

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

### 2. Consent Items
- a. UO, Graduate Certificate in Communication Ethics
- b. UO, Erb Memorial Union, International Area Renovations
- c. UO, Hayward Field Improvements
- d. UO, School of Music Additions and Alterations
- e. Fiscal Year 2005-06 Operating Budget Revision
- f. OUS, Sale of CAPITAL Center

### 3. Action Items
- a. Amendment of OAR 580-040-0040, 2006-07 Academic Year Fee Book
- b. Amendments to Staff Fee Privileges Benefit and the Transfer of Staff Fee Privileges Benefit (OAR 580-022-0030 and 0031)
- c. OUS, Criminal Background Check Policy: Proposed Temporary Administrative Rules
- d. Approval of 2006-07 Annual Operating Budget
- e. Presidential Compensation

### 4. Discussion Items
- a. OUS Working Group Budget Policy Package Consideration
- b. 2007-2009 Biennial Capital Budget Request
- c. 20-Year Financial Projections

### 5. Reports
- a. Chancellor’s Report
- b. Presidents’ Reports
- c. Provosts’ Council
- d. Research Council
- e. Interinstitutional Faculty Senate (IFS)
f. Oregon Student Association (OSA) ............................................................................. 41
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MINUTES OF THE REGULAR MEETING OF THE
STATE BOARD OF HIGHER EDUCATION (#769)
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JUNE 2, 2006

MINUTES

1. CALL TO ORDER/ROLL CALL/WELCOME

President Henry Lorenzen called the meeting of the State Board of Higher Education to order at
10:02 a.m. Board members present included: Directors Don Blair, Kirby Dyess, Gerry Blakney,
Henry Lorenzen, Adriana Mendoza, Geri Richmond, John von Schlegell, Gretchen Schuette,
Howard Sohn, and Tony Van Vliet. Directors Bridget Burns and Tim Nesbitt attended the
meeting via telephone.

Chancellor’s Office staff present included: Chancellor George Pernsteiner, Michael Green, Ryan
Hagemann, Jay Kenton, Glen Nelson, Benjamin Rawlins, and Bob Simonton.

Others present included: Presidents Dan Bernstine (PSU), Martha Anne Dow (OIT), Khosrow
Fatemi (EOU), Dave Frohnmayer (UO), Ed Ray (OSU), and Elisabeth Zinser (SOU). WOU Provost
Jem Spectar, OHSU Vice President Marilyn Lanier, IFS President Scott Burns, and OSA Chair Erin
Devaney were also present.

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

President Lorenzen thanked President Fatemi and his staff and students for hosting the Board
meeting. In particular, he indicated that a highlight was the dinner the previous evening that
included outstanding performances from talented students. “I’m always amazed to see the
enthusiasm, the talent, the devotion of students at our universities and last night was certainly
a prime example of that.”

This meeting was the last for Director Geri Richmond, who has served as the faculty
representative to the Board for the past seven years. “Geri is our institutional memory on this
Board and it has been a great pleasure serving with her. She will be greatly missed,” President
Lorenzen remarked.
2. CONSENT ITEMS

   a. UO, Graduate Certificate in Communication Ethics

      DOCKET ITEM:

      The University of Oregon School of Journalism and Communication proposed to offer a
      graduate certificate in Communication Ethics. This certificate requires 28 credits, of which at
      least 8 credits must be taken in approved graduate courses offered in other departments. The
      objective of the program is to enhance the philosophical underpinnings of already enrolled
      graduate students in the School of Journalism and Communications interested in
      communication ethics.

      Students completing the certificate program will achieve the following learning outcome: exit
      this program with an ability to apply and teach both theoretical and applied ethical decision-
      making strategies covering a variety of media from print to broadcast journalism to advertising
      and public relations, including both message construction and multiple delivery systems
      associated with modern mass media.

      There is presently no other formal degree or certificate in communication ethics at the
      graduate level in the country. Enrollment is expected initially to be two to four students per
      year.

      All appropriate University committees and the OUS Provosts’ Council have positively reviewed
      the proposed program.

      Recommendation to the Board:
      The OUS Provosts’ Council recommended that the Board authorize the University of Oregon to
      establish an instructional program leading to a Graduate Certificate in Communication Ethics,
      effective fall 2006.

   b. UO, Erb Memorial Union, International Area Renovations

      DOCKET ITEM:

      Summary:
      The University of Oregon sought Board approval to authorize the Chancellor, or designee, to
      seek State Legislative Emergency Board approval of $305,000 in additional Article XI-F(1) bond
      limitation for renovations to the International Area of the Erb Memorial Student Union. The
      project was approved by the Legislature in 2005 (SB 5514) as a $1.134 million project, $500,000
      in Article XI-F(1) bonds and $634,000 in Other Funds. If this request is approved, the revised
      total project cost will be $1.439 million. These additional Article XI-F(1) bonds will be used to
      close the shortfall in gift funding raised to date, thereby allowing the project to proceed on
      schedule. The added bonds will be retired by the Student Building Fee. There is no General
Fund impact associated with this request.

**Staff Report to the Board**

**Background:**
The University of Oregon enjoys a continuously expanding reputation in the United States and abroad. Nearly 1,300 international students from 86 countries are enrolled, and over 15 percent of university students study abroad during their tenure. This pursuit of internationalization is illustrated further by the University’s hosting of nearly 200 international faculty and scholars, as well as impressive participation by students in the Peace Corps and Fulbright programs. This new International Center will provide an opportunity to share the University’s international accomplishments and to acknowledge the importance of the global community to the institution.

This area, originally designed for use as a library browsing room that included music listening and rehearsal rooms, was designated for international student group offices and an International Lounge in the mid-1970s. In 2000, the International Resource Center (a student fee funded center) was added to the Lounge. The Erb Memorial Student Union Master Plan, dated April 24, 2003, continues to identify this as an international area and places it in Phase I of that plan. This international space has not had major renovations or improvements since its construction in 1950, with the exception of an elevator added in 1997 to make this and other areas in the Erb Memorial Student Union more accessible.

This project will create an integrated International Center for the UO, with modern, functional space for the University’s numerous international student groups, an upgraded International Lounge, and an appealing and welcoming entrance. Known as “a meeting place for the world,” the new center will enhance international cultural activities and provide better usable space in the Erb Memorial Union for all campus and community groups.

**Changes in previously approved authorizations:**
The original project, authorized by the 2005 legislature, assumed an Other Funds component of $634,000. This amount was to come primarily from gifts. While tremendous results have been achieved, with more than half of this amount in hand or pledged, the total fundraising goal has not yet been realized. This year, the UO’s Student Building Fee Advisory Committee recommended that the student building fee allocation be supplemented to make up for the amount left to be raised from gifts. This action allows design and construction to begin at once, thereby alleviating additional inflation related costs the project will incur if its construction is delayed until the 2007 legislative session. Additionally, fundraising will continue as a hedge against unexpected inflation-related cost increases.

**The budget for the project is as follows:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction*</td>
<td>$810,000</td>
</tr>
<tr>
<td>Soft costs**</td>
<td>$324,000</td>
</tr>
<tr>
<td>Total***</td>
<td>$1,134,000</td>
</tr>
</tbody>
</table>
* Construction includes only renovation costs.

** Soft costs include: construction contingency, design fees, management and inspection, works of art, hazardous materials abatement, furnishings, equipment, permit, program and bond sales fees, facilities services support, communication wiring, and miscellaneous costs.

*** The total limitation requested is $1,439,000, which is greater than the currently estimated costs and will allow for the continuation of fundraising and the accommodation of unexpected additional costs as the project proceeds.

Remaining Issues to be addressed:
With the exception of the completion of design and the issuance of the final building permits, the project is ready to proceed.

Staff Recommendation to the Board:
Staff recommended that the Board approve the request to increase the Erb Memorial Union, International Area renovation Article XI-F(1) bond limitation and that the Chancellor, or designee, be authorized to seek state Emergency Board approval for an additional Article XI-F(1) bonds limitation of $305,000 for a total project cost of $1.439 million. Staff requested the Board Finance Committee approve the staff recommendation and recommend it to the full Board for their approval as a consent item.

c. UO, Hayward Field Improvements

DOCKET ITEM:

Summary:
The University of Oregon sought Board approval to authorize the Chancellor, or designee, to seek state Legislative Emergency Board approval of an Other Funds limitation for $7,390,000 for the Hayward Field Improvements Project. This project will be entirely funded from gifts. The project will enable the University to host the 2008 U.S. Olympic Track and Field Team trials and is intended to be completed in phases no later than March 2008. In order to meet the construction schedule, Legislative Emergency Board approval is required. There is no General Fund impact associated with this request.

Staff Report to the Board

Background:
The meet, to be held between June 27th and July 6th of 2008, will bring national attention and prestige to the University, the state, and the region. Approximately 1,000 athletes, 1,000 media, and 300 officials will participate. The daily attendance is expected to range between 14,000 and 16,000, with the economic impact estimated to be in the range of $18 million to the local economy.
This project will provide improved facilities and infrastructure needed to host the meet – its competitors, coaches and officials, the media covering the meet, and the spectators. At this point in the planning for the project, it includes improvements to the lighting of Hayward Field and its associated facilities; installation of a new video replay board; construction of infrastructure (including, at a minimum, power and data lines) for a second, temporary video board; renovation of the infield and the hammer throw area; installation of a new sound system; resurfacing of the track; renovations of the operations booth (with possible expansion); renovations to the media area; construction of infrastructure (including, at a minimum, power and conduit for data lines) for a TV production compound; general cosmetic improvements (e.g., painting, fencing, signage, etc.); and improvements, repairs, or renovations to other areas (e.g., pedestrian circulation, staging areas, ticketing areas, etc.).

There are two weather windows for construction of the facilities—the summer of 2006 and the summer of 2007. Both are needed to accomplish the amount and kind of work to be done. Waiting for the 2007 legislative session will preclude using the summer of 2006 and a good part of the summer of 2007.

Several donors have indicated interest in funding these improvements.

Remaining Issues to be addressed:
With the exception of obtaining the final building permits, all issues have been resolved for this project.

Staff Recommendation to the Board:
Staff recommended that the Board approve the request to establish an Other Funds limitation for this project and that the Chancellor, or designee, be authorized to seek an authorization from the state Emergency Board for $7,390,000 of Other Funds limitation. Staff requested the Board Finance and Administration Committee approve the staff recommendation and recommend it to the full Board for its approval as a consent item.

d. UO, School of Music Additions and Alterations

DOCKET ITEM:

Summary:
The University of Oregon sought Board approval to authorize the Chancellor, or designee, to seek state Legislative Emergency Board approval of an additional Other Funds limitation of $2.0 million for a revised total project cost of $17.2 million for additions and alterations to the School of Music. The project was approved by the Legislature in 2001 (Senate Bill 5525). The additional Other Funds limitation will be used to offset construction-related inflationary increases in the cost of the project and will be funded entirely from gifts. There is no General Fund impact associated with this request.
Staff Report to the Board

Background:
The School of Music, which includes the Department of Dance, is a professional school in a university setting. It began as the Department of Music in 1886, became the School of Music in 1900, and was admitted to the National Association of Schools of Music in 1928. The School is dedicated to furthering creativity, knowledge, pedagogy, and performance in music and dance and to preparing students for a variety of professions in these fields.

In 1986, the School of Music celebrated its 100th year as part of the University of Oregon. During its first century on campus, it grew into the only full-range professional school of music in Oregon and one of only three public schools on the West Coast with comprehensive programs offering baccalaureate through doctoral degrees. It is one of 45 public and private schools serving 400-600 majors and one of 50 public and private schools offering doctoral degrees.

In 2003, the School’s 68 music faculty and 14 dance faculty appeared in over 1,000 performances and as guest speakers in 19 Oregon communities, 32 other states, and 12 countries around the world.

The School of Music is rich in many elements of music and award-winning student and faculty artists. It has one of the finest chamber-music halls in the nation. For the past decade, 100 percent of music education graduates seeking teaching positions have found employment in their first year; nearly 20 percent of music positions in Oregon public schools are staffed by School of Music graduates. The School has approximately 25 student ensembles, including jazz-ensemble winners of the Reno Jazz Festival the past two years. Additional recognized excellence in performance includes the (faculty) brass quintet, (faculty) Oregon string quartet, and composition at all levels.

At present, the School of Music serves 500 major and 4,000 non-major students across campus in a building constructed to accommodate fewer than 300 students. The classroom, rehearsal, studio, and practice-room spaces are strained to the bursting point.

The project is intended to meet the immediate needs of the School, in particular for teaching, practice, rehearsal, recording, faculty studios, offices, and administration; at the same time, it will allow for efficient future additions to the building.

The program, as conceived, will include approximately 15,000 gross square feet (GSF) of renovations to the existing 60,000 GSF building and 29,000 GSF of new construction. The project also will include needed utilities upgrades in the area and site development.

Increases in Project Cost:
The original project authorized by the 2001 legislature, assumed a start date of July 2005. The completion of fundraising took longer than expected, adding about 18 months to the schedule.
Additionally, the anticipated rate of inflation rose due to pressures on domestic supplies of steel and other materials brought on by construction in China and other events, such as hurricane Katrina. Taken together, the additional length of time and the higher than anticipated rate of inflation combined to make the cost of the originally conceived project $2 million more than originally estimated.

During the design phases, much time was spent in an effort to reduce cost. The project, well into its design phases, has identified cuts to the original project to bring it into line with the original budget of $15.2 million, and is scheduled to break ground in the fall of 2006. Without the requested additional Other Funds limitation, the project will proceed without the majority of the originally planned renovations to the building. These spaces are primarily administrative in use but include the oldest parts of the building and, as such, are some of the spaces most in need of modernization.

The budget for the project is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction*</td>
<td>$13,804,000</td>
</tr>
<tr>
<td>Soft costs**</td>
<td>3,396,000</td>
</tr>
<tr>
<td>Total</td>
<td>$17,200,000</td>
</tr>
</tbody>
</table>

* Construction includes: new construction, renovation, site utilities, site improvements, and construction contingency.

** Soft costs include: design fees, management and inspection, works of art, hazardous materials abatement, equipment, permit, program and bond sales fees, facilities services support, communication wiring, and miscellaneous costs.

Fundraising completed to date:
The University has raised sufficient funds ($7.6 million) to meet the match requirements of the Article XI-G bonds and these bonds were sold during the week of April 17, 2006. Fundraising for the additional funds is under way with several pledges, including a significant challenge pledge, in hand.

Remaining Issues to be addressed:
With the exception of obtaining the final building permits, all issues have been resolved for this project.

Staff Recommendation to the Board:
Staff recommended that the Board approve the request to increase the Other Funds limitation for the previously approved School of Music additions and alterations project and that the Chancellor, or designee, be directed to seek an authorization from the state Emergency Board for an additional Other Fund expenditure limitation of $2.0 million, bringing this total project limitation to $17.2 million. Staff requested the Board Finance and Administration Committee approve the staff recommendation and recommend it to the full Board for its approval as a consent item.
e. Fiscal Year 2005-06 Operating Budget Revision

DOCKET ITEM:

The Oregon University System 2005-06 Annual Operating Budget was adopted by the Board on September 9, 2005. The adopted budget did not include OUS’ share of the Statewide Salary Funding Pool and funding for the K-16 Data Project as these amounts were not yet identified and were subject to approval and release by the Legislative Emergency Board (E-Board). In addition, the staff is requesting to move $1,000,005 of the biennial debt service appropriation from the 2006-07 operating budget to the 2005-06 operating budget.

Subsequent to the adoption of the OUS Operating Budget in September 2005, the E-Board approved $2.08 million for the Data Project and released $1.68 million. It is anticipated that the additional $400,000 will be released in 2006-07. The staff is proposing that $841,000 of the approved amount be added to the 2005-06 operating budget and the remaining $839,000 to be added to the 2006-07 operating budget.

The E-Board is scheduled to address the Statewide Salary Funding issue on June 22, 2006. DAS will be recommending $30.96 million as the OUS share of the Statewide Salary Funding Pool for the biennium. One third of the $30.96 million will be applied to the 2005-06 operating budget. The following table details the proposed allocation of state General Fund support for the 2005-06 operating budget, pending the release of funds by the E-Board.

<table>
<thead>
<tr>
<th>Education and General Program</th>
<th>Approved General Fund</th>
<th>Proposed Adjustments</th>
<th>Adjusted General Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOU</td>
<td>$13,145,346</td>
<td>$407,796</td>
<td>$13,553,142</td>
</tr>
<tr>
<td>OIT</td>
<td>15,745,528</td>
<td>502,067</td>
<td>16,247,595</td>
</tr>
<tr>
<td>OSU – Corvallis</td>
<td>82,450,203</td>
<td>2,510,253</td>
<td>84,960,456</td>
</tr>
<tr>
<td>OSU-CAS</td>
<td>3,356,496</td>
<td>51,230</td>
<td>3,407,726</td>
</tr>
<tr>
<td>PSU</td>
<td>60,168,680</td>
<td>1,844,526</td>
<td>62,013,206</td>
</tr>
<tr>
<td>SOU</td>
<td>14,960,385</td>
<td>493,288</td>
<td>15,453,673</td>
</tr>
<tr>
<td>UO</td>
<td>62,557,158</td>
<td>1,965,387</td>
<td>64,522,545</td>
</tr>
<tr>
<td>WOU</td>
<td>15,821,690</td>
<td>549,023</td>
<td>16,370,713</td>
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<tr>
<td>CO</td>
<td>6,628,524</td>
<td>1,071,383</td>
<td>7,699,907</td>
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<tr>
<td>Industry Affairs/OMI/ETIC/OCKED</td>
<td>2,582,733</td>
<td></td>
<td>2,582,733</td>
</tr>
<tr>
<td>Systemwide Expenses</td>
<td>2,270,309</td>
<td></td>
<td>2,270,309</td>
</tr>
<tr>
<td><strong>Subtotal Education &amp; General Program</strong></td>
<td><strong>$279,687,052</strong></td>
<td><strong>$9,394,953</strong></td>
<td><strong>$289,082,005</strong></td>
</tr>
</tbody>
</table>

| Statewide Public Services: | | | |
| Agricultural Experiment Station | 25,930,198 | 936,070 | 26,866,268 |
| Extension Service             | 18,597,184 | 739,452 | 19,336,636 |
| Forest Research Laboratory    | 2,629,185  | 92,761  | 2,721,946  |
| **Subtotal Statewide Public Services** | **$47,156,567** | **$1,768,283** | **$48,924,850** |

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Minutes—Meeting #769  June 2, 2006

2005-06 OUS Budget – General Fund

<table>
<thead>
<tr>
<th>Budget Category</th>
<th>Approved General Fund</th>
<th>Proposed Adjustments</th>
<th>Adjusted General Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06 Total Operating Budget</td>
<td>326,843,619</td>
<td>11,163,236</td>
<td>338,006,855</td>
</tr>
<tr>
<td>2005-06 Debt Service Budget</td>
<td>12,910,781</td>
<td>1,005,000</td>
<td>13,915,781</td>
</tr>
<tr>
<td>2005-06 Capital Repair/Construction</td>
<td>14,796,329</td>
<td>0</td>
<td>14,796,329</td>
</tr>
<tr>
<td>2005-06 Total Budget</td>
<td>354,550,729</td>
<td>12,168,236</td>
<td>366,718,965</td>
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</tbody>
</table>

The OUS share of the Statewide Salary Funding Pool is added to the General Fund appropriation. The General Fund supports approximately 38 percent of employee compensation. The remaining 62 percent is funded by tuition and other revenues. As part of the DAS salary request to the June E-Board, an additional limitation of $51.3 million for Other Funds Limited will be requested. The proposed changes to the 2005-06 Other Funds Limited budget are detailed in the following table:

2005-06 OUS Budget – Other Funds Limited

<table>
<thead>
<tr>
<th>Education and General Program</th>
<th>Approved Other Funds Limited</th>
<th>Proposed Adjustments</th>
<th>Adjusted Other Funds Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOU</td>
<td>$13,965,243</td>
<td>$1,517,997</td>
<td>$15,483,240</td>
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<tr>
<td>OIT</td>
<td>12,876,872</td>
<td>(666,173)</td>
<td>12,210,699</td>
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<tr>
<td>OSU – Corvallis</td>
<td>151,111,485</td>
<td>10,352,323</td>
<td>161,463,808</td>
</tr>
<tr>
<td>OSU-CAS</td>
<td>1,002,610</td>
<td>11,148</td>
<td>1,013,758</td>
</tr>
<tr>
<td>PSU</td>
<td>116,532,140</td>
<td>386,052</td>
<td>116,918,192</td>
</tr>
<tr>
<td>SOU</td>
<td>22,883,425</td>
<td>624,778</td>
<td>23,508,203</td>
</tr>
<tr>
<td>UO</td>
<td>178,665,594</td>
<td>(1,008,805)</td>
<td>177,656,789</td>
</tr>
<tr>
<td>WOU</td>
<td>19,348,375</td>
<td>1,863,892</td>
<td>21,212,267</td>
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<tr>
<td>CO</td>
<td>2,464,000</td>
<td>1,931,801</td>
<td>4,395,801</td>
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<tr>
<td>Industry Affairs/OMI/ETIC/OCKED</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Systemwide Expenses</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Subtotal Education &amp; General Program</td>
<td>$518,849,744</td>
<td>$15,013,013</td>
<td>$533,862,757</td>
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</tbody>
</table>

Statewide Public Services:

<table>
<thead>
<tr>
<th>Statewide Public Services</th>
<th>Approved Other Funds Limited</th>
<th>Proposed Adjustments</th>
<th>Adjusted Other Funds Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Experiment Station</td>
<td>4,596,200</td>
<td>(104,517)</td>
<td>4,491,683</td>
</tr>
<tr>
<td>Extension Service</td>
<td>12,209,300</td>
<td>(732,856)</td>
<td>11,476,444</td>
</tr>
<tr>
<td>Forest Research Laboratory</td>
<td>4,040,000</td>
<td>(87,471)</td>
<td>3,952,529</td>
</tr>
<tr>
<td>Subtotal Statewide Public Services</td>
<td>$20,845,500</td>
<td>$(924,844)</td>
<td>$19,920,656</td>
</tr>
</tbody>
</table>

These changes will not cause the total 2005-2007 budget to exceed the limitation for the biennium.

Staff Recommendation to the Board:
The staff recommended that the Board approve the proposed adjusted allocation of General Fund and increase the 2005-06 Annual Operating Budget by $26,256,405 (consisting of $12,168,236 of General Fund and $14,088,169 of Other Funds Limited) pending release of the statewide salary funds by the Legislative Emergency Board.
### Summary of Funding - FY 2005-06

**State General Fund**

<table>
<thead>
<tr>
<th>Category</th>
<th>EOU</th>
<th>OIT</th>
<th>OSU</th>
<th>OSU-CC</th>
<th>PSU</th>
<th>SOU</th>
<th>UO</th>
<th>WOU</th>
<th>Total Campuses</th>
<th>OUS</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undergraduate Funding</td>
<td>7,096,263</td>
<td>7,718,138</td>
<td>40,860,012</td>
<td>488,962</td>
<td>34,150,535</td>
<td>10,101,919</td>
<td>35,678,738</td>
<td>10,996,350</td>
<td>147,089,915</td>
<td>147,089,915</td>
<td></td>
</tr>
<tr>
<td>Graduate Funding</td>
<td>909,401</td>
<td>2,526</td>
<td>22,081,008</td>
<td>27,669</td>
<td>17,892,108</td>
<td>1,655,971</td>
<td>20,001,682</td>
<td>1,406,168</td>
<td>63,976,562</td>
<td>63,976,562</td>
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</tr>
</tbody>
</table>

#### Targeted Programs:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>WUE</td>
<td>22,101</td>
</tr>
<tr>
<td>Fee Remission Equity</td>
<td>78,041</td>
</tr>
<tr>
<td>Bldg. Maintenance/SWPs</td>
<td>1,968,562</td>
</tr>
<tr>
<td>Collaborative OUS Nursing Program</td>
<td>9,326</td>
</tr>
<tr>
<td>Graduate Funding</td>
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f. OUS, Sale of CAPITAL Center

DOCKET ITEM:

As has been noted in past meetings, OUS staff has been attempting to sell the CAPITAL Center facility, located at NW 185th Avenue and NW Walker Road in Beaverton, Oregon. Due to increasing vacancies at this location, OUS has had to provide subsidies to the CAPITAL Center operation in excess of $400,000 annually, thus prompting the pursuit of the sale of this facility.

This facility is jointly owned by OUS and PCC (Portland Community College) with an ownership interest of 62 percent and 38 percent respectively. PCC has also indicated that this property is not in their long-term plans and thus has been cooperating fully with OUS in pursuing the sale of this property. OUS staff has been working with tenants in the facility to identify alternative locations should the property be sold. OIT and PCC are working with Tri-Met to investigate the possibility of constructing an education center at a station on the nearby west side light rail lines.

After the last report to the OUS Board on this topic, OUS was advised by Eric Iverson, an attorney with the Department of Justice, that we needed to solicit formal bids for the property. Thus a formal Request for Proposals was prepared and public notice was published for three successive weeks in The Oregonian.

OUS received six inquiries from potential purchasers. Subsequent to the receipt of proposals, OUS staff met with representatives from PCC and OUS’ real estate advisor to discuss the proposals. All parties agreed that Regency Realty Group’s proposal represented a fair offer and one that should be accepted. This conclusion was then discussed with Eric Iverson who agreed that the process had been satisfactorily concluded. We then presented our collective recommendation to accept this proposal to the Chancellor who indicated his approval to accept this proposal.

The proposal received by Regency Realty Group met OUS’ minimum requirements set forth in the RFP. In particular:

- Regency offered to buy the property for $15 million (all cash), $500,000 more than OUS’ minimum asking price;
- Regency provided a cashier’s check in the amount of $961,000 as a required security deposit; and
- Regency agreed to lease back up to 40,000 square feet to OUS on the following terms requested by OUS:
  - Term: up to 12 months
  - Rent: $1/square foot/month, full service
  - Right of OUS to early terminate
In addition, PCC has formally approved the proposal and authorized the commencement of negotiations with Regency. Upon receipt of these approvals, Regency was notified that the OSU and PCC had selected them and that we would commence negotiations with Regency for the sale of the CAPITAL Center. We are confident that a mutually acceptable Purchase and Sale Agreement can be quickly negotiated and finalized, consistent with the material concepts as presented above.

Prior to the issuance of the formal RFP, PCC asked its broker, CB Richard Ellis, to provide an opinion of value on the CAPITAL Center property. In June 2005, CB Richard Ellis reported an opinion that this property had an estimated current value of between $12.6 million and $14.2 million. The OUS administrative rules require that we obtain a formal appraisal prior to the sale of any real property. Thus, we have contracted with David Evans and Associates to provide this appraisal. At the time of this writing, this appraisal is forthcoming and the results will be reported at the Board meeting.

Sale proceeds will be used to pay all costs of the sale, and defease outstanding bonds. The remaining proceeds will be divided between OUS (62 percent) and PCC (38 percent) in accordance with their respective ownership interests in the property.

**Staff Recommendation to the Board:**
Staff recommended that the Board authorize the Vice Chancellor for Finance and Administration to execute the purchase and sale agreement with Regency Realty Group, Inc. and Portland Community College to sell the CAPITAL Center to Regency Realty Group in accordance with the terms outlined in this docket item.

**BOARD DISCUSSION AND ACTION:**

Director Kirby Dyess moved, seconded by Director Tony Van Vliet, approval of the consent agenda as amended to include the Fiscal Year 2005-06 Operating Budget Revision, the sale of CAPITAL Center, and the Certificates of Participation (walk-on item). Director Blair, chair of the Finance and Administration Committee, advised the Board that the additional three items had been reviewed and approved for submission to the full Board for approval. Those voting in favor: Directors Blair, Blakney, Burns, Dyess, Lorenzen, Mendoza, Nesbitt, Richmond, von Schlegell, Schuette, Sohn, and Van Vliet. Those voting no or abstaining: None. Motion passed.

3. **ACTION ITEMS**

   a. **Amendment of OAR 580-040-0040, 2006-07 Academic Year Fee Book**

**DOCKET ITEM:**

The entire docket item with supporting tables is available at: [http://www.ous.edu/state_board/meeting/dockets/ddoc060602.pdf](http://www.ous.edu/state_board/meeting/dockets/ddoc060602.pdf).
Executive Summary
Staff requested Board approval of proposed OUS tuition and fee rates as well as related policies for the 2006-07 Academic Year.

Background:
The 2005-2007 Legislatively Adopted Budget included legislative budget notations that limited increases of tuition to resident undergraduate students and resource fees (including energy surcharge fee) to all students. The increase to resident undergraduate tuition revenue was limited to a 3 percent increase in the 2005-06 academic year and another 3 percent in the 2006-07 academic year. Total Systemwide resource fees were limited to no more than 9.1 percent of gross tuition revenue for the biennium.

Public Hearing on Academic Year Fee Book:
A public hearing concerning the 2006-07 Academic Year Fee Book was held Thursday, May 11, 2006, in Room B214 of Kerr Administration Building, on the Oregon State University campus. Approximately 10 students attended the hearing. Oral and written testimony on the matter of the proposed changes outlined in the 2006-07 Academic Year Fee Book was presented at that time and is summarized in the following pages of this report.

Tuition and Fee Proposals:
The enclosed 2006-07 Academic Year Fee Book Draft contains tuition and fee proposals presented by each OUS institution. The draft details rate changes and other structural changes involving tuition plateau revisions. The fee proposals submitted by each institution are reviewed by Chancellor's Office staff to ensure the proposals comply with related statutes, Board policy, and known Legislative expectations.

Along with the 2006-07 Academic Year Fee Book Draft, this report includes the following attachments:

- Summary tables showing the changes in tuition and fees from the 2005-06 academic year for each campus;
- Charts showing a new rate structure for Pharmacy and Law School programs;
- Room and board rate comparisons between 2005-06 and 2006-07 for each campus;
- Summarized testimony from the May 11th public hearing; and
- A survey of representative universities comparing anticipated 2006-07 tuition and fees with 2005-06 rates at these comparator institutions.

Overall Summary:
The increases proposed in the 2006-07 Academic Year Fee Book comply with the 2005-2007 Legislative Budget Note that undergraduate resident tuition for the System will not increase by more than 3 percent in the first year and 3 percent in the second year, with a resource fee limitation of 9.1 percent on gross tuition revenue.
After discussion with Legislative Fiscal Office and Department of Administrative Services analysts, Steve Bender and Bill McGee respectively, as well as with representatives of the Oregon Student Association, two institutions have eliminated programmatic resource fees by folding them into their tuition structure. These changes are being proposed to more clearly state the costs of their programs. Oregon State University’s Pharmacy (PharmD) resource fee and the University of Oregon’s Law School resource fee have been incorporated into tuition in the 2006-07 Academic Year Fee Book.

There are a number of other substantive changes in tuition and fee policies for the 2006-07 academic year that are highlighted for Board edification. These changes include:

**OIT** – Following extensive discussions with the Board of Higher Education, state partners, and other state agencies, Oregon Institute of Technology received approval to build the Center for Health Professions. There was also an agreement at that time that part of the funding for the added instructional tuition costs would be borne by a differential tuition and fee structure charged to newly admitted students beginning in Fall 2006.

Health tuition in academic year 2006-07 will be 5 percent more than the base tuition ($107 versus $102 per credit hour) for those required courses in the allied health curricula. General education courses, such as math and writing, will not be assessed a differential tuition. These charges are applied only to courses that are delivered for the allied health curricula. This additional tuition will not be charged to students who were admitted into the allied health curricula prior to Fall 2006.

The Health Tuition rate will increase in two subsequent steps, in 2007-08 and in 2008-09, rising 5 percent each year. Since the student population will continue to mature, the health-specific course list will include junior-level classes in 2007-08 and senior-level classes in 2008-09. Students currently admitted and accepted into the allied health curricula will be able to petition to have the rate reduced to the base tuition rate if they believe the Health Tuition rate was inappropriately applied to their situation.

For the 2006-07 academic year, OIT will complete the process of eliminating the tuition plateau. While remaining within the 3 percent legislative cap, this final step is expected to generate additional revenue that will help offset the significant decline in revenue experienced by OIT in the 2005-06 academic year.

**UO** – The University of Oregon Law School has a separate tuition schedule and currently charges a required resource fee. For the 2006-07 academic year, it is proposed that the Law School resource fee be merged into tuition, thereby eliminating the resource fee. The result of this change makes it appear that the tuition rate is increasing by approximately 40 percent for new law students; however, it is really only increasing by 5 percent over the 2005-06 academic year.

**OSU** – Oregon State University’s Pharmacy (PharmD) program also has a separate tuition schedule and currently charges a separate resource fee. OSU is proposing to eliminate its PharmD resource fee and incorporate this fee into tuition. For the 2006-07 academic year, separate tuition
schedules were developed for returning and newly admitted students and the per term resource fee was eliminated. The result of this change makes it appear that the Pharmacy tuition rate is increasing by 24 percent; however, it is really only increasing by 14 percent. This increase is necessary to address increasing costs and to avoid significant program cuts.

**PSU** – In the past, Portland State University utilized the “part-time” fee policy for all of its part-time students. This policy allows an institution to charge all part-time students, regardless of actual residency status, resident tuition rates for up to 8 credit hours each quarter. The basis for this policy is that institutions that have many part-time or casual students did not have to obtain comprehensive information from part-time students to determine residency, thus avoiding the work involved for both the applicants and the institution.

PSU now wants to begin charging all students tuition based on residency status. PSU is planning to phase in this policy change over a two-year period. The first change would be made for admitted students. PSU is projecting that, effective Fall 2006, all admitted, nonresident part-time students would pay nonresident tuition rates for all credit hours taken. Then, in Fall 2007, PSU would begin to charge all part-time students, regardless of admission status, differential rates based on residency status.

**WOU** – To date, Western Oregon University has completed the elimination of the tuition plateau for all students except resident undergraduates. The plateau for undergraduate resident students is being eliminated in 2006-07 to move toward a per credit hour charge based on residency and class status (undergraduate, graduate, or Western Undergraduate Exchange [WUE] students). For 2006-07, for resident undergraduate students, credit hours 1 through 12 remain unchanged while credit hours 13, 14, and 15 will be assessed at $45 per credit, one-half the regular per credit rate. For credit hours 16 and greater, the regular per credit charge is again assessed. Assuming constant enrollment, these changes keep WOU within the 3 percent cap on tuition. In Fall 2007, WOU will begin charging all part-time students, regardless of admission status, differential rates based on residency status.

*Staff Recommendation to the Board:*
Staff recommended that the Board adopt OAR 580-040-0040 as follows: The document entitled Academic Year Fee Book, dated June 2, 2006, as amended is adopted by reference as a permanent rule.

Through this action, the Board adopts the document entitled Academic Year Fee Book, the stated amendments to the draft document, and attached schedules noted in this agenda item. The Chancellor or designated staff are permitted to make revisions as needed to comport with any subsequent legislative actions as well as to authorize minor adjustments to the final document, if necessary.
BOARD DISCUSSION AND ACTION:

Mr. Glen Nelson, Assistant Vice Chancellor for Budget and Planning, indicated that public hearings had been held on the Academic Year Fee Book, per legal requirements. He indicated that there were several substantive issues within the Fee Book: 1) WOU and OIT eliminated their tuition plateaus; 2) resource fees for professional programs such as law and pharmacy were moved from resource fees and rolled into tuition; 3) EOU eliminated the part time resident rate for nonresidents; 4) the overall tuition rate was kept within the 3 percent requirement per the budget note from the legislature over last year for resident undergraduate; 5) the resource fees for which we are asking approval adhere to the 9.1 percent of gross tuition cap that was within the budget note.

Director Dyess moved approval of the staff recommendation to accept the 2006-07 Academic Year Fee Book as presented in the docket material; Director Blair seconded the motion. On roll call, the following voted in favor: Directors Blair, Blakney, Burns, Dyess, Lorenzen, Mendoza, Nesbitt, Richmond, von Schlegell, Schuette, Sohn, and Van Vliet. Those voting no or abstaining: None. Motion passed.

b. Amendments to Staff Fee Privileges Benefit and the Transfer of Staff Fee Privileges Benefit (OAR 580-022-0030 and 0031)

DOCKET ITEM:

Summary:
The administrative rules authorizing Staff Fee Privileges (580-022-0030) and Transfer of Staff Fee Privileges (580-022-0031) 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.

Background:
Recommended amendments to OAR 580-022-0030 and OAR 580-022-0031 update provisions of the staff fee rules.

OAR 580-022-0030 is revised to indicate 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 revised in order to remove a reference to an affidavit used by the Public Employees’ Benefit Board and clarify that the benefit may not be distributed to multiple family members or domestic partners and their dependents during a single academic term. The revisions also clarify that the benefit may be transferred to dependents of domestic partners, eliminates the reference to employees of the Oregon Health & Science University which have not participated in OUS staff fee privileges since 2001, and removes elapsed effective and
review dates as necessary. The full text of the proposed changes to OAR 580-022-0030 and 580-022-0031 is available at: http://www.ous.edu/state_board/meeting/dockets/ddoc060602.pdf.

BOARD DISCUSSION AND ACTION:

Mr. Nelson acknowledged that the changes before the Board for approval were primarily housekeeping in nature. The first change was elimination of the staff fee privilege benefit to employees of OHSU, since it is no longer a part of the system. The second change had to do with a change that occurred in the IRS definition of dependent and related to that, there was a desire to further define dependent to include the dependent of a domestic partner. This change codifies current practice.

Director Dyess moved, seconded by Director Mendoza, approval of the staff recommendation. On roll call, the following voted in favor of the motion: Directors Blair, Blakney, Burns, Dyess, Lorenzen, Mendoza, Nesbitt, von Schlegell, Schuette, Sohn, and Van Vliet. Those voting no: none. Those abstaining: Director Richmond, due to conflict of interest. Motion passed.

c. OUS, Criminal Background Check Policy: Proposed Temporary Administrative Rules

DOCKET ITEM:

Staff Report:
House Bill 2157 (Oregon Laws 2005) permits the State Board of Higher Education to adopt rules to conduct criminal background checks. The proposed rule has been circulated for review and comment to System human resources directors and university legal counsel. The first-read draft rule was considered at the May meeting of the Finance and Administration Standing Committee of the Board. Subsequent editorial comments were received from campuses and representatives of local unions. The proposed rules before the Board provide guidance for criminal background checks only. Deleted from the earlier draft is any reference to other campus background checks.

Overview:
The draft rules propose to do the following:

- Authorize the Chancellor’s Office and each OUS institution to establish policies to conduct criminal background checks on an employee, contractor, vendor or volunteer that will be working or providing services in a capacity that is designated as “critical” or “security-sensitive.”
- This rule is structured by having the Board provide an overall authorization to conduct criminal background checks. The campuses will then be free to more specifically delineate which categories of employment and which positions will be subject to the checks.

Recommendation to the Board:
Staff recommended the Board approve the proposed rules as temporary rules.
The entire text of the proposed temporary OARs is available at: [http://www.ous.edu/state_board/meeting/dockets/ddoc060602.pdf](http://www.ous.edu/state_board/meeting/dockets/ddoc060602.pdf).

**BOARD DISCUSSION AND ACTION:**

General Counsel Benjamin E. Rawlins reminded the Board that this item had been before them two months before. Since that time, he had received additional comments from human resource directors, OUS in-house counsels, and representatives from labor unions. As a result of those comments, changes are noted in the rule.

The most significant change, Mr. Rawlins pointed out, is that the proposed rules apply only to criminal records checks. This is eliminating the effort to reference other types of background checks. The term “criminal records check policy” has been used in an effort to reduce any confusion. Language has been added to strengthen the section that makes clear that the notice to applicants must occur ahead of time and must be clearly stated.

It was pointed out that an omission occurred in the draft on page 53 of the docket under the section entitled, “Contested Case Process for Criminal Records Checks.” The omitted section was in the first sentence which should correctly read: The Chancellor’s Office and OUS institutions must establish a contested case process, pursuant to ORS 183. “That reference will make it clearer that there is at least an option in the statute 183 as to what constitutes a contested case process, but it is not as cumbersome in its detail as that which is contained in 351.088,” Mr. Rawlins added.

In answer to Director Blakney’s question of whether this affects current employees of OUS, Mr. Rawlins indicated that it is directed primarily to applicants. “The only time a current employee may be affected is in the more limited situation where a current employee may be in a position that is not now covered, makes an application for a new position that is covered, and then they will be subjected to the criminal background check.”

Director Donald W. Blair moved approval of the staff recommendation, seconded by Director Gerry Blakney. On roll call, the following voted in favor of the motion: Directors Blair, Blakney, Burns, Dyess, Lorenzen, Mendoza, Nesbitt, Richmond, von Schlegell, Schuette, Sohn, and Van Vliet. Those voting no or abstaining: none. Motion passed.

d. Approval of 2006-07 Annual Operating Budget

**DOCKET ITEM:**

The Oregon University System 2006-07 Annual Operating, Debt Service, and Capital Repair and Construction Budgets are summarized in this report for Board consideration and approval. A separate 2006-07 Budget Report document with more detailed information on the allocation of
state General Funds to the campuses through the OUS Resource Allocation Model (RAM) is in the appendix.

The primary construct in developing this budget was to remain within the adjusted Expenditure Limitation of $1,673,428,584 for the biennium. The 2005-06 adjusted Education and General Budget totaled $822,944,762. The 2006-07 proposed budget will be the balance or $850,483,822. The budget is comprised of the $303,290,278 in General Fund and $547,193,544 in Other Funds Limited.

### 2006-07 OUS Budget – All Sources

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<th>Other Funds Limited</th>
<th>Non-Limited Other Funds</th>
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Note: Salary funding of $20.6M in this budget is pending E-Board approval.

**Revenue Sources:**

The OUS Operating Budget is comprised of four sources of revenue. Descriptions and relevant information related to these revenue sources follow below. Approximately 50 percent of the 2005-2007 appropriations will be budgeted in each fiscal year of the biennium.
**State General Funds:**
State General Funds are appropriated to OUS biennially by the legislature. The distribution of these funds to the campuses is developed in compliance with legislative Budget Notes and Board policy. Funds are allocated through the OUS Resource Allocation Model (described below) and are split roughly equally between the two fiscal years of the biennium unless otherwise requested by the campuses. The statewide compensation adjustment is allocated \( \frac{1}{3} \) to the first year and \( \frac{2}{3} \) to the second year of the biennium.

**Other Funds Limited:**
Other Funds Limited revenue for the operating budget is comprised principally of estimated campus tuition and fees calculated on the basis of enrollment projections and the projected tuition and fee increase as proposed in the 2006-07 Fee Book, indirect cost recoveries on sponsored research, as well as lesser amounts of other miscellaneous forms of income.

**Other Funds Non-Limited:**
Other Funds Non-Limited revenue estimates include sponsored programs; gifts, grants, and contracts; designated operations (e.g., community workshops and other self-sustaining public service and education activities); and auxiliary activities such as student housing, service, parking, athletics, and incidental fee activities. Expenditure of these funds is not limited by the Legislature.

**Lottery Funds:**
Lottery Funds are comprised of 1) Sports Action Lottery Funds that are distributed to campuses according to Board policy, with 12 percent allocated for scholarships and 88 percent allocated for support of intercollegiate athletics, and 2) debt service funds that are used for Article XI-G bonds for capital construction.

**2006-07 Distribution of State General Fund:**
The campus allocation of state General Fund for the biennium was established in the first year of the current biennium based upon Board approval of the adjusted operating budget for 2005-06 contained in this docket. A total of $370.4 million in General Fund will be allocated for 2006-07. Of this total, a cell funding amount of $211.1 million of General Fund is recommended to be allocated in 2006-07 based upon the same criteria as the 2005-06 allocations. Detailed discussion of the RAM guidelines as they relate to this biennium are contained in September 2005 Board Docket.

Targeted programs and the tuition buy-down totaling $75.1 million were allocated in the same manner as 2005-06 with the primary exception being the elimination of the WUE subsidy and the Fee Remission Equity allocation in 2006-07.

The second year of the compensation increase totals $17.1 million. This increased funding, along with its Other Fund Limitation compliment of $34.2 million, was allocated to the campuses based upon their percentage of the total OUS 2004-05 total compensation.
The debt service allocation is driven by the debt service schedules and is recommended to be $16.4 million.

Statewide Public Services share of the General Fund will total $50.7 million, including $3.5 million for salary increases.

**2006-07 Budget Compared to 2005-06:**
The 2006-07 operating budget is 3.3 percent higher than the 2005-06 budget. The primary driver of the year over year increase is personal services made up of both salary and benefit increases. The variance in Capital is the result of budgeting all Capital dollars the first year of the biennium.

**Total Operating Budget 2005-06 vs. 2006-07**
*Education & General (General Fund & Other Funds Limited)*

<table>
<thead>
<tr>
<th></th>
<th>2005-06</th>
<th>2006-07</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOU</td>
<td>$29,036,382</td>
<td>$29,337,200</td>
<td>1.0%</td>
</tr>
<tr>
<td>OIT</td>
<td>28,458,294</td>
<td>30,279,360</td>
<td>6.4%</td>
</tr>
<tr>
<td>OSU – Corvallis</td>
<td>246,424,264</td>
<td>242,566,255</td>
<td>-1.6%</td>
</tr>
<tr>
<td>OSU – CAS</td>
<td>4,421,484</td>
<td>4,808,601</td>
<td>8.8%</td>
</tr>
<tr>
<td>PSU</td>
<td>178,931,398</td>
<td>193,960,711</td>
<td>8.4%</td>
</tr>
<tr>
<td>SOU</td>
<td>38,961,876</td>
<td>41,071,987</td>
<td>5.4%</td>
</tr>
<tr>
<td>UO</td>
<td>242,179,334</td>
<td>252,617,298</td>
<td>4.3%</td>
</tr>
<tr>
<td>WOU</td>
<td>37,582,980</td>
<td>38,309,056</td>
<td>1.9%</td>
</tr>
<tr>
<td>CO</td>
<td>12,095,708</td>
<td>12,623,205</td>
<td>4.4%</td>
</tr>
<tr>
<td>Industry Affairs/OMI/ETIC/OCKED</td>
<td>2,582,733</td>
<td>2,582,733</td>
<td>0.0%</td>
</tr>
<tr>
<td>Systemwide Expenses</td>
<td>2,270,309</td>
<td>2,327,417</td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>Subtotal Education &amp; General Program</strong></td>
<td><strong>822,944,762</strong></td>
<td><strong>850,483,822</strong></td>
<td><strong>3.3%</strong></td>
</tr>
<tr>
<td><strong>Statewide Public Services:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural Experiment Station</td>
<td>31,357,951</td>
<td>32,464,070</td>
<td>3.5%</td>
</tr>
<tr>
<td>Extension Service</td>
<td>30,813,080</td>
<td>32,003,515</td>
<td>3.9%</td>
</tr>
<tr>
<td>Forest Research Laboratory</td>
<td>6,674,475</td>
<td>7,004,908</td>
<td>5.0%</td>
</tr>
<tr>
<td><strong>Subtotal Statewide Public Services</strong></td>
<td><strong>68,845,506</strong></td>
<td><strong>71,472,493</strong></td>
<td><strong>3.8%</strong></td>
</tr>
<tr>
<td><strong>Sport Action Lottery Funds</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>2005-06 Total Operating Budget</strong></td>
<td><strong>891,790,268</strong></td>
<td><strong>921,956,316</strong></td>
<td><strong>3.4%</strong></td>
</tr>
<tr>
<td><strong>2005-06 Debt Service Budget</strong></td>
<td><strong>16,752,437</strong></td>
<td><strong>19,221,670</strong></td>
<td><strong>14.7%</strong></td>
</tr>
<tr>
<td><strong>2005-06 Capital Repair/Construction</strong></td>
<td><strong>410,318,389</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>2005-06 Total Budget</strong></td>
<td><strong>1,318,861,094</strong></td>
<td><strong>941,177,986</strong></td>
<td><strong>-28.6%</strong></td>
</tr>
</tbody>
</table>

**Impact of Public Service Cuts in 2005-2007:**
Board members have asked about the impacts of public service cuts in the 2005-2007 biennium. In 2005-2007, General Fund support for campus public service programs was cut by $1 million. The campuses have recognized the value of these programs to the community and in many cases have tried to continue serving the citizens of Oregon by continuation of the programs at the expense of other areas of the institution.
In other cases, campuses have had to identify cuts where possible, spend from carry-forward balances, and search for external resources.

While the programs at Eastern Oregon, the University of Oregon, and Southern Oregon have all been funded through alternative strategies in the first year of the biennium, several programs located at Portland State have suffered major losses in service. A prime example of the impact of the cuts to Oregonians can be seen in the MESA program. The MESA program, which engages 6th to 12th graders to pursue college in the math, science, and engineering fields, serviced 100 fewer students this year and cut two high schools from their program and are considering cutting two more schools, affecting 30-40 more students next year.

**Staff Recommendation to the Board:**
The staff recommended that the Board approve the proposed 2006-07 Annual Operating Budget and allocations for 2006-07 as described in this docket, pending release of the salary adjustment funds by the June 2006 E-Board and delegate authority to the Chancellor to make adjustments to the OUS Annual Operating Budget for 2006-07 as is necessary.

**BOARD DISCUSSION AND ACTION:**

Mr. Nelson explained that, when the 2005-06 budget was developed, a decision was made to essentially carry forward the same allocations in the General Fund that were developed through the RAM the previous year. The targeted funds were the same, with the exception of the WUE subsidy and the fee remission equity. Neither of those line items occurs in the second year of the biennium. The adjustment that was not previously contemplated that is now added into the budget is the statewide salary funding that is anticipated to be released at the June Emergency Board meeting. The overall operating budget, including other funds limited, reflects the revenue from the tuition increase on which the Board previously voted.

At a previous request of the Board, Mr. Nelson reported on the impact of the public service cuts that were made in the 2005-06 budget. In the first year of the biennium, the programs that were housed at UO, SOU, and EOU did not suffer any cutbacks. Those institutions were able to find additional resources to direct toward those programs for the first year of the biennium. However, at PSU and OSU, some of those programs were impacted. The MESA (Mathematics, Engineering, and Science) program at PSU is reaching 100 fewer high school students this year than it has in the past and there is consideration for next year that several of the middle schools will be removed as well. This would affect another 30-40 potential college students. At OSU, there have been a number of cutbacks in the area of research for West Nile and Avian flu and several other bioterrorism or bioecological events.

Director Schuette moved approval of the staff recommendation for the 2006-07 Annual Operating Budget. Director Blakney seconded the motion. Those voting in favor of the motion: Directors Blair, Blakney, Burns, Dyess, Lorenzen, Mendoza, Nesbitt, Richmond, von Schlegell, Schuette, Sohn, and Van Vliet. Those abstaining or voting no: none. Motion passed.
e. Presidential Compensation

BOARD DISCUSSION AND ACTION:

Prior to the full Board meeting, an executive session was conducted for the purposes of receiving several presidential evaluations and a recommendation concerning presidential compensation. Chancellor Pernsteiner recommended the Board approve the compensation increases for the four presidents who were evaluated as well as for the presidents of SOU and WOU who were not evaluated at this time. President Fatemi is on a multi-year contract that continues in force for another year. Consequently, he is not eligible for an increase at this time.

Chancellor Pernsteiner explained that many of the presidents have not received pay increases for the past four-and-a-half years. He commissioned a study, by a national consultant, to look at like-sized institutions with similar missions to those of OUS campuses. “We then took a look at where we anticipated faculty salaries, Systemwide, to be at the end of this biennium, based upon the agreements that are in place, or the amounts that have been projected by the campuses for 2006-07. It appeared that faculty would be at about 86 percent of the peer averages.

“To bring presidential compensation up to the same relationship to comparators as faculty salaries have or are expected to have, it results in some of them receiving substantial increases because some of our presidents have been around for a long time and have not had pay increases in 4-and-a-half years. Others who were hired more recently and hired at market, received lesser increases under the proposal. This was an attempt to make a market adjustment.”

Director von Schlegell moved, seconded by Director, approval of the Chancellor’s recommendation. Those voting in favor of the motion: Directors Blair, Blakney, Burns, Dyess, Lorenzen, Mendoza, Nesbitt, von Schlegell, Schuette, Sohn, and Van Vliet. Those abstaining: Director Richmond because of a conflict of interest. Those voting no: Director Blakney. Motion passed.

Chancellor Pernsteiner added that the payment of the increase for January 2006 to June 2006 would come from the Chancellor’s Office fund balance. He will bring two-year agreements the presidents to a future meeting.

4. DISCUSSION ITEMS

a. OUS Working Group Budget Policy Package Consideration

DOCKET ITEM:

To view the full docket item, see:
http://www.ous.edu/state_board/meeting/dockets/ddoc060602.pdf.
Policy Option Packages are created as part of the development of the biennial budget. During the past few months, staff and Board members have been working on the development of 30 policy packages for 2007-2009. The packages have been assigned to, or have come out of, one of the Board Working Groups or Committees. The Working Groups and Committees have been reviewing and prioritizing their packages.

The Working Groups and Committees presented their packages and recommendations. It is anticipated that the Board will then prioritize the packages. The packages selected by the Board to move forward will be combined with the proposed 2007-2009 budget request and presented to the Board for final approval in July 2006.

The approved 2007-2009 Biennial Budget and associated policy packages will be submitted to the Department of Administrative Services and the Governor’s Office in August 2006.

Historically, the policy packages have been used as a vehicle to obtain funding for new programs and initiatives. During this decade, base funding for higher education has not kept pace with increases in costs. By default, a number of policy packages are requesting funds that have traditionally been in the base. This movement is leading to an increase in the number of policy packages each biennium. The 30 packages under consideration this biennium identify in excess of $100 million in funding. Each Working Group and Committee was asked to consider which packages or parts of their packages were focused on backfilling the loss in base versus adding new capacity and services.

The policy packages and their assigned Working Groups are listed below. Detailed information on most of the packages can be found in the appendix (page 63).

**Academic Excellence and Economic Development (AEED) Working Group**
- 2. Healthcare Workforce Initiative
- 3. SB 853
- 4. Sustainability
- 6. ETIC
- 7. Economic Development—Statewide Public Service Programs
- 8. Veterinary Diagnostic Lab
- 9. Institute for Ecosystem and Climate Change
- 15. Pre-Engineering and Applied Science Strategy

**Excellence in Delivery and Productivity (EDP) Working Group**
- 10. General Education Outcomes
- 11. Math/Science/Bilingual Education
- 12. OTM and AAOT Related Items
- 13. ATLAS
- 14. P-20 Virtual Student Data Warehouse
- 15. Pre-Engineering and Applied Science Strategy
16. Rural Outreach/Distance Education
17. First Generation Student Support
19. Advising/Tutoring for First Year Students
21. Bilingual Teacher Pathway
22. Center for Student Success in College
23. K-16
24. Education Pathways for Teachers
25. ATLAS-IDTS Implementation

**Finance and Administration Committee**
5. Faculty Salaries—Market Adjustment
18. Student Retention/Graduation
20. Technology Enhanced Learning Outcomes and Efficiencies
26. Enrollment Growth
27. Tuition Buy-down to Median Family Income
28. Policy Consensus Institute
29. Regional University Support
30. Chancellor’s Office $3M to Improve Accountability

**Access and Affordability (AAWG) Working Group**
1. Endorsement of Opportunity Grant (for Board consideration for endorsement as a policy package under OSAC)
**POLICY PACKAGE DETAIL:**

<table>
<thead>
<tr>
<th>Policy Packages</th>
<th>Owner</th>
<th>Board Liaison</th>
<th>Work Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Endorsement of Opportunity Grant</td>
<td>OSAC</td>
<td>Nesbitt</td>
<td>AAWG</td>
</tr>
<tr>
<td>2. Healthcare Workforce Initiative (Nursing/Health Profession) May include a capital component as well as operating funds</td>
<td>Martha Anne Dow</td>
<td>Dyess</td>
<td>AEED</td>
</tr>
<tr>
<td>3. SB 853 ($10M Tax Credit)</td>
<td>Ben Rawlins</td>
<td>Dyess</td>
<td>AEED</td>
</tr>
<tr>
<td>4. Sustainability</td>
<td>Susan Bragdon/Ben Rawlins</td>
<td>Dyess</td>
<td>AEED</td>
</tr>
<tr>
<td>6. ETIC</td>
<td>Bruce Schafer</td>
<td>Dyess</td>
<td>AEED</td>
</tr>
<tr>
<td>7. Economic Development--Statewide Public Service Programs</td>
<td>Nancy Heiligman/OSU</td>
<td>Dyess</td>
<td>AEED</td>
</tr>
<tr>
<td>8. Institute for Ecosystem and Climate Change</td>
<td>Nancy Heiligman/OSU</td>
<td>Dyess</td>
<td>AEED</td>
</tr>
<tr>
<td>9. General Education Outcomes</td>
<td>Karen Sprague</td>
<td>Schuette</td>
<td>EDP</td>
</tr>
<tr>
<td>11. Math/Science/Bilingual Education</td>
<td>Yvette Webber-Davis</td>
<td>Schuette</td>
<td>EDP</td>
</tr>
<tr>
<td>12. OTM and AAOT Related Items</td>
<td>Robert Mercer</td>
<td>Schuette</td>
<td>EDP</td>
</tr>
<tr>
<td>13. ATLAS</td>
<td>Mark Endsley</td>
<td>Schuette</td>
<td>EDP</td>
</tr>
<tr>
<td>14. P-20 Virtual Student Data Warehouse</td>
<td>Bob Kieran</td>
<td>Schuette</td>
<td>EDP</td>
</tr>
<tr>
<td>15. Pre-Engineering and Applied Science Strategy</td>
<td>Bruce Schafer</td>
<td>Schuette</td>
<td>AEED/EDP</td>
</tr>
<tr>
<td>16. Rural Outreach/Distance Education</td>
<td>Khosrow Fatemi</td>
<td>Schuette</td>
<td>EDP</td>
</tr>
<tr>
<td>17. First Generation Student Support</td>
<td>Robert Mercer</td>
<td>Schuette</td>
<td>EDP</td>
</tr>
<tr>
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<td>Robert Mercer</td>
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<td>Schuette</td>
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<td>Schuette</td>
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<tr>
<td>26. Enrollment Growth</td>
<td>Bob Kieran</td>
<td>Blair</td>
<td>Finance</td>
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<tr>
<td>27. Tuition Buydown to Median Family Income</td>
<td>Jay Kenton</td>
<td>Blair</td>
<td>Finance</td>
</tr>
<tr>
<td>28. Policy Consensus Institute</td>
<td>Lindsay Desrochers</td>
<td>Blair</td>
<td>Finance</td>
</tr>
<tr>
<td>29. Regional University Support</td>
<td>Jay Kenton/George Pernsteiner</td>
<td>Blair</td>
<td>Finance</td>
</tr>
<tr>
<td>30. Chancellor’s Office $3M to Improve Accountability</td>
<td>Jay Kenton</td>
<td>Blair</td>
<td>Finance</td>
</tr>
<tr>
<td>5. Faculty Salaries--Market Adjustment</td>
<td>Susan Weeks/Glen Nelson</td>
<td>Blair</td>
<td>Finance</td>
</tr>
<tr>
<td>18. Student Retention/Graduation</td>
<td></td>
<td>Blair</td>
<td>Finance</td>
</tr>
<tr>
<td>20. Technology Enhanced Learning Outcomes and Efficiencies</td>
<td></td>
<td>Blair</td>
<td>Finance</td>
</tr>
</tbody>
</table>

**BOARD DISCUSSION:**

Chancellor Pernsteiner explained that the three Working Groups and the Finance and Administration Committee have looked at one or more of the policy option packages. Some of the options would not appear in the OUS budget, but would be in another agency’s budget. What OUS would do is indicate agreement and endorsement. “Those things that deal with the Oregon Student Assistance Commission, the Oregon Workforce Investment Board, OHSU, are a few examples. It might be most productive, at this point, to turn to the Working Group and the Finance and Administrative chairs for an overview of what they think, given the reviews of their groups, about the kinds of packages that have come before them. This would give the rest of us a preview of the kinds of approaches that the campuses and others are proposing in 2007-2009.”
Director Nesbitt said that his group was referring to the Shared Responsibility Model as the Earned Opportunity Grant. In the last biennium, there was a significant increase in the Oregon Opportunity Grant allocations so that it is now about $74 million for the biennium. “One measure of their support is that they agreed to back-load a lot of their allocation, so they knew they were putting a lot of money into the second year of the biennium, therefore creating a much higher base for the upcoming biennium.” Legislators were interested in knowing when the Grants would be finished and this forced the Working Group to consider creating a model that would provide an absolute measure of affordability, not simply a way to spend more money to make higher education more affordable. It would mean defining a goal and quantifying what would be needed to have an affordable System. On the financing side, the current work indicates that, to move from where the System is now to the full promise of affordability might escalate the amount from $74 million a biennium to close to $200 million a biennium. “Not a goal we would expect to reach in one biennium, but perhaps in two. It is one that I think would be quite compelling to legislators and to their constituents because we have been talking about a promise to Oregonians,” Director Nesbitt concluded.

Chancellor Pernsteiner added that this proposal would probably be for the Board’s endorsement since the funds would not go into the OUS budget. More than likely it would be in the budget of the Student Assistance Commission.

The Academic Excellence and Economic Development (AEED) Working Group had met and reviewed the packages. The ETIC package includes a significant amount of resources, “particularly when you look at the state request as well as the matching request,” Director Dyess observed. “That matching request, as we know from history, is pretty solid.” It was pointed out that many people view ETIC as an electronics organization. In fact, it represents almost every cluster within the state that is an industry cluster. ETIC has broadened its membership with a focus on being globally competitive. Placement of students from ETIC programs is 80 percent outside the electronics industry and into industries that have been considered “low tech,” but that are competing globally in the high tech arena. A second package is the Manufacturing 21, with a request for $3.2 million. The hope is that they will match it with a $1.8 million from an industry base of 45 manufacturing companies.

The Health Care Workforce Initiative was a third package the AEED Working Group endorsed. This is an initiative that is sponsored through OHSU, the community colleges, and OUS, primarily focused on the regional institutions. OUS has a $6.5 million part of the package. The National University Transportation Center proposal was headed by PSU and will include OSU, UO, and OIT. The Center received a grant for $16 million for five years and OUS has to match it in order to get it. The Center is seeking a $2 million match that will be put along with other matches from places like ODOT and some private organizations.

It has been recognized that the Veterinarian Diagnostic Laboratory is extremely under-funded. The Laboratory provides a critical service to Oregon. The Working Group agreed that this endeavor serves the homeland security issues of the state and recommends that the proposal be given serious consideration. There was debate about whether this should be included in the
packages or kept separate. “That is not to say they don’t have economic benefit. The question is how it fits into the educational mission of OUS,” Director Dyess opined.

The Aquatic Bioinvasion Research and Policy Institute requested $2.5 million to go with a match of $1.5 million. This resides at PSU and is a relatively small program. The Working Group thought it might be better to house this proposal under the transportation initiative and then determine how far it will grow.

Director Dyess closed by observing that the first three proposals are really base budget requests. “However, one of the things that we really need to think about here, if we decide to move these into base budget, is that we have to bring the constituents along. Otherwise, I don’t think that it will work.”

President Lorenzen broke from the presentations to recognize legislators who were in attendance at the meeting.

Senator Nelson thanked the Board for holding its meeting at EOU. “The legislative folks in this part of the country are pretty concerned by what’s going on at Eastern and the University System in general. We’re here to do the things we can and I think you’ll see we have always been supportive. If I have any words of wisdom for this group or anyone in the audience, it is that you need to come to the legislature as a united front,” he observed.

Representative Greg Smith, representing La Grande, Union County, and District 57 told the group that he was a by-product of EOU, not only in the past, but also as a student today in the Business Administration program. “I want to share with you how important EOU and Blue Mountain Community College are to eastern Oregon. In this part of the state, we are constantly dealing with the challenge of economic development. I know everyone is, but our economic development is a little bit different in that we have high unemployment; we have infrastructure needs that you would take for granted, basic infrastructure such as housing, roads, water, sewer, telecommunications that is simply lacking out here.” He closed by thanking the Board for holding its meeting in eastern Oregon and indicated that his office was always open.

Representative Bob Jensen from House District 58 addressed the group. “I’d like to deeply thank you for serving in the capacity of a Board member. I know enough about state budgets to know that it isn’t because of the money we pay you. It has to be, on your part, an abiding commitment to education to continue to do this job that you’re doing and that I think you’re doing very well. You really do need to be a unified front. It is hard to compete with K-12,” he concluded.

Returning to the agenda, Chancellor Pernsteiner turned to Director Schuette to report from the Excellence in Delivery and Productivity (EDP) Working Group. Director Schuette indicated that she brought a “straw horse,” a small set of priorities as a starting point. The criteria the Working Group used were: 1) the greatest value to all postsecondary students; 2) the greatest ability to assist student success; 3) the greatest ability to improve on the movement of students
among all educational sectors; 4) most critical to improving technology infrastructure that will support student access, participation, and transfer; and 5) creating the greatest traction on state priorities for economic growth.

“I know that the EDP group is not the last word and that is where some of my questioning about ‘assuming things’ into the base is still problematic for me,” Dr. Schuette acknowledged. “If we subsume things into the base in one or more sectors, how does that help us continue to have the expectation and the willingness to come forward to that shared table to do the work together? How do we hold people accountable for that?” she questioned. She acknowledged that the packages had been written by a number of individuals and indicated now they need to be written as if with one voice. Additionally, they need to be written in more ordinary language so people can understand them, and finally, they need to be carefully reviewed so they truly reflect our cross-sector intentions.

The EDP Working Group has put forth packages that together they believe will provide traction on what has been, since the beginning of the EDP Working Group, some of the most important issues with which it has dealt. These include: 1) the alignment of curriculum and processes across the sectors; 2) ease of participation and transfer across and within the sectors; and 3) strengthening the technology infrastructure across and within the sectors to support access, participation, transfer, and accountability. Together, the packages cost less than $10 million.

The first package is continuing the work of promoting college and university readiness, support for collaboration by high school, college, and university faculty in writing, mathematics, and other general education areas. The academic vice presidents of the Community College System also have rated this as the higher priority.

The second priority is the IDTS and the ATLAS Phase 2 implementation, as well as the pre-K-20 package. The third priority is the Oregon Pre-engineering and Applied Sciences (OPAS) initiative. Additional work is needed that supports continuing development of mathematics and science teachers. Therefore, the whole teacher preparation area was raised as an item to be considered as part of the proposal. The next priority was the Virtual University Center for Rural Oregonians and also a Community College Workforce Development (CCWD) package that deals with coordination of community college and universities, as well as K-12 online delivery, in the belief that Oregon is rapidly losing ground as far as being able to effectively use that delivery mode.

There was agreement in the EDP Working Group that there ought to be a high priority package with regard to retention and student support. However, there was not agreement that the package brought to the group was adequate.

Lastly, Rural Outreach and Distance Education was considered as an important package. “We want to be sure that this is framed as next steps in a statewide effort to reach, encourage, and support students throughout Oregon and that all community colleges and universities might have an opportunity to participate in the objectives that would be rewritten,” Director Schuette stated.
The Finance and Administration Committee considered the packages and concurred that faculty salary market adjustments was an important issue. “The life blood and the nature of what we do is so dependent on the quality of our faculties that putting resources against this was the top priority of all the items brought to the group,” Director Blair explained.

The second priority for the Finance Committee was Regional University Support. The set of assumptions that drives this is that, where the System stands today with the existing funding structure, the universities that are under the most pressure are the regional universities and the conversation in the Finance and Administration Committee centered on a belief that these institutions are vital for the mission of the whole System. There was also conversation about the Cascade campus and whether it was a regional institution and how it fits into this category.

A third priority was enrollment growth. This comes down to funding the base sufficiently to enable the growth to occur. The Chancellor’s Office was the fourth priority. “I think there are some things we are not doing as a System, the center of the organization, that need to be done and what we really felt was needed here was some better visibility,” Director Blair explained. “We need to frame that and be very specific about what the mission of the Chancellor’s Office is and then we need to fund that appropriately.” Fifth on the Committee’s list was student retention as one of the core performance metrics, followed by tuition buy down. Director Blair expressed the opinion that the reality is that when there is a tuition buy-down, there are really no new resources that come into the System. “When we are struggling to make that tradeoff, I think this in some ways limits some of our flexibility. This is something we should endorse and support. We have to make sure this doesn’t show up as a tradeoff between appropriately investing in our universities and providing affordable education for our students.”

There was discussion about how to take all of the input and re-write it with one voice in sufficient time for the Board to review it at the July Board meeting. Chancellor Pernsteiner assured the Board that staff would give it priority attention so that materials would be available prior to the meeting.

b. 2007-2009 Biennial Capital Budget Request

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 universities the authority to initiate projects, with timing dependent on available resources.

The Board will receive presentations from each campus covering their capital requests for 2007-2009. A preliminary summary of all projects, by campus, will be available. In July, the Board will review and approve the 2007-2009 Biennial Capital Budget 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:**
Each university will present a summary of requested projects with an emphasis on tax-supported projects or those funded by General Fund, Article XI-G Bonds, and Lottery Bonds. The Chancellor’s Office will present a summary of Systemwide priorities along with funding implications in June.

For the July meeting, the Chancellor’s Office will review all capital projects and provide to the Board for approval an inventory of all projects by university, by university priority, by fund source, and Systemwide priority.

**BOARD DISCUSSION:**

Mr. Robert Simonton, Assistant Vice Chancellor for Capital Programs, highlighted that “OUS is following on the heels of the most successful capital budget ever. It was successful for three reasons: 1) we developed a new funding model for deferred maintenance; 2) we prioritized OUS’ needs; and 3) we worked together as a System to garner support from the Governor and the legislature.”

The method used for scoring proposals highlighted the most critical projects needed to maintain access and quality. The budget to fund current capital projects total about $40 million per year and currently the System is funded for approximately $11.5 million.

**Eastern Oregon University** – The first project outlined was primarily for Article XI-F(1) bonds for the renovation of Hoke Center that is inadequate to meet the student needs and needs for a conference center. The second priority listed for EOU for Article XI-G bonds was for the library complex. The library is over 50 years old, too small to meet the campus needs and because it would create code violations, cannot have upgraded technology facilities. EOU houses both state and federal acquisitions. The plans call for one component of the building to be revenue generating from organizations that are not part of the campus, but would have offices located in the building. The third project is for Hermiston, the fastest growing region of EOU’s service area. This project is being done in partnership with blue Mountain Community College. The city of Hermiston has agreed to provide the matching portion of the project.

**Oregon Institute of Technology** – The priority project for OIT remains the Center for Health Professions. OIT’s goals are to expand access to quality healthcare, investments in academic excellence in healthcare, economic development through meeting workforce needs, partnerships providing efficient and economical delivery of healthcare, and enhanced capacity. Phase I, which is currently underway, is scheduled for completion and entry of students in the fall of 2007. For Phase II of the project, OIT requested the G-bond match for the second wing that will be 45,000 square feet at a total cost of that wing of $15 million. This is a partnership to include OHSU nursing, with 7,000 square feet dedicated to nursing. OIT has the $7.5 million
match for the second phase that has a total cost of $15 million. The next priorities are the renovation of the Resource Center, for a cost of approximately $11 million, and the Physical Education building renovation for a cost of $5 million, although no funds are requested at this time for those projects.

**Oregon State University** – President Ray indicated that OSU had four projects involving Article XI-G bond support. He acknowledged that, at this time, OSU does not have the matching resources for any of them, but he wanted to be sure that they were on the priority list for the future. The first project is a request for $25 million in G-Bonds for the Linus Pauling Research and Education Institute. This is considered Phase I of a two-phase project to meet the needs and expand the capacity of the Linus Pauling Institute, which has been incredibly successful both as a teaching element and as a research arm of the University. When Phases I and II are completed, OSU will substantially increase its capacity for wet and dry laboratories and classrooms in the sciences. The second priority is the University Learning Center to provide more classrooms and a tutorial center. Additionally, the student advising services, the honors college, international programs, and student organization offices would be housed in the building. The third priority planned is an Expedition Support Center, a facility that would store and protect key equipment, much of which is used for ocean studies, and must be maintained in very clean and effective conditions to prevent dramatic deterioration over time. The University is seeking gifts of $3.5 million and G-Bonds of $500,000.

Finally, the University is planning the Mouse Model Organism facility where mice would be kept that are used for scientific research. The use of transgenic mice (mice with particular genetic characteristics) for research is essential to work in the life sciences. The facility would accommodate the needs of the growing number of colleagues who basically work with transgenic mice and are conducting research on a variety of issues from diabetes to cancer and heart diseases. OSU hopes to raise $1.5 million in gifts to match a G-Bond request of $350,000.

OSU has a number of projects for which they are seeking F-bond funding, including upgrading the housing and dining facilities and a University Athletics Academic Center. This is envisioned as a learning center for all students, not just for student athletes. It would be a way to get student athletes and students from across the campus together with tutors to increase their academic skills. Additionally, there is a focus on renovations to Gill Coliseum, the Boathouse, a women’s track, and the upgrade to the end zone facility at Reser Stadium.

In answer to a question from Director Blair regarding the small amount requested for G-Bonds, President Ray said that some of it was for feasibility studies. The rest of the money would come from gifts and the debt repayment would come from revenues and gifts.

**Portland State University** – President Bernstine introduced the new Vice President for Finance, Lindsay Desrochers, to present the projects. PSU is at approximately 119 percent of the OUS standards for space. A new science facility is one of two priority projects. The present science facility was built in 1971 and has never undergone major renewal. The renewal of the Sciences-2 building will create much needed laboratory and classroom space. Another
important goal for the building is to house the hazardous waste processing, which has never had a singular collection space.

The second major project is the old Blue Cross Company building that PSU now owns in conjunction with the Portland Development Commission. The proposal is to demolish the building and use a new one for a student recreation center and a place to consolidate the Graduate School of Social Work, which currently is in several different locations. This project, which is the PCAT redevelopment, serves some very important purposes for PSU: 1) it brings one of the top programs in social work to a home that is more appropriate; 2) it deals with the issue of student recreation on the PSU campus that now has over 25,000 students; 3) it finishes out the Urban Plaza plan which was created some years ago; and finally, it develops that project in tandem with the light-rail that is going to be underway in the near future.

PSU proposes to request, for the PCAT project, the student fee bonds through the XI-F process as well as a request of $10 million in general obligation bonds to be matched from various sources, including gifts and other sources that might be available through partnership with the City of Portland and the Portland Development Commission.

**Southern Oregon University** – The first priority project for SOU was the expansion and remodel of the theater arts building which is oriented to using private fundraising and matching Article XI-G bonds. This project involves the remodel and expansion of a 26-year old building, roughly 22,000 sq. ft. The fundraising effort is currently underway. SOU has the largest undergraduate theater program in the western United States not associated with a program that has a heavy emphasis in graduate areas of theater education. SOU is seeking, in the upcoming biennium, planning money for a new science center. The project is envisioned to include an addition to the old science building of 171,000 gsf and a remodel of 52,000 sq ft that would eliminate $4.5 million in deferred maintenance. It is planned to be sustainable and involves, in the planning phase, $8 million divided between Article XI-G-Bonds and General Fund dollars.

**University of Oregon** – The UO request included two Education and General projects: Phase II of the Integrated Science Complex and the Condon Hall expansion and renovation. Additionally, the UO is planning to be the sponsor institution for the Oregon Cascade Alliance Regional Library Service Center that will be discussed with the Board in January. They also brought forward five self-support and auxiliary funded projects for Article XI-F(1) bonds.

The Condon Hall expansion and renovation will provide critically needed office space for physical anthropology, archaeology, and geography. It would also bring the map library back to Condon from the temporary home in the University Knight Library. Condon Hall currently has in excess of $5.5 million in identified deferred maintenance and the current project would address approximately 10 percent of those needs. Projected costs are $8 million, with half from Article XI-G bonds and half from gifts and other funds.
The Integrated Sciences Project, Phase II, will help ensure that the UO remains on the cutting edge of the scientific break-through. The funding is proposed at $60 million: $30 million from G-Bonds and $30 million from other funds of which $7 million is currently in-hand or pledged.

The auxiliary projects are from the Riverfront Research Park and the Housing Department. The Research Park currently has 26 tenants and they enjoy a synergistic relationship with UO researchers. One of the proposals would allow the University to purchase an existing high quality building from the park developer to more fully control the mix of tenants and the leasing costs of the building. The other proposal would allow the University to build a new building that will include start-up company offices and laboratory space for both University units and private companies. This is an F-Bond project proposal. The University Housing Project includes three projects related to addressing the deferred maintenance and renovation issues of existing residence halls and one is related to the construction of a new residence hall.

Western Oregon University – Mr. Mark Weiss, Vice President of Finance and Administration, indicated that WOU has 1.2 million square feet of building space on approximately 160 acres. A master facilities plan was developed with six priorities over the next three biennia. Those are: 1) a new business, mathematics, computer science facility with a cost up to $14 million; 2) remodel of the humanities and social science building that requires a seismic upgrade, for which a $1 million FEMA grant has been obtained to help fund the improvement; 3) a new residence hall to be funded with F-Bonds; 4) a health/wellness/recreation center for the 2009-2011 biennia which is considered an important tool in recruiting and retaining college students; 5) a performing arts center that would be a community resource and a venue for WOU’s growing theater and musical programs; and 6) a new science facility to replace the aging building.

The top priority is the business, mathematics, computer science facility and the opportunity to find a site that resulted from the early termination (by more than 10 years) of the 30-year long-term lease commitment and agreement by the Oregon Department of Public Safety and Standards Training. With their move to Salem, 80,000 sq ft in the heart of WOU’s campus will become vacant in the summer. Western has a commitment to raise $1 million in contributions toward the project.

c. 20-Year Financial Projections

In opening his remarks, Vice Chancellor Kenton indicated that he had done a 20-year financial model. However, for the purposes of the presentation it had truncated it to a 10-year projection. The reasons for the change were: it is difficult to present a full 20 years of information and some of the factors used when compounding by inflation or CPI, to name a few, become fairly large numbers in the out years.

The current model was driven by enrollment, faculty:student ratios, staff:faculty ratios, and incorporated median family income, growth factors in tuition, and other CPI (Consumer Price Index) adjustments, both nationally for peer salaries and Oregon factors for other cost
assumptions. The model is predicated on current relationships and perpetuating those into the future. The OSU Statewide Public Services were not modeled because they are distinct entities that are not driven by enrollment per se, but more by individual needs in the agricultural extension and forest research areas.

Vice Chancellor Kenton noted that, in his opinion, there are some financial imperatives that must be maintained, especially since the Board is committed to being a prudent steward of the resources entrusted to it. The first imperative is campus and System solvency – the System and the campuses must be operated in a sustainable manner. Secondly, as a public university system, affordability must be preserved for all qualified Oregonians. “We are not a private enterprise that can selectively choose to ignore certain populations,” he observed. Faculty are a critical asset and must be maintained. Deferred maintenance must be addressed and facilities maintained to a higher standard. “Student:faculty ratios are an indicator of the quality of the institutions and for too long,” Dr. Kenton pointed out, “OUS has been diluting the ratio and this is a trend that must be reversed.” The model is based on 2004-05 actual data that was modified on 2005-06 projected data and 2006-07 estimates from the campuses. To ground it in some degree of reality, state appropriations in the model grow by 10 percent in accordance with the Governor’s education plan.

A primary driver of the model is enrollment, which conservatively, is expected to be at 81,000 FTE (Full Time Enrollment) in nine years, a 13 percent increase. “That is important to note,” Dr. Kenton said, “because the cost of serving those additional students is also growing and, in fact, one of the conclusions I’ll come to in a minute is that our costs are growing faster than our revenue and that is exacerbating our sustainability.”

President Ray observed that if the System continues to operate as it has in the past and there is still no enrollment growth money. “We need to have a conversation and come to an understanding about our enrollment management policy. The only assumptions that people trying to do projections can read into this is ‘business as usual.’ But I think a lot of our discussion about business as usual is unsustainable. We need to get the right compact with the people of Oregon about what they want from higher education and the funding to match it. But, if that never comes to fruition, then presumably this Board and the institutions need to be talking about enrollment management plans,” he emphasized.

In the model, tuition and enrollment fees are projected to increase or decrease in the base by changes in median family income each year and those changes run between 3.3 and 3.6 percent and fee remissions remain at the current rates.

On the personnel cost side, in the Education and General budget (which is roughly 80 percent of the cost base), Dr. Kenton noted that he made improvements in the student/faculty ratios. At the present time, they run between 26 to 27:1. The present model would get institutions back to 24:1 in ten years. “We’re holding a staff to faculty ratio and other unclassified administrative people to student ratio and growing those concomitant with the growth in enrollment or faculty FTE (Full Time Equivalent). Other salaries are inflated by median family
income, so faculty salaries have only been increased by 5 percent and the others go by median family income,” he pointed out.

The PERS rate, in the model, is reduced by 1.25 percent. The figure was further reduced to compensate for the migration from PERS Tier One and Tier Two to the new OPSRP. Tiers One and Two cost 22 percent and OPSRP costs 16 percent.

Assessments are modeled to grow by 60 percent, which is what DAS has directed be included in budget planning. Assessments include things such as risk management and general government services. Currently, OUS is paying $20 million a biennia and in 2007-2009, agencies are being told to increase that to $32 million, a 60 percent growth, largely driven by the cost of insurance. It was explained that DAS is changing the assessment methodology. In the past, they assessed OUS as a System—one entity. In the future, they will assess OUS as eight entities or individually by universities and the Chancellor’s Office. That change in assessment methodology, coupled with the volatile pricing in the market is what is driving the new numbers, Vice Chancellor Kenton added.

Director Blair asked how much of the $32 million assessment is paid for by tuition and fees. “Our fund split today is 38 percent General Fund and 62 percent other funds,” Dr. Kenton responded. “Therefore, $18 million out of the $32 million is paid for by tuition.”

Other expenses used in the present model grow by an average of three-four percent, most growing at CPI. There are a few exceptions such as utilities, library acquisitions, facilities, and maintenance expenditures.

Vice Chancellor Kenton demonstrated three scenarios. The first was where he ran the extrapolation formulas and extrapolated revenues and expenditures to show the gap and suggest filling the gap with 100 percent appropriations. In the second scenario, the same gap is shown and it is suggested that it be filled with 100 percent tuition increases. And the third scenario shows the same gap, but it is reduced by savings that could be realized by some of the legislative concepts and a suggestion of filling the remaining gap with appropriations or tuition.

The first scenario shows that OUS is currently spending more than it is taking in and obviously that is not a long-term, sustainable position. In the 2007-2009 biennia, the model suggests that it would require another $47 million to balance the operating budget, without addressing the maintenance needs, and another $61.1 million to balance the maintenance needs. “What we would need for a budget in 2007-2009 would probably be somewhere around $930 million, getting close to a number that some have suggested we would need to balance our operations,” Dr. Kenton advised.

In scenario two, it is suggested that some of the gaps be filled with tuition. In an effort to make tuition somewhat affordable, the model suggests taking 30 percent of the increment above the MFI (Median Family Income) and set it aside for added fee remissions to preserve access or affordability. To fill the $47 million operating gap, it would be a 7.5 (first year of the biennium)
and 6.9 percent increase (second year of the biennium). “I’m only increasing resident, undergraduate tuition to plug this gap because we are out of room in the market for those other types (non-resident and graduate) of students. If you went forward and plugged the whole $108 million gap, it would require a 17 and 14 percent increase in 2007-08, and that is on top of the 3.3 and 3.4 percent,” he explained.

In the third scenario, it was assumed that the amount needed to balance was lowered by $25 million beginning in 2008-09. “That is a conservative assumption that we get some of the legislative changes that we’ve talked about. There would be a one year lag to allow for putting a new insurance plan in place,” it was highlighted. To close the $108 million gap, $25 million is deducted from savings, the gap drops to $83.1 million.

Vice Chancellor Kenton concluded that, based on the modeling, the costs are going to continue to grow at rates faster than revenues. In this modeling, however, OUS would reach peer levels on salaries—a positive move. Additionally, student:faculty ratios would improve. The Governor’s current plan, as modeled here, doesn’t provide sufficient funding, in and of itself, without other revenues or cost savings. “My recommendations, therefore, are that our first priority should be to obtain adequate base funding needed to meet our financial imperatives: maintaining solvency, maintaining affordability, and improving salaries. This could be accomplished through increasing state funding above the Governor’s education plan, increasing tuition, garnering the legislative concepts, or some combination of those things,” Dr. Kenton explained. “I would further recommend that, given that the investment fund is nonrecurring funding, perhaps the Board should consider applying all or part of it to this deferred maintenance backlog or continue to try to get it through the capital budget process.”

President Ray suggested that it might be possible to run another variant of the model that maintains the faculty adjustment process, maintains the student:faculty ratio adjustment over time, and looks at the initial and projected enrollment figures that would correspond to eliminating the gap. “So, instead of talking about a dollar gap, we have a conversation about an enrollment gap and what we need from the state to close the enrollment gap up to the 81 or even up to a high side of 91,” he suggested.

The present modeling assumed the current mix of resident to nonresident and graduate to undergraduate students would exist in the out years. Further, an average tuition and fee factor was used based on the current mix, and then inflated and extrapolated forward if that mix changed. That is, if there were fewer nonresident students, it would exacerbate the problem; if there were more, it would improve the situation.

If the System wants to hit these enrollment targets over time, it was suggested that it should be determined what the dollar gap is in terms of the funding that is available that has to come either from tuition or state support to maintain that growing level of enrollment.
5. **Reports**

   a. **Chancellor’s Report**

   Chancellor Pernsteiner reported that the University of Oregon is preparing to send a proposal to the Board to sell the Westmoreland Housing Complex. He indicated that he would be holding a series of public hearings in Eugene to afford interested parties an opportunity to be heard.

   The week following the Board meeting, on Thursday, members of the SOU Presidential Search Committee will be meeting in Portland to interview finalists. If the interviews are successful, there will be a meeting of the full Board on Friday to ratify the selection.

   Mr. Pernsteiner outlined a number of issues that will be addressed over the next several months that will contribute to the long-range planning. Among them will be:
   - Consideration of the consolidation of OHSU and PSU that has been requested by some legislators. This work will involve the services of a consultant.
   - Further development of a Central Oregon strategy.
   - A model for the community college linkages that is being worked on with WOU and Chemeketa Community College and also with OIT and Klamath Community College.
   - Consideration of how OUS would approach the question of the potential of branch campuses, an item legislators have raised over the years.
   - How to approach rural Oregon issues: aspirations, access, participation, completion – some of the issues that President Fatemi and Director Schuette referred to in the various policy option packages.
   - Instructional delivery and technology and the role of the faculty in the future.
   - Issues regarding the search priorities and the role of the search in the University System.

   b. **Presidents’ Reports**

   President Frohnmayer acknowledged that several items from the University have attracted news attention. One of them is the pending Westmoreland matter. He invited any Board Directors who had questions regarding his handling of these matters to contact him directly. “I would be more than happy to respond. And, if you have any advice for me, I would equally appreciate it,” he added.

   Dr. Marilyn Lanier, representing OHSU, indicated that President Peter Kohler would be giving the keynote address to the graduating class. She observed that this is the largest class in the institution’s history, 967 students. This is an even more special occasion since President Kohler will be leaving the University later in the year. Dr. Kohler has been president of OHSU since July 1, 1988.
c. Provosts’ Council

Provost Woodall reported that the Provosts’ Council welcomed Dr. Linda Brady, the new Provost at the UO, to the Council. The Council reviewed, with Ms. Ruth Keele from the Chancellor’s Office, the responses to the state-mandated customer service surveys. In a pilot this year, they will be gathering information and then bringing recommendations on full implementation. “We talked about other issues related to being responsive, providing data for other agencies in the state, how we will be engaged, as usual, in the institutional performance reporting that comes to the Board. In response to Senate Bill 342, the area of advanced placement has been negotiated across the OUS and the community college system. We basically have an agreement that does meet one of the five elements that are required in SB 342, so we are pleased that we are making progress.”

An update and query relative to the Voyager Tuition Assistance program was brought to the Council. Although it appears to be on track, it is not working exactly as anticipated. The provosts will pay close attention to it and, if necessary, return to the Board with a recommendation. Two degrees at OSU were approved: a B.S. in electrical and electronic engineering is being combined with a B.S. in computer engineering and a B.S. in electrical computer engineering, which will better serve the needs of the students and the industries. This was an effort to cut down the number of degrees, but still increase the number of engineers who graduate. A Ph.D. in technology management at PSU was approved.

d. Research Council

There was no report.

e. Interinstitutional Faculty Senate (IFS)

IFS president, Dr. Scott Burns, noted that IFS wanted to extend a ‘thank you’ to three individuals: Dr. Burns acknowledged the work of Professor Geri Richmond as the first faculty member on the State Board of Higher Education. They thanked her for giving the faculty voice for all of the years she had served. “A special ‘thank you’ to Susan Weeks, who put together the report that you have on the recruiting and retaining faculty in a competitive market. And a ‘thank you’ to Vice Chancellor Kenton and to the Finance Committee for putting faculty salaries high on the priority list and also for reducing class size.”

Dr. Burns indicated that he would be introducing Chancellor Pernsteiner at the Portland Downtown Rotary, the largest Rotary Club in Portland. “I wanted to mention that I will be bragging about two groups: first, this group here, because I think the faculty are really in back of our Board and what you are doing. And, also, George, as Chancellor, and the whole staff that he has put together.”

IFS is concerned about long-range planning and asked to be used by the Board to present a uniform voice to the legislature. (A full copy of the IFS Report is available in the Board’s Office.)
f. **Oregon Student Association (OSA)**

Outgoing Student Body President at PSU and OSA Chair, Ms. Devaney, indicated that she is the most recent student appointment to the Oregon Student Assistance Commission, assuring that her advocacy for higher education would be continuing. She expressed the sentiment of OSA that they would like to be involved in the process of setting the legislative agenda for students and that they are committed to presenting a unified voice to the legislature. OSA would like to have further conversations about why tuition mitigation should be higher on the Board’s priority list.

6. **COMMITTEE REPORTS**

   a. **Standing Committee**

Finance and Administration Committee: Director Blair reported that the other item that was addressed in the Committee meeting was the Investment Report. He advised that investments continue to perform above the benchmarks.

   b. **Working Groups**

There were no further reports.

   c. **Other Board Committees**

Unified Education Enterprise: Director Van Vliet reported that the UEE had met and discussed the items that should be included in a unified budget approach. A subcommittee of the Joint Boards of Education met and discussed the plans that Duncan Wyse, Education Board member, has been pursuing with some legislators about a single type of budgetary system.

7. **PUBLIC INPUT**

(The following summarizes key points made by the public. The full reports are on file in the Board’s Office.)

Mr. Greg Monahan from Eastern’s AAP, reminded the Board that 15 months ago he had appeared before them to request help in negotiating their first contract. The faculty at Eastern continue to be in last place relative to faculty salaries. “All we want is not to fall further behind,” he commented. “By a 90 percent majority, the union faculty at this university have said loud and clear that we’ll do whatever it takes to get the minimum measure of justice (to stay even with other institutions). What we’re asking for is a single one percent step increase to start in July and a tiny 3.5 percent cost of living increase to start near the end of the next academic year. In essence, what we’re asking for is the 2+2 salary increase for all state employees that the legislature has already allocated.”
Jeff Dense, professor of Political Science at Eastern, served on the Sports and Recreation subcommittee of the AEED Working Group. “I believe the Board is missing a profound opportunity by underplaying the economic and cultural impact that gaming activity plays in Oregon. We may be missing out on a win/win opportunity to partner with Oregon’s Native American tribes. We need to recognize two important facts: 1) in terms of the number of visitors, the #1 tourist attraction in the state of Oregon is the Grande Ronde Casino operated by the Spirit Mountain Tribe; and 2) a recent study concluded that the total economic impact of gaming activity in the state of Oregon was over $1 billion.” He indicated that a casino management program, located within a tourism program, makes profound sense. Finally, he urged the Board to listen carefully to the students who would be talking to them.

Anna Bacon wanted to convey to the Board that students at EOU are encouraged by the improvements in communication that they have experienced over the last four weeks and that if it continues to improve, they can develop a better working relationship with the administration of the campus.

Sadie Isley, student body president at EOU, urged the Board and EOU to remember that the most important group to keep in mind is the students. “Without students, there is no point in having a university,” she underscored.

Steve Joseph, a graduate from EOU with a Doctorate of Juris Prudence from the UO and a practicing attorney in La Grande, said that many of the past presidents of EOU, including the current one, have been caught in the crosshairs of institutional financial difficulties with faculty labor demands and with little, if any, increased state support. He indicated “one of the most meaningful contributions that the EOU Foundation has been asked to make by President Fatemi was a three-year commitment of $80,000 per year for a grants writing program. I believe that the office of grants and sponsored programs will bear fruit for many years to come and become self-sustaining. EOU is a significant economic force in the community and even more importantly, a significant entity for higher educational opportunities for Eastern Oregonians.”

John Lamoreau, a Union County Commissioner who served on the search committee that selected President Fatemi, remarked that the President is a businessperson who brought a business model to EOU. “One of the things that I have appreciated about him is that he will look at a problem, such as the poor dorms that we used to have, and say that these were simply not acceptable in today’s world and immediately set about bringing in quality student housing. I have been heartened by the miracles that I have seen in this community that he has brought. I know that this has been a tough road, but the hope and inspiration he has brought to our county and to our region and to our district is evidenced every day.”

Kelly Aydelotte indicated her support for President Fatemi and the outreach work that he has done in eastern Oregon.
8. **BOARD COMMENTS**

Director Schuette wanted to assure the communities of eastern Oregon that two of the initiatives that President Fatemi has initiated are being reviewed through the Board process. Especially noteworthy is an initiative related to world-delivery and world-outreach that has received positive support from the Excellence in Delivery and Productivity Working Group and will be further considered by the State Board of Higher Education.

9. **DELEGATION OF AUTHORITY TO BOARD’S EXECUTIVE COMMITTEE**

President Lorenzen called for a motion to empower the Executive Committee in the interim. Director Von Schlegell made the motion and Directed Blair seconded; the motion was passed.

10. **ADJOURNMENT**

With no further business proposed, President Lorenzen adjourned the meeting at 3:33 p.m.

\[Signature\]  
Henry Lorenzen  
Board President

\[Signature\]  
Ryan J. Hagemann  
Board Secretary